Alfresa Holdings Corporation

For further information, please contact:

Alfresa Holdings Corporation

1-1-3, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

TEL: +81-3-5219-5102 E-MAIL: ir@alfresa.com

URL: www.alfresa.com

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Alfresa Holdings Corporation

Alfresa Group Integrated Report 2019

Fresh life for all.

alfresa group







Alfresa Group

Integrated Report

2019

Fiscal Year Ended March 31, 2019









Fresh life for all.

alfresa group

About the Corporate Name and Group Message

The corporate name "Alfresa" is a combination of the English word "all" with the Esperanto word "fresa," which means "fresh." It symbolizes our wish to be a corporation that contributes to the happiness of all people by meeting their healthcare needs and creating an active lifestyle for the coming era.
Our Group message is "Fresh life for all." The Alfresa Group aims to grow by operating its life- and health-related businesses with pride and a sense of responsibility.

The Alfresa Group's Principles

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**

Reliability **Safety** **Sincerity**

- We always provide reliable products and services and strive to enhance customer satisfaction.
- We respect individual characteristics and personalities and strive to maintain and improve a pleasant working environment.
- We raise corporate value as a corporate group operating in the health-related industry.
- We conduct proper trade under fair and free competition.
- We strive to proactively engage with society by providing appropriate information in a timely manner.
- We contribute to local communities through our business operations.
- We strive to protect the global environment.

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Editorial Policy

This integrated report summarizes the ways in which the Alfresa Group aims to create corporate value and grow in a sustainable manner into the future, making the most of the unique strengths it has amassed over its years in business. The report is presented in the hope that it will help a wide range of stakeholders to better understand the Group and join us on our journey to higher corporate value.

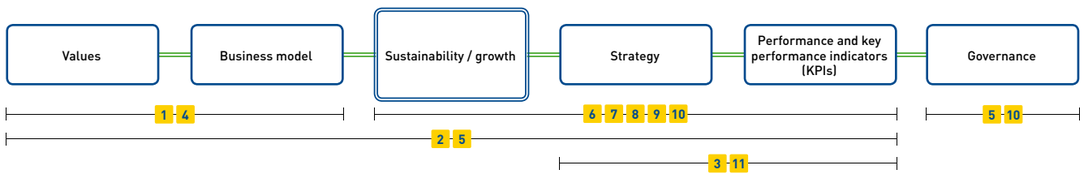
In compiling this report, we referred to the Ministry of Economy, Trade and Industry's *"Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation,"* then identified and compiled important elements for understanding the Alfresa Group's business model, the sustainability of its competitive advantages, and its growth strategies.

Furthermore, additional CSR information is available on the Company's CSR website. Please refer to this in conjunction with this report.

Environment Social Governance
Guidance for Collaborative Value Creation

Corporate Social Responsibility (CSR)
https://www.alfresa.com/eng/csr/index.html

Reference for composition of this report and *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation*



Scope Covered:

Alfresa Holdings Corporation
Alfresa Corporation
Shikoku Alfresa Corporation
TS Alfresa Corporation
Meisho Co., Ltd.
RYUYAKU CO., LTD.
Tohoku Alfresa Corporation
Alfresa Medical Service Corporation
Alfresa Shinohara Chemicals Corporation
Alfresa Healthcare Corporation
Mogi Pharmaceutical Co., Ltd.
Alfresa Pharma Corporation
QINGDAO NESCO MEDICAL CO., LTD.
Alfresa Fine Chemical Corporation
Sannova Co., Ltd.
Apollo Medical Holdings Inc.
Nihon Apoch CO., LTD.
Alfresa System Corporation

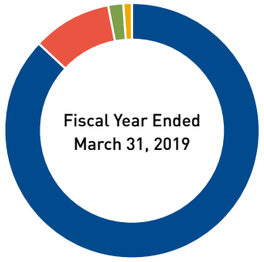
Period Covered:

April 1, 2018 to March 31, 2019

Alfresa Group at a Glance

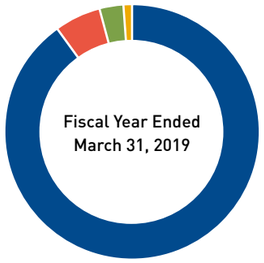
Medical products, starting with the pharmaceuticals that are prescribed at medical institutions and dispensed at pharmacies, play a vital role in maintaining people's health and lives.
The Alfresa Group is engaged in a range of business fields, including the manufacture and wholesale of pharmaceuticals and other products to the operation of dispensing pharmacies. The Group works as one to support the pharmaceutical supply chains that are part of Japan's social infrastructure, and strives to meet the full range of medical needs.

