

Consolidated Financial Statements for the Year Ended March 31, 2010

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, 2010

Scheduled dividend payment start date: June 10, 2010

Scheduled date for filing Securities Report: June 25, 2010

Note: Rounded down to the nearest million yen

1. Consolidated performance for the year ended March 31, 2010 (April 1, 2009 - March 31, 2010)

(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, 2010	2,059,269	6.4	14,659	66.9	22,292	39.5	10,497	88.6
Year ended March 31, 2009	1,934,868	9.3	8,783	(65.4)	15,985	(50.0)	5,565	(65.6)

	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, 2010	227.20	–	5.3	2.4	0.7
Year ended March 31, 2009	133.28	–	3.1	1.8	0.5

Reference: Profit or loss on equity method investments Year ended March 31, 2010 ¥ – million Year ended March 31, 2009 ¥ – 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, 2010	941,629	223,263	23.3	4,351.58
Year ended March 31, 2009	884,249	185,724	20.3	4,306.05

Reference: Shareholders' equity: Year ended March 31, 2010 ¥219,189 million Year ended March 31, 2009 ¥179,822 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, 2010	6,898	(31,226)	24,869	95,330
Year ended March 31, 2009	32,963	(16,507)	(1,810)	94,803

2. Cash dividends

	Cash dividend per share					Total cash dividends	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	End of 1 st quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Year ended March 31, 2009	–	45.00	–	42.00	87.00	3,646	65.3	2.0
Year ended March 31, 2010	–	44.00	–	44.00	88.00	4,440	38.7	2.0
Year ending March 31, 2011 (Forecast)	–	44.00	–	45.00	89.00		32.3	

3. Consolidated performance forecast for the year ending March 31, 2011 (April 1, 2010 - March 31, 2011)

(Percentages indicate changes from previous fiscal year for the full year and from previous six months for the six months ending September 30, 2010)

	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, 2010	1,047,000	3.3	11,000	109.0	14,600	63.0	6,900	82.9	136.99
Year ending March 31, 2011	2,190,000	6.3	19,600	33.7	27,000	21.1	14,100	34.3	279.93

Note: Consolidated performance forecasts incorporate the impact of the conversion of TAMPEI NAKATA CO., LTD. into a consolidated subsidiary through the (scheduled) management integration on October 1, 2010 as announced today. Since at present the stock exchange ratio is undecided, the forecast of earnings per share is calculated using the term-end number of outstanding shares (excluding treasury stock) as of March 31, 2010.

4. Others

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

No.

New: – (Company name:) Excluded: – (Company name:)

(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, 2010	Year ended March 31, 2009
i. Shares outstanding at year-end (including treasury stock)	51,824,563 shares	42,326,223 shares
ii. Treasury stock at year-end	1,454,567 shares	565,755 shares

Reference: Summary of non-consolidated performance

Non-consolidated performance for the year ended March 31, 2010 (April 1, 2009 - March 31, 2010)

(1) Non-consolidated operating results

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

	Operating revenues		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2010	6,493	(51.9)	4,833	(59.8)	4,775	(60.6)	4,612	(65.1)
Year ended March 31, 2009	13,501	24.1	12,034	25.0	12,113	25.6	13,215	38.2

	Earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2010	99.46	–
Year ended March 31, 2009	314.56	–

(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, 2010	204,891	198,370	96.8	3,881.42
Year ended March 31, 2009	168,894	164,826	97.6	3,946.95

Reference: Shareholders' equity: Year ended March 31, 2010 ¥198,370 million Year ended March 31, 2009 ¥164,826 million

*Disclaimer regarding appropriate use of forecasts and other 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, 2010

During the consolidated fiscal year under review, Japan's economy made a substantial recovery in exports and production, driven by robust emerging economies such as India and China. However, corporate capital expenditures and the employment picture remained weak due to a lack of strength in domestic demand to make a self-sustaining recovery.

With respect to the ethical pharmaceutical market, the market grew about 5% during this fiscal year thanks to an increase in demand until winter for products related to H1N1 flu, which expanded throughout Japan from spring of last year, and strong performance by antineoplastic agents and circulatory drugs. In such an environment, the Alfresa Group reinforced efforts to secure appropriate profits and at the same time continuously worked to cut selling, general and administrative expenses, considering the decline in delivery prices last year. We actively worked to achieve the strategic targets 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 final year of the three-year medium-term management plan "07-09 Medium-term Management Plan — Advancement and Expansion." As part of the initiatives, we actively forged business alliances for the purpose of enhancing competitiveness to cope with the changing market environment and increased capital in preparing for future capital expenditures.