Net Sales / Composition Ratio



- Ethical Pharmaceuticals Wholesaling Business
  ¥2,327.1 billion 87%
- Self-Medication Products Wholesaling Business
  ¥265.0 billion 10%
- Manufacturing Business
  ¥40.7 billion 2%
- Medical-Related Business
  ¥34.8 billion 1%

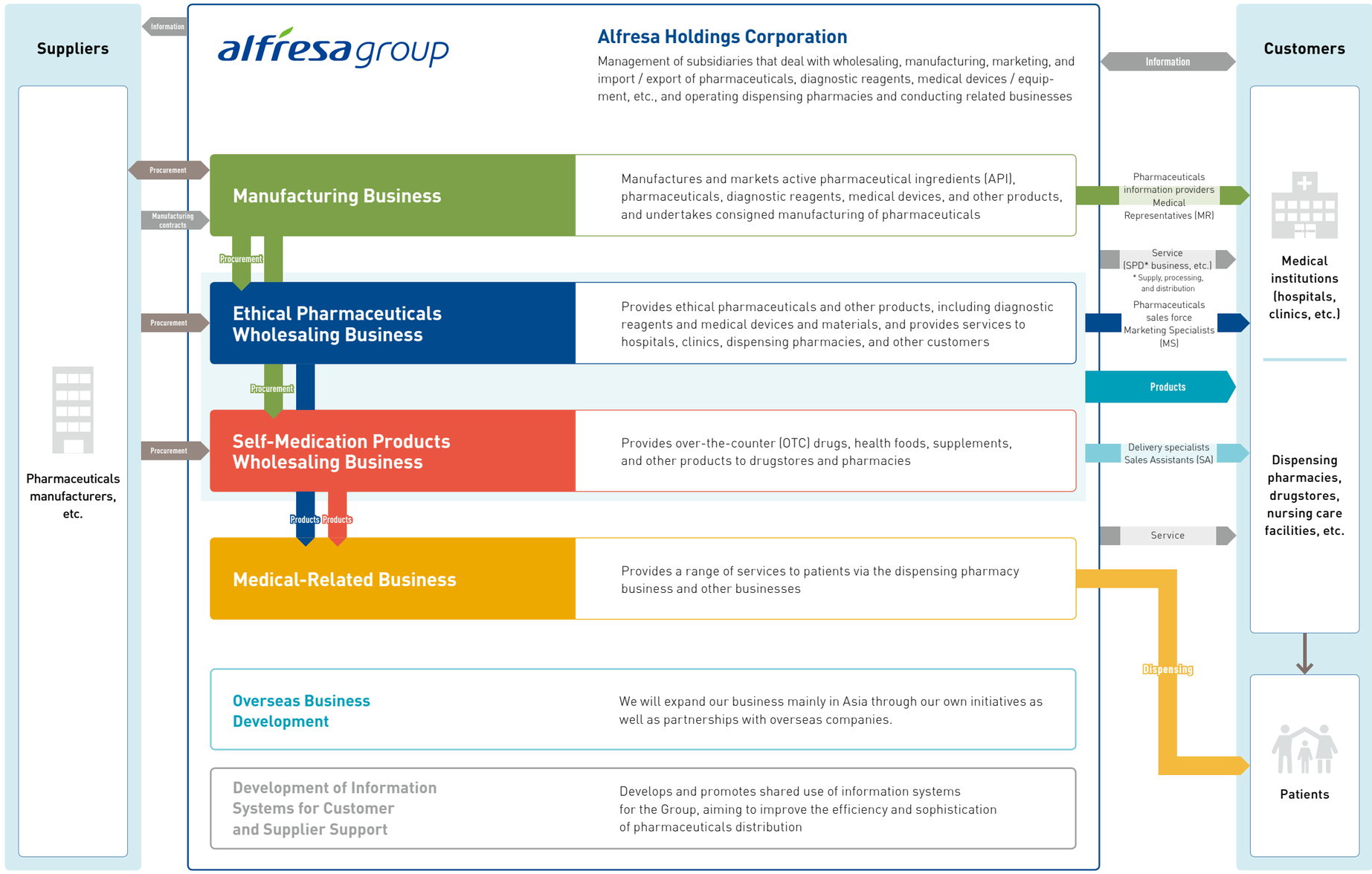
Operating Income / Composition Ratio



- Ethical Pharmaceuticals Wholesaling Business
  ¥40.2 billion 90%
- Self-Medication Products Wholesaling Business
  ¥2.7 billion 6%
- Manufacturing Business
  ¥1.5 billion 4%
- Medical-Related Business
  ¥0.2 billion 1%