Specifically, in pursuing "Expansion of the wholesaling business of pharmaceuticals, etc. and pursuit of group synergy effects," SEIWA SANGYO CO., LTD. (head office: Nishi-ku, Hiroshima), a subsidiary of the Company, commenced operation of a distribution base (Onomichi, Hiroshima Prefecture) in the Chugoku area in May of last year. Then in October of last year, Odashima Limited (head office: Hanamaki, Iwate Prefecture), a subsidiary of the Company, launched construction of a head office and distribution center for relocation with its operation slated for September of this year. Also, in December of last year, Alfresa Corporation, (head office: Chiyoda-ku, Tokyo), a subsidiary of the Company, commenced construction of the New Saitama Distribution Center (Niiza, Saitama Prefecture) for the purpose of enhancing handling capacity and efficiency with its operation slated for February 2011. Through these initiatives, the Alfresa Group made group-wide efforts to upgrade the distribution function. In addition, with regard to the Group's backbone information system, joint utilization of the system was initiated at SEIWA SANGYO CO., LTD. in May of last year and at Ando Co., Ltd. (head office: Takasaki, Gunma Prefecture) in November of last year.

As for "Solidifying the business base of the manufacturing of pharmaceuticals, etc.," Alfresa Pharma Corporation (head office: Chuo-ku, Osaka) commenced operation of the second formulation building in the Okayama Pharmaceutical Plant (Shuo, Katsuta-gun, Okayama Prefecture), which conforms to international GMP requirements, in December of last year. As a result of this, we are not only manufacturing in-house products but also expanding contract manufacturing and improving capacity utilization to reduce the manufacturing cost.

With respect to "Realization of Healthcare Consortium," CS YAKUHIN CO., LTD. (head office: Naka-ku, Nagoya), a subsidiary of the Company, took over the OTC drugs wholesaling business from TOMITA Healthcare Co., Ltd. (head office: Kumamoto, Kumamoto Prefecture) in February of this year in an effort to strengthen the customer service function in response to changes in the market environment resulting from the institutionalization of specified health checkup and specified health guidance and the enforcement of the amended Pharmaceuticals Affairs Law. Furthermore, five companies, ARATA CORPORATION (head office: Funabashi, Chiba Prefecture; wholesaling of cosmetics, daily necessities, household goods, etc.), NIPPON ACCESS, INC. (head office: Setagaya-ku, Tokyo; general food wholesaling), CS YAKUHIN CO., LTD.,

TAMPEI NAKATA CO., LTD. (head office: Chuo-ku, Osaka; wholesaling of OTC pharmaceuticals, etc.) with which Alfresa Holdings Corporation has a capital alliance, and Alfresa Holdings Corporation, established a mutually cooperative structure to enhance customer satisfaction and corporate competitive advantage as a total lifestyle-proposing wholesaler in the areas of “medicine, food and lifestyle” following the conclusion of an agreement on a business alliance with respect to operations in areas, such as marketing, distribution, and business development pertaining to the wholesaling of foods, daily necessities, and over-the-counter drugs, etc. As for “Enhancement of the group management base and strengthening of the administration system,” in January of this year the Company converted Alfresa Nikken Sangyo Corporation (head office: Gifu, Gifu Prefecture; Group’s ownership percentage prior to reorganization: 51.0%) and Ando Co., Ltd. (Group’s ownership percentage prior to reorganization: 50.9%) into wholly-owned subsidiaries through a stock exchange with a view to enhancing the agility of group administration.

Also, in September of last year, the Company strengthened its financial base by carrying out capital increase by public offering (7,000,000 new shares issued) and capital increase by way of third-party allotment (1,050,000 new shares issued) in connection with the secondary offering by way of over-allotment for the purpose of further establishing and enhancing operational bases including the distribution function and distribution related systems which respond to future demand forecast. In addition, the Company obtained a single A (stable) rating from Rating and Investment Information, Inc. (R&I) in December of last year to ensure funding mobility in response to demand for funding stemming from changes in the business environment in the future.

As a result, the Group posted consolidated net sales of ¥2,059,269 million (up 6.4% from the previous year), operating income of ¥14,659 million (up 66.9%), ordinary profit of ¥22,292 million (up 39.5%), and net income of ¥10,497 million (up 88.6%).

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

In the wholesaling business, we achieved a sales growth rate higher than the market average because the whole market grew on the strength of a substantial increase in demand for the H1N1 flu-related products of last year and expansion of antineoplastic agents and drugs for lifestyle-related diseases, and also as a result of our efforts to develop new accounts and strengthen customer support system through the enhancement of “alf-web,” the exclusive general information service website for medical institutions which combines the order function and drug information provision service. On the profit front, we reinforced our initiatives to secure appropriate profit considering the decline in delivery prices last year, as well as pursued management efficiency through cost reductions. As a result, net sales for the wholesaling business amounted to ¥2,042,628 million (up 6.5% from the previous year) and operating income came to ¥12,925 million (up 76.8%). Net sales included inter-segment sales of ¥3 million (up 18.7%).

In the manufacturing business, the Company endeavored to promote the use of central nervous system pharmaceuticals, which is a key areas of this business, and NOBELBAR for the treatment of status epilepticus. As a result of this effort and an increase in demand for influenza detection kits, net sales for the manufacturing business came to ¥25,937 million yen (up 4.4% from the previous year) and operating income amounted to ¥1,286 million (up 17.0%). Net sales included inter-segment sales of ¥9,292 million (up 13.6%).

The achievement in the final year of the target management benchmarks for the final year presented in 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 ended 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, 2010	5.3%	1.1%	23.3%

Forecast for the year ending March 31, 2011

(Millions of yen)

	Net sales	Operating income	Ordinary profit	Net Income	Earnings per share (Yen)
Year ending March 31, 2011	2,190,000	19,600	27,000	14,100	279.93
Year ended March 31, 2010	2,059,269	14,659	22,292	10,497	227.20
Rate of change (%)	6.3	33.7	21.1	34.3	–

In the first year of the three-year medium-term management plan “10-12 Medium-term Management Plan Advancement and Expansion – Next Stage,” we will more actively carry out business operations.

In the wholesaling business, we expect the ethical pharmaceutical market to continue growing at a moderate pace due to the aging of the population in spite of a NHI drug price reduction of about 6.5% implemented this spring. In addition, given the continuously strong health awareness of the general public, we expect the self-medication market to grow moderately as well. In this market environment, considering system changes such as the premiums for promoting the creation of new drugs and the elimination of off-label drug use, which was newly introduced on a trial basis, we will make more efforts to secure appropriate profit and at the same time continue pursuing low-cost operations.

Also, today we reached a basic agreement to convert TAMPEI NAKATA CO., LTD. into a wholly-owned subsidiary on October 1 (scheduled). Based on the business alliance forged among five companies in March of this year mentioned in “Business results for the year ended March 31, 2010,” we will further enhance and strengthen the management base for the wholesaling business for self-medication products. As a result of these initiatives, we anticipate net sales of ¥2,172 billion (up 6.3% from the fiscal year under review) and operating income of ¥18,200 million (up 40.8%).

In the manufacturing business, we expect the enhancement of the product lineup for central nervous system pharmaceuticals even though ethical pharmaceuticals were affected by the reduction in NHI drug prices this spring. Also, on the development front, we are aiming at additional indications, including obstructive sleep apnea syndrome (OSAS) for Modiodal, a narcolepsy treatment, as well as at additional indications for Nespron cable system used for spinal fusion. Furthermore, we will work to further reduce the manufacturing cost ratio by expanding contract manufacturing in the second formulation building of the Okayama Pharmaceutical Plant which started operation last year. As a result of these initiatives, we anticipate net sales of ¥26,900 million (up 3.7% from the fiscal year under review) and operating income of ¥1,150 million (down 10.6%).

Based on these forecasts, our outlook for consolidated results in the year ending March 31, 2011 calls for net sales of ¥2,190 billion (up 6.3% from the fiscal year under review), operating income of ¥19,600 million (up 33.7%), ordinary profit of ¥27 billion (up 21.1%), and net income of ¥14.1 billion (up 34.3%).

(2) Analysis of financial position

Analysis of assets, liabilities, and net assets for the fiscal year ended March 31, 2010

At the end of the consolidated fiscal year under review, total assets increased ¥57,380 million from the end of the previous consolidated fiscal year to ¥941,629 million. The main factors behind this increase are as described below.

Current assets expanded ¥52,355 million from the end of the previous year to ¥786,876 million. This was mainly attributable to a ¥19,500 million rise in trade notes and accounts receivable and an increase of ¥11,845 million in merchandise and finished goods in line with sales growth, as well as an increase of ¥18,997 million in securities. Fixed assets were up ¥5,024 million from the end of the previous year to ¥154,752 million. This mainly owed to a ¥5,819 million increase in tangible fixed assets stemming from the acquisition of land and buildings for distribution centers in spite of a ¥1,622 million decrease in goodwill because of amortization. Meanwhile, liabilities grew ¥19,841 million from the end of the previous year to ¥718,365 million primarily due to the following factors.

Current liabilities expanded ¥20,002 million from the end of the previous year to ¥689,748 million. This was mainly attributable to a ¥12,519 million increase in trade notes and accounts payable.

Non-current liabilities contracted ¥161 million from the end of the previous year to ¥28,616 million. This was chiefly due to a ¥1,657 million decrease in allowance for employees' retirement benefits because of the introduction of the defined contribution pension plan for a portion of the retirement benefits plan and a ¥1,354 million decrease in other non-current liabilities due to payments for conversion to the defined contribution pension plan in spite of a ¥2,122 million increase in finance lease obligations.

Net assets were up ¥37,539 million to ¥223,263 million. This was primarily due to a ¥10,497 million increase in retained earnings from net income, a ¥28,448 million rise in paid-in capital and capital surplus resulting from the issuance of new shares in connection with the capital increase by public offering, and a ¥2,172 million increase in unrealized gain on securities due to a recovery in the market price of investment securities, in spite of a ¥3,945 million decrease in retained earnings from dividends of surplus.

Analysis of cash flows for the fiscal year ended March 31, 2010

As of the end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter "Net Cash") amounted to ¥95,330 million, up ¥526 million compared with the end of the previous year. The status of cash flows and the factors behind for the consolidated fiscal year under review are as described below.

Cash flows from operating activities

Net Cash provided by operating activities was ¥6,898 million (a ¥26,064 million decrease from the previous year). Although income before income taxes amounted to ¥21,360 million, the depreciation cost was ¥6,124 million, and trade notes and accounts payable increased ¥12,519 million, trade notes and accounts receivable increased ¥18,674 million, inventories expanded ¥12,161 million, and income taxes of ¥5,370 million were paid.