Note: Figures include intersegment sales. Composition ratios are calculated using consolidated totals.

Overview of Alfresa Group's Businesses (Supply Chain)



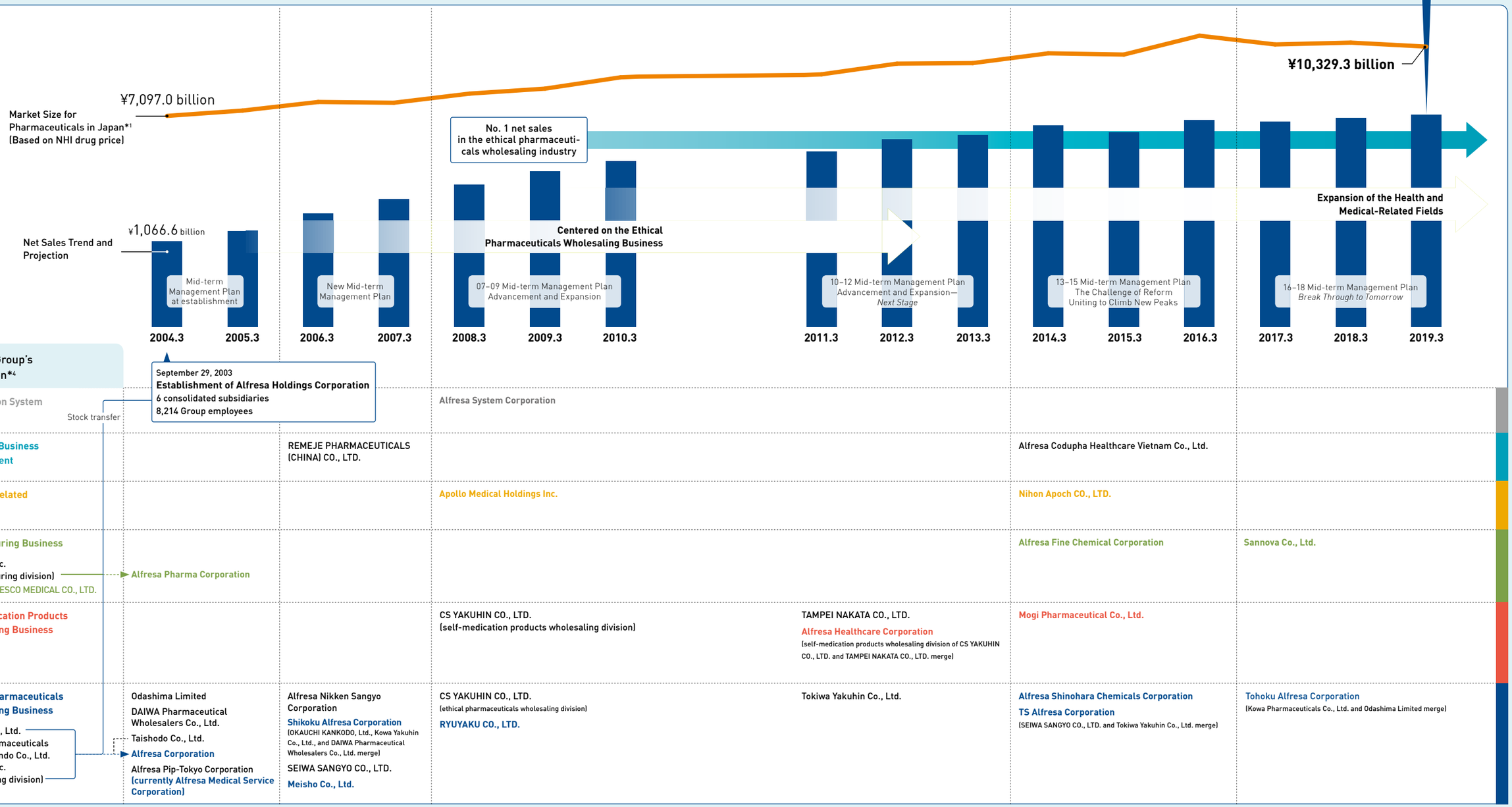
Alfresa Group's Growth Journey

The Alfresa Group was born with the establishment of Alfresa Holdings Corporation from six consolidated subsidiaries in 2003. Since then, the Group has expanded from its core ethical pharmaceuticals wholesaling business into health and medical-related fields, and net sales have increased approximately 2.5 times since its foundation.

Alfresa Group

No. 1 net sales in the ethical pharmaceuticals wholesaling industry*2

Net Sales	Consolidated Subsidiaries	Number of Group Employees*3
¥2,640.5 billion	17	14,718



*1 Source: IQVIA's statistics for Japan's Ethical Pharmaceuticals Market
*2 Consolidated result for the fiscal year ended March 31, 2019
*3 Includes 2,642 part-time and temporary workers (Average number of workers per year)
*4 Company names printed in colored font are consolidated subsidiaries (as of April 1, 2019).

Alfresa Group's Strengths



The Alfresa Group has an integrated supply chain for medical and pharmaceutical products, extending from manufacture and wholesaling of pharmaceuticals and other products to the operation of dispensing pharmacies. We deliver more than 180,000 types of health-related products and services such as ethical pharmaceuticals to over 100,000 