Cash flows from investing activities

Net Cash used in investing activities was ¥31,226 million (a ¥14,719 million increase from the previous year). This amount was mainly used for payments of ¥ 8,704 million for the purchase of tangible fixed assets, payments of ¥20,000 million for the purchase of securities, and payments of ¥2,251 million for the acquisition of long-term prepaid expenses.

Cash flows from financing activities

Net Cash provided by financing activities came to ¥24,869 million (¥1,810 million was used in the previous year). Although ¥3,945 million in cash dividends were paid, repayments of lease obligations amounted to ¥890 million, and repayments of long-term debt came to ¥414 million, proceeds from the issuance of shares amounted to ¥28,295 million yen.

Cash flow indicator trends

	Year ended March 31, 2008	Year ended March 31, 2009	Year ended March 31, 2010
Equity ratio (%)	21.3	20.3	23.3
Ratio of market capitalization to total assets (%)	38.6	16.9	21.6
Debt repayment period (years)	–	0.2	1.8
Interest coverage ratio (times)	–	336.6	54.7

- 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.

Based on the aforesaid fundamental policy, the Company plans to provide a term-end cash dividend of ¥44 per share, which combined with the interim cash dividend of ¥44 per share, is a full-term cash dividend of ¥88 per share.

For the next term, the Company continues to follow the same policy and plans to provide an interim cash dividend of ¥44 and a term-end cash dividend of ¥45, resulting in a full-term cash dividend of ¥89.

(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 pharmaceutical 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) Business Practices Unique to the Industry

In the ethical pharmaceuticals wholesaling industry, the Group's main area of business, there has been a long-standing, ongoing business practice of delivering pharmaceuticals to medical institutions and other customers before price agreements, with price negotiations between wholesalers and medical institutions conducted after delivery. This business practice is unique to the industry and is carried out because pharmaceuticals have a direct bearing on the lives of patients, and therefore stagnation in the supply of pharmaceuticals cannot be tolerated. In these cases, the Group recognizes sales by calculating the projected final prices based on reasonable estimates. Pursuant to guidance from the authorities, the Group strives to settle price negotiations as quickly as possible. However, price negotiations may be drawn out over extended periods of time in order to secure appropriate profits or may be settled at different prices from those initially expected. This could have an effect on the Group's results.

(5) 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.

(6) 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.

(7) 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.

(8) Financial Covenants on Fund Procurement

As a means of stably procuring funds, the Group has concluded a syndicated loan agreement and a commitment line agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lead manager. These agreements contain certain financial covenants, and breach of these covenants may result in the acceleration of the Group's loans and require the Group to make lump-sum repayment. Such breach may have an impact on the Group's results.

(9) Leakage of Information

The Group establishes and thoroughly implements internal rules in accordance with the laws to prevent the leakage of customer information and confidential information. In the event that such information is leaked due to unforeseen circumstances, it may damage the customer confidence, and the compensation or suspension of transactions may have an effect on the Group's results.

(10) Natural Disaster

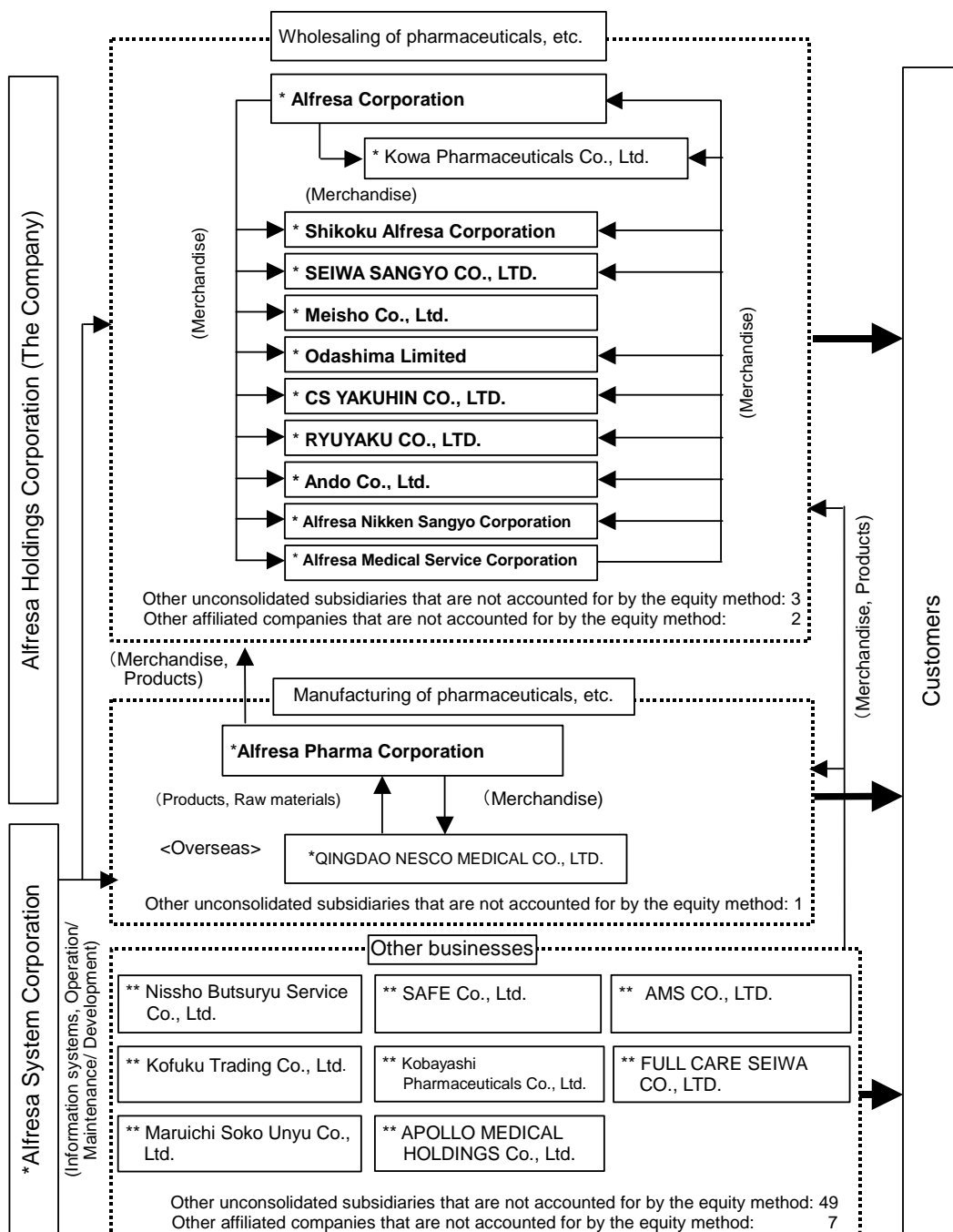
The distribution function plays a major role in the Group's wholesaling business. In the event that the distribution function is damaged as a result of earthquakes and other natural disasters, such damage may seriously hinder sales and distribution activities and may have an impact on the Group's results.

2. Current Status of the Group

The Company has a basic role to formulate the management 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

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 director: 4
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 director: 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 director: 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 director: 2
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 director: 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 director: 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 director: 1
Ando Co., Ltd.	Takasaki, Gunma Prefecture	300	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: None
Alfresa Nikken Sangyo Corporation	Gifu, Gifu Prefecture	190	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: None
Alfresa Medical Service Corporation	Sumida-ku, Tokyo	450	Wholesaling of pharmaceuticals, etc.	100.0	It has concluded a basic contract with the Company relating to management services. Interlocking director: None
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 director: 1
Alfresa System Corporation	Chiyoda-ku, Tokyo	150	Management, maintenance and development of information system	51.0	It has concluded a basic contract with the Company relating to information system. Interlocking director: None
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 director: 2
QINGDAO NESCO MEDICAL CO., LTD.	Qingdao, Shandong, China	300	Manufacturing of pharmaceuticals, etc.	100.0 (100.0)	It manufactures surgical sutures. Interlocking director: 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 medium-term management plan for the period from April 2010 to March 2013, “10-12 Medium-term Management Plan Advancement and Expansion – Next Stage” was formulated to build a framework to respond to future changes in market structure, based on the progress of the medium-term management plan through the year ended March 2010. An overview of management policies based on the 10-12 Medium-term Management plan is provided below.

(1) Basic management policies

We revised the Alfresa Group’s Principles in pursuing unity as a group.

Our Philosophy

We create and deliver a fresh life for all.

Our Vision

We aim to become a Healthcare Consortium that provides products and services in every health-related field.

Our Promises

- We always maintain the stable supply of reliable products and services that satisfy our customers.
- We strive to maintain and improve a safe and comfortable working environment, respect individual characteristics and personalities and create a healthy corporate culture.
- We raise corporate value as a corporate Group operating in the healthcare sector to meet shareholders’ expectations.
- We conduct proper trade under fair, transparent and free competition.
- We strive to protect personal information entrusted by our customers and business partners and important company information, work to widely and proactively communicate with society, and implement appropriate and timely information disclosure.
- We contribute to society through our business operations, proactively carry out social contribution activities in local communities, and actively and voluntarily address global environmental issues.

(2) Target management benchmarks

The following five benchmarks are of crucial importance in the 10-12Medium-term Management Plan and the targets to be achieved by the fiscal year ending March 31, 2013, the final year of the plan.

1. Consolidated net sales	¥2,400 billion
2. Consolidated operating income margin	1.2%
3. Consolidated net income margin	0.8%
4. SG&A expenses ratio in the wholesaling business	5.7%
5. EBITDA ratio in the manufacturing business (Operating income + Depreciation)	15.0%

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

We recognize that it is crucial to provide a higher-value-added intermediate distribution function and improve corporate value, as well as contribute to society, in response to various system reforms, changes in the market structure, such as falling birthrate and aging of society, and the mix of pharmaceuticals, and changes in the needs of the general public and users which are anticipated in the future.

Our medium- to long-term management strategies are as follows:

1) Reinforce efforts toward realizing the Healthcare Consortium

We will strive to expand business scale and domains centered on the ethical pharmaceuticals wholesaling business toward realizing the Healthcare Consortium vision, and work to establish a sales network extending to every corner of the country and provide comprehensive services in the field of medical and health care.