customers, including medical institutions and pharmacies throughout Japan, with the highest productivity among ethical pharmaceuticals wholesalers in Japan. Our unique competitive advantages as a group that supports the social infrastructure of pharmaceuticals distribution are underpinned by our "talent with a sense of mission," "management foundation," and "financial foundation."

We will sustainably expand our business portfolio to achieve Our Vision, "We aim to become a Healthcare Consortium that provides products and services in every health-related field," as stated in the Alfresa Group's principles.

The Alfresa Group's Competitive Advantages

An integrated supply chain for medical and pharmaceutical products	A nationwide distribution platform (network) covering Japan	No. 1 for productivity in the Japanese ethical pharmaceuticals wholesaling market
Cultivated brand value		

Management Resources

Talent with a sense of mission

Marketing Specialists (MS)
3,517 people

Sales Assistants (SA)
2,367 people

Qualified Medical Management Specialists
1,620 people

Pharmacists
1,136 people

(As of March 31, 2019)

Management foundation

Products Handled in Japan and Overseas*
Approx. **1,000** manufacturers
Approx. **350,000** items
* Including diagnostic reagents and medical devices

Number of Warehouses
212

Number of Vehicles
Approx. **7,200**

Number of Dispensing Pharmacies
171

(As of March 31, 2019)