2) Expand the wholesaling business network and pursue value added

In the ethical pharmaceuticals wholesaling business, we will aim at strengthening community-based marketing and establishing a nationwide marketing network, as well as realize a total customer support system covering drug information, inventory management and total SPD. In addition, we will seek to complete joint utilization of and upgrade the Group's backbone information system, as well as solidify the distribution system for customers, achieve lower costs and strengthen quality control by effectively relocating distribution bases emphasizing areas, in order to pursue efficient management and enhancement of functions.

In the wholesaling business for self-medication products, we will establish a nationwide marketing network through collaboration among group companies, and at the same time realize synergy by strengthening merchandising and promoting efficient management to build up the business foundations. Furthermore, we will aim to realize a total lifestyle-proposing wholesaler that comprehensively supply products handled by customers through collaboration with outside companies.

3) Build up the foundations for growth for the manufacturing business

We will expand contract manufacturing through the utilization of the second formulation building of the Okayama Pharmaceutical Plant which was completed last year to reinforce manufacturing capacity, and make efforts to improve profitability and reduce the manufacturing cost ratio. Also, we will seek to enhance the product lineup through product transfers of ethical pharmaceuticals and aim at the early realization of the expansion of indications (obstructive sleep apnea syndrome (OSAS)) for Modiodal. Furthermore, we will enhance diagnostic reagents, reinforce sales of medical devices, and establish overseas sales bases for in-house products with a view to pursuing the function of a complex medical manufacturer.

4) Develop overseas business

We aim to develop a global business through the establishment and expansion of our business foundations in the Chinese market with REMEJE PHARMACEUTICALS (CHINA) CO., LTD. at the core and through the active development of businesses primarily in the Asia-Pacific region.

5) Advance CSR-oriented management based on sincere business activities

We will carry out corporate activities reliably, safely and sincerely, recognizing that the Group's corporate activities have a bearing on the health and lives of the general public and that our corporate activities themselves are part of CSR activities. Also, we will seek to become a company that is trusted by society through compliance, as well as through the enhancement of job satisfaction of our people and fulfillment of our responsibility to the global environment.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of the end of previous fiscal year (March 31, 2009)	As of the end of current fiscal year (March 31, 2010)
(Assets)		
Current assets		
Cash and deposits	86,928	88,635
Trade notes and accounts receivable	468,509	506,009
Securities	10,057	29,054
Merchandise and finished goods	90,242	102,087
Work in process	107	107
Raw materials and supplies	1,153	1,470
Deferred tax assets	6,687	6,167
Purchase rebates receivable	51,785	51,242
Others	2,000	2,868
Allowance for doubtful accounts	(951)	(765)
Total current assets	734,521	786,876
Fixed assets		
Tangible fixed assets		
Buildings and structures	69,716	73,089
Accumulated depreciation	(42,031)	(42,913)
Buildings and structures (net)	27,685	30,175
Machinery, equipment and vehicles	8,143	10,051
Accumulated depreciation	(6,916)	(7,316)
Machinery, equipment and vehicles (net)	1,227	2,735
Tools and fixtures	8,939	9,065
Accumulated depreciation	(7,502)	(7,740)
Tools and fixtures (net)	1,436	1,324
Land	45,503	47,891
Leased assets	1,181	2,938
Accumulated depreciation	(120)	(561)
Leased assets (net)	1,060	2,377
Construction in progress	4,231	2,458
Total tangible fixed assets	81,144	86,963
Intangible fixed assets		
Goodwill	5,180	3,557
Leased assets	864	2,442
Others	1,719	1,663
Total intangible fixed assets	7,763	7,663
Investments and other assets		
Investment in securities	30,084	33,935
Long-term loans	4,338	2,953
Deferred tax assets	7,276	4,252
Others	24,478	23,655
Allowance for doubtful accounts	(5,357)	(4,669)
Total investments and other assets	60,819	60,126
Total fixed assets	149,728	154,752
Total assets	884,249	941,629

(Millions of yen)

	As of the end of previous fiscal year (March 31, 2009)	As of the end of current fiscal year (March 31, 2010)
(Liabilities)		
Current liabilities		
Trade notes and accounts payable	648,467	660,986
Short-term debt	2,578	4,103
Lease obligations	457	1,210
Income taxes payable	2,292	5,184
Reserve for bonuses	5,840	5,798
Reserve for bonuses to directors and auditors	140	211
Allowance for sales rebates	90	105
Allowance for loss on sales returns	902	843
Others	8,977	11,304
Total current liabilities	669,746	689,748
Non-current liabilities		
Long-term debt	2,996	3,507
Lease obligations	1,592	3,714
Deferred tax liabilities	980	1,158
Deferred tax liabilities on land revaluation	852	837
Allowance for employees' retirement benefits	16,476	14,818
Allowance for loss on debt guarantee	272	247
Allowance for directors' retirement benefits	1,521	1,465
Allowance for operation losses of affiliated companies	–	135
Others	4,086	2,732
Total non-current liabilities	28,778	28,616
Total liabilities	698,524	718,365
(Net assets)		
Shareholders' equity		
Paid-in capital	4,230	18,454
Capital surplus	66,422	84,204
Retained earnings	113,925	120,493
Treasury stock, at cost	(2,192)	(3,554)
Total shareholders' equity	182,385	219,597
Valuation and translation adjustments		
Unrealized gain on securities	3,154	5,327
Gain or loss on deferred hedge	10	0
Unrealized gain or loss on revaluation of land	(5,720)	(5,739)
Foreign currency translation adjustments	(7)	3
Total valuation and translation adjustments	(2,562)	(408)
Minority interests	5,901	4,074
Total net assets	185,724	223,263
Total liabilities and net assets	884,249	941,629

(2) Consolidated Income Statements

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Net sales	1,934,868	2,059,269
Cost of sales	1,795,995	1,915,827
Total deduction	138,872	143,441
Reversal of allowance for returned unsold goods	927	902
Allowance for returned unsold goods	902	843
Gross profit	138,897	143,500
Selling, general and administrative expenses	130,114	128,841
Operating income	8,783	14,659
Non-operating income		
Interest income	349	282
Dividend income	889	887
Information fees received	4,505	4,829
Others	1,743	2,080
Total non-operating income	7,487	8,080
Non-operating expenses		
Interest expenses	103	126
Commission fees	22	21
Shares issuance expenses	–	153
Others	160	147
Total non-operating expenses	286	448
Ordinary profit	15,985	22,292
Extraordinary income		
Gain on sale of fixed assets	–	65
Gain on sale of investment securities	164	89
Reversal of allowance for doubtful accounts	–	288
Reversal of allowance for losses on debt guarantee	58	25
Reversal of allowance for directors' retirement benefits	–	43
Gain on revision of retirement benefits plan	760	–
Total extraordinary income	983	513

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Extraordinary loss		
Loss on sale of fixed assets	10	111
Loss on disposal of fixed assets	192	210
Loss on impairment of fixed assets	721	303
Loss on devaluation of investment securities	1,289	163
Loss on devaluation of golf club membership	–	9
Allowance for operation losses of affiliated companies	–	135
Loss on revision of retirement benefit plan	–	222
Special retirement benefits	396	287
Loss on devaluation of inventories	2,154	–
Amortization of goodwill	190	–
Expenses for system transition	599	–
Merger-related expenses	431	–
Total extraordinary loss	5,987	1,444
Income before income taxes	10,981	21,360
Income, residential and enterprise taxes	7,387	8,132
Income tax adjustments	(2,483)	2,239
Total income taxes	4,904	10,372
Minority interests in net income	511	490
Net income	5,565	10,497

(3) Consolidated Statements of Changes in Shareholders' Equity

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Shareholders' equity		
Paid-in capital		
Balance as of March 31, 2009	4,230	4,230
Changes during the fiscal year		
Issuance of new shares	–	14,224
Total changes during the fiscal year	–	14,224
Balance as of March 31, 2010	4,230	18,454
Capital surplus		
Balance as of March 31, 2009	65,912	66,422
Changes during the fiscal year		
Issuance of new shares	–	14,224
Disposal of treasury stock	0	(0)
Increase due to stock exchange	–	3,557
Acquisition by parent company of parent company shares held by consolidated subsidiaries	509	–
Total changes during the fiscal year	509	17,781
Balance as of March 31, 2010	66,422	84,204
Retained earnings		
Balance as of March 31, 2009	112,002	113,925
Changes during the fiscal year		
Dividends of surplus	(3,633)	(3,945)
Net income	5,565	10,497
Decrease due to split-off type corporate separation	–	(3)
Deposits to voluntary reserve	–	0
Disposition of land revaluation surplus	(9)	19
Total changes during the fiscal year	1,923	6,567
Balance as of March 31, 2010	113,925	120,493
Treasury stock, at cost		
Balance as of March 31, 2009	(2,159)	(2,192)
Changes during the fiscal year		
Purchase of treasury stock	(47)	(577)
Disposal of treasury stock	14	0
Increase due to stock exchange	–	(785)
Total changes during the fiscal year	(33)	(1,361)
Balance as of March 31, 2010	(2,192)	(3,554)

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Total shareholders' equity		
Balance as of March 31, 2009	179,985	182,385
Changes during the fiscal year		
Issuance of new shares	–	28,448
Dividends of surplus	(3,633)	(3,945)
Net income	5,565	10,497
Decrease due to split-off type corporate separation	–	(3)
Deposits to voluntary reserve	–	0
Purchase of treasury stock	(47)	(577)
Disposal of treasury stock	14	0
Increase due to stock exchange	–	2,772
Acquisition by parent company of parent company shares held by consolidated subsidiaries	509	–
Reversal of land revaluation surplus	(9)	19
Total changes during the fiscal year	2,400	37,212
Balance as of March 31, 2010	182,385	219,597
Valuation and translation adjustments		
Unrealized gain on securities		
Balance as of March 31, 2009	6,289	3,154
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	(3,134)	2,172
Total changes during the fiscal year	(3,134)	2,172
Balance as of March 31, 2010	3,154	5,327
Gain or loss on deferred hedge		
Balance as of March 31, 2009	1	10
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	9	(10)
Total changes during the fiscal year	9	(10)
Balance as of March 31, 2010	10	0
Unrealized gain or loss on revaluation of land		
Balance as of March 31, 2009	(5,730)	(5,720)
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	9	(19)
Total changes during the fiscal year	9	(19)
Balance as of March 31, 2010	(5,720)	(5,739)