Financial foundation

Net Sales
¥ **2,640.5** billion

Owners' Equity Ratio
32.9%

ROE
9.5%

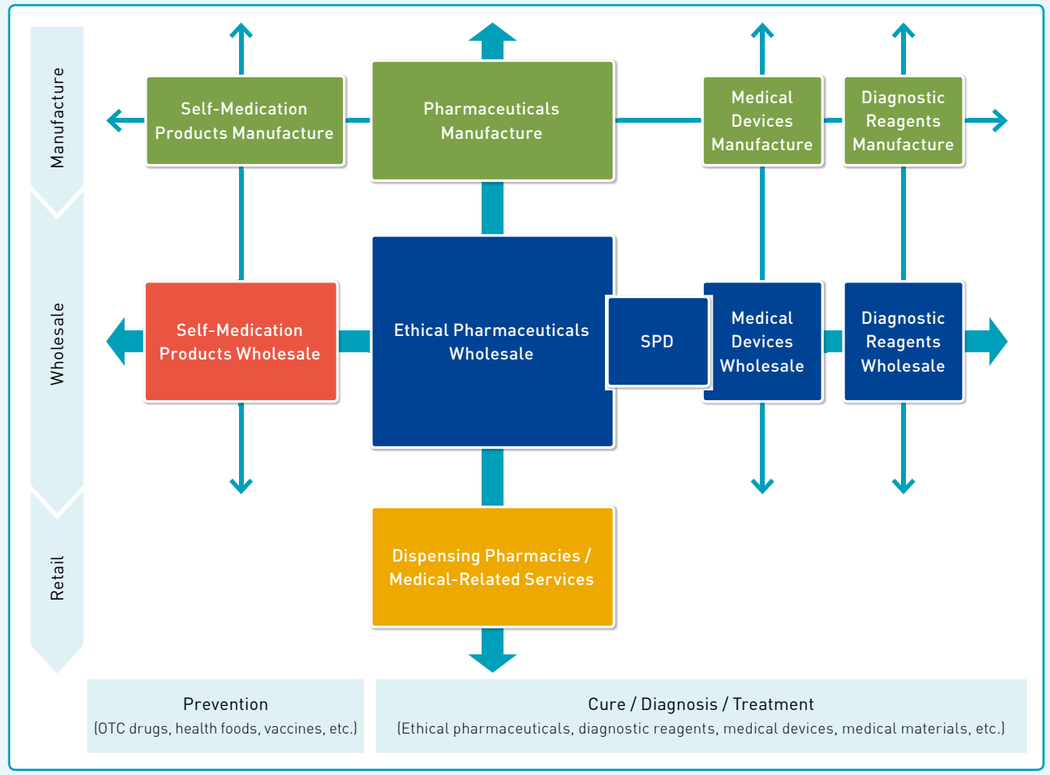
Market Capitalization*
¥ **740.3** billion
* Based on the closing price of the Company's stock on March 31, 2019

Issuer Rating
(Rating and Investment Information, Inc.)
A+

(Fiscal year ended March 31, 2019)

Realization of a Healthcare Consortium

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



Alfresa Group's Value Creation Model



The Alfresa Group recognizes the role that it should play in the future as well as the external factors that it needs to watch. Based on this recognition, the Group will work to make full use of its unique strengths and accumulated management resources as it works to create value sustainably in the future. At the same time, we will sustainably expand our business portfolio to achieve Our Vision, "We aim to become a Healthcare Consortium that provides products and services in every health-related field," as stated in the Alfresa Group's principles.

Our Vision

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

Contribute to community medicine and health

Enhance the business portfolio through coordination within the Group

Respond to healthcare needs of the general public including patients

19-21 Mid-term Management Plan Group Management Policies

- Build up a Group collaboration structure
- Reform business models
- Contribute to the health of community members
- Further improve productivity
- Develop talent

Development of next-generation business model

Reform of healthcare distribution platform

Participation in community medical and health platform

19-21 Mid-term Management Plan Group Management Policies

Japan's top wholesaler of ethical pharmaceuticals, and beyond

Robust distribution system

Relationships of trust with customers and suppliers

Diversified business portfolio

Group synergy

Alfresa Group's strengths

Our Philosophy

We create and deliver a fresh life for all.

Medium- to long-term strategies for value creation

Achievements and management resources to date

Values

Alfresa Group's Approach to Value Creation

In order to ensure that we put Our Philosophy, "We create and deliver a fresh life for all," which is part of the Alfresa Group's principles, into action, the Group seeks to:

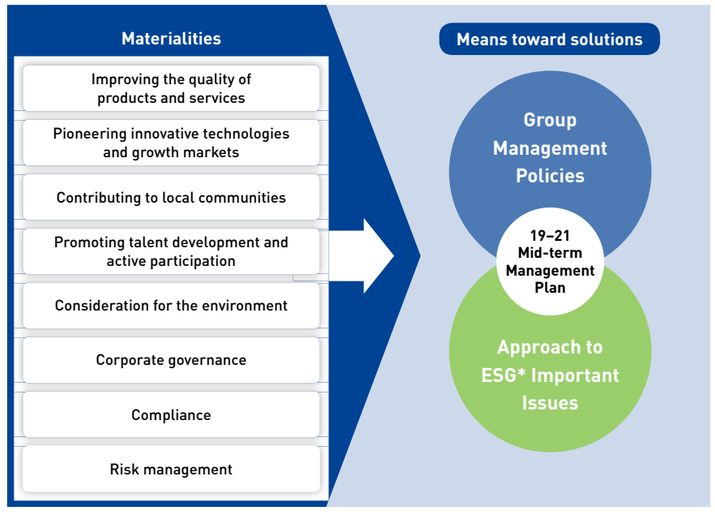
- further develop the nationwide distribution network that we have built as Japan's top wholesaler of ethical pharmaceuticals;
- participate actively in the advance of medical technologies, such as regenerative medicine and gene-based therapy;
- exploit state-of-the-art technologies such as artificial intelligence (AI) and robotics, etc.;
- nurture valuable next-generation management.

Through these efforts, we will secure the Alfresa Group's position as a Healthcare Consortium enterprise group that contributes to building a society of healthy longevity, seeking to fulfill the universal hope to lead a healthy life.

External Factors from a Medium- to Long-Term Perspective

- Demographic changes including declining birth rate, aging society, and population decline in Japan
- Advance of community healthcare through the integrated community care system
- Evolution of healthcare data analysis using information and communication technology (ICT)
- Japanese government efforts to realize a society of healthy longevity

Priority Issues (Materialities)



* Environment, Society, and Governance

Materialities for Sustainable Growth

In May 2019, the Alfresa Group identified its priority issues (materialities) for sustainable growth. Making sincere efforts in our business, we pursue both "profit generation" and "consideration to social impact by company activities" in balance, and aim to achieve sustainable growth and contribute to a sustainable society.

Identification of Materialities

Materialities are priority issues that have a strong influence on realizing a sustainable society and increasing the Group's corporate value over the medium to long term. They represent threats and risks as well as new opportunities within this time frame. We have identified eight materialities for the Company in carrying out our medium- to long-term strategies, which must be continuously addressed during this time. As a first step, during the period of the 19–21 Mid-term Management Plan, we will address our materialities through the five Group management policies and the five ESG important issues.

The Process of Identification of Materialities

STEP 1

Screen and organize social issues that the Group should address

Screen and organize social issues as a long list based on global sustainability reporting guidelines, the Japanese government's guidance on achieving the Sustainable Development Goals (SDGs), and evaluation standards used by major ESG organizations.

STEP 2

Organize the linkage between the Company's businesses and social issues, and identify priority issues

Hold inter-departmental discussion meetings regarding the screened and organized issues. Consider their importance to the Alfresa Group and its stakeholders, and then plot higher priority issues (Figure on the right).

STEP 3

Examine and determine appropriateness

Gather opinions from external experts regarding the screened issues as higher priority to ensure objectivity and appro-priateness. After requesting to the directors, the issues are discussed and decided upon, then settled by resolution of the Board of Directors.



Explanation of Materialities and Linkage to Management Policies, etc.

Category	Materiality	Description	Linkage to the 19–21 Mid-term Management Plan	
			Group Management Policies	ESG Important Issues
S	Improving the quality of products and services	• Manage and improve product and service quality	• The Alfresa Group's principles	
S	Pioneering innovative technologies and growth markets	• Enhance performance and efficiency, and develop new growth markets through innovation	• Build up a Group collaboration structure • Reform business models • Further improve productivity	
S	Contributing to local communities	• Build good relationships with local communities • Support the creation of societies that embody local aspirations for the future	• Contribute to the health of community members	• Contribute to local communities
S	Promoting talent development and active participation	• Respect human rights • Train and educate employees • Diversity, equal opportunity, etc.	• Develop talent	• Respect human rights and realize a fulfilling workplace
E	Consideration for the environment	• Energy management • Air quality, wastewater, and waste product management		• Give consideration to the environment
G	Corporate governance	• Effectiveness of the Board of Directors and the Audit & Supervisory Board; disclosure, etc.		• Corporate governance
G	Compliance	• Prevent corruption, bribery, and competitive behavior; promote the rule of law; establish and operate whistleblowing system, etc.		• Compliance
G	Risk management	• Management of product safety, counterfeits, and suppliers; disaster countermeasures		• Risk management

* S = Society, E = Environment, G = Governance

Financial and Non-Financial Highlights

Alfresa Holdings Corporation and consolidated subsidiaries

Summary for the Fiscal Year Ended March 31, 2019

Net Sales

¥2,640.5 billion

The Group achieved strong performance for the fiscal year ended March 31, 2019. While the market in the mainstay Ethical pharmaceuticals wholesaling business remained flat over the previous fiscal year, the Group's net sales increased 1.4% due to growth in sales volumes for hepatitis C therapeutic agents and anticancer drugs. Moreover, the Group achieved sales increases across all segments except the Manufacturing business.

Operating Income Margin

1.7%

Consolidated operating income was up 7.2% year on year, to ¥44.7 billion, having grown across the Ethical pharmaceuticals wholesaling business and the Self-medication products wholesaling business, and the operating income margin was 1.7%. The Group therefore achieved the operating income margin target of 1.5% or higher under the 16–18 Mid-term Management Plan.

ROE

9.5%

Profit attributable to owners of the parent reached a new record high of ¥41.6 billion. Mainly as a result of this, the Company achieved return on equity (ROE) of 9.5%, exceeding its capital cost and reaching the 16–18 Mid-term Management Plan target for ROE at the 8% level.

Free Cash Flow

¥33.9 billion

The Group aims to generate stable cash flow as a basic premise for its financial strategy. For the fiscal year ended March 31, 2019, operating cash flow totaled ¥46.8 billion as a result of recording a profit, while free cash flow, the sum of operating cash flow and investing cash flow, amounted to ¥33.9 billion. As a result, cash and cash equivalents at end of the fiscal year was ¥205.0 billion.

Owners' Equity Ratio

32.9%

As the Group regards its business as a social infrastructure, it is important to ensure financial soundness and an ability to respond flexibly. Owners' equity stood at ¥440.9 billion on March 31, 2019, up ¥6.1 billion from the previous fiscal year-end, bringing the owners' equity ratio to 32.9%.

DOE

2.3%

The Company's basic policy on shareholder returns is to provide a dividend on equity (DOE) greater than 2.0%. This is based on our consolidated results, while taking into comprehensive consideration matters such as strengthening of the financial structure, stability of the management foundation, and future business development. For the fiscal year ended March 31, 2019, we added a commemorative dividend to mark the Company's 15th founding anniversary and acquisitions of treasury stock.

CO_2 Emissions

76,932 t-CO_2

The Group is striving to reduce its CO_2 emissions through efficiency in energy usage. CO_2 emissions decreased by approximately 5% year on year, to 76,932 t-CO_2. Of the overall emissions amount,the Group's direct emissions account for 36,059 t-CO_2, while emissions associated with electricity supplied by other companies and so forth amounted to 40,873 t-CO_2.

Amount of Energy Consumed

1,387 thousand GJ

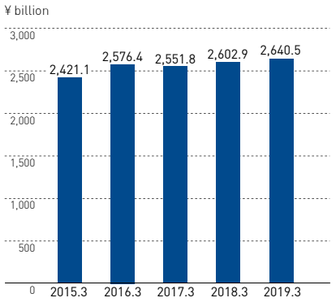
The Group strives to reduce energy use and to use energy efficiently, focusing mainly on electricity use at offices and plants as well as vehicle fuel used in sales activities and deliveries. The Group's energy use declined for the fiscal year ended March 31, 2019 due to a decrease in use of vehicle fuel following optimization and reduction of vehicles and the use of fuel-efficient vehicles.

Percentage of Female Managers

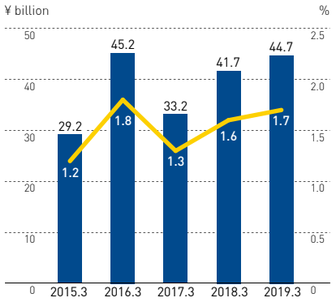
4.5%

The percentage of female managers for the fiscal year ended March 31, 2019 was 4.5%, climbing 0.9 percentage point from the previous fiscal year. The Group is working to promote diversity, including promoting women's active participation, and has set a target of over 5% for the percentage of female managers Group-wide by the fiscal year ending March 31, 2021.

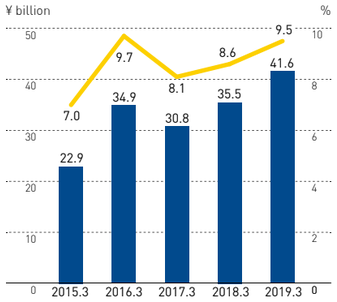
Net Sales



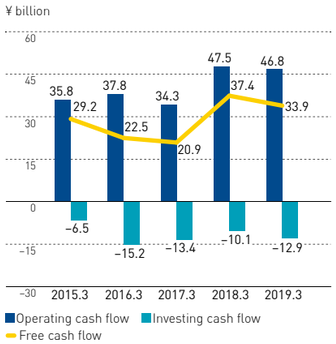
Operating Income / Operating Income Margin