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Foreign currency translation adjustments		
Balance as of March 31, 2009	70	(7)
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	(77)	11
Total changes during the fiscal year	(77)	11
Balance as of March 31, 2010	(7)	3
Total valuation and translation adjustments		
Balance as of March 31, 2009	630	(2,562)
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	(3,193)	2,154
Total changes during the fiscal year	(3,193)	2,154
Balance as of March 31, 2010	(2,562)	(408)
Minority interests		
Balance as of March 31, 2009	5,520	5,901
Changes during the fiscal year		
Changes in items other than shareholders' equity during the fiscal year (net)	381	(1,827)
Total changes during the fiscal year	381	(1,827)
Balance as of March 31, 2010	5,901	4,074
Total net assets		
Balance as of March 31, 2009	186,136	185,724
Changes during the fiscal year		
Issuance of new shares	–	28,448
Dividends of surplus	(3,633)	(3,945)
Net income	5,565	10,497
Decrease due to split-off type corporate separation	–	(3)
Deposits to voluntary reserve	–	0
Purchase of treasury stock	(47)	(577)
Disposal of treasury stock	14	0
Increase due to stock exchange	–	2,772
Acquisition by parent company of parent company shares held by consolidated subsidiaries	509	–
Reversal of land revaluation surplus	(9)	19
Changes in items other than shareholders' equity during the fiscal year (net)	(2,811)	327
Total changes during the fiscal year	(411)	37,539
Balance as of March 31, 2010	185,724	223,263

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Cash flows from operating activities		
Income before income taxes	10,981	21,360
Depreciation	5,242	6,124
Loss on impairment of fixed assets	721	303
Increase (decrease) in allowance for doubtful accounts	(256)	(873)
Increase (decrease) in reserve for bonuses	(303)	(41)
Increase (decrease) in reserve for bonuses to directors and auditors	(109)	70
Increase (decrease) in allowance for employees' retirement benefits	(6,786)	(1,657)
Increase (decrease) in allowance for directors' retirement benefits	(22)	(56)
Interest income and dividend income	(1,239)	(1,170)
Interest expenses	103	126
Amortization of goodwill	2,146	2,113
Gain on revision of retirement benefit plan	(760)	–
Loss on revision of retirement benefit plan	–	222
(Gain) loss on sale of fixed assets	10	45
Loss on disposal of fixed assets	192	210
Loss on valuation of inventories	2,154	–
(Gain) loss on devaluation of investment securities	1,289	163
Merger-related expenses	431	–
(Increase) decrease in trade notes and accounts receivable	(18,531)	(18,674)
(Increase) decrease in inventories	1,048	(12,161)
(Increase) decrease in purchase rebates receivable	(901)	869
Increase (decrease) in trade notes and accounts receivable	38,364	12,519
Others	6,364	2,072
Subtotal	40,141	11,568
Interest and dividends received	1,231	1,168
Interest paid	(97)	(126)
Payments for revision of retirement benefit plan	–	(55)
Payments of merger-related expenses	(431)	–
Payments of special retirement benefits	–	(287)
Income taxes paid	(7,880)	(5,370)
Net cash provided by operating activities	32,963	6,898

(Millions of yen)

	Previous fiscal year (April 1, 2008 - March 31, 2009)	Current fiscal year (April 1, 2009 - March 31, 2010)
Cash flows from investing activities		
Payments into time deposits	(1,248)	(521)
Proceeds from maturity of time deposits	1,675	348
Payments for purchase of securities	–	(20,000)
Payments for purchase of tangible fixed assets	(11,547)	(8,704)
Proceeds from sale of tangible fixed assets	305	464
Payments for purchase of intangible fixed assets	(637)	(413)
Proceeds from sale of intangible fixed assets	–	0
Payments for acquisition of long-term prepaid expenses	(1,908)	(2,251)
Payments for purchase of investment securities	(3,006)	(432)
Proceeds from sale of investment securities	389	148
Payments for loans provided	(1,308)	(749)
Proceeds from collection of loans	874	831
Others	(95)	53
Net cash used in investing activities	(16,507)	(31,226)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	242	1,350
Proceeds from long-term loans	2,600	1,100
Repayments of long-term debt	(704)	(414)
Repayments of lease obligations	(217)	(890)
Proceeds from issuance of shares	–	28,295
Payments for purchase of treasury stock	(47)	(577)
Proceeds from sale of treasury stock	14	0
Cash dividends paid	(3,633)	(3,945)
Cash dividends paid to minority shareholders	(65)	(48)
Net cash provided by (used in) financing activities	(1,810)	24,869
Translation difference of cash and cash equivalents	(36)	5
Increase (decrease) in cash and cash equivalents	14,608	546
Beginning balance of cash and cash equivalents	80,195	94,803
Decrease in cash and cash equivalents due to corporate separation	–	(19)
Ending balance of cash and cash equivalents	94,803	95,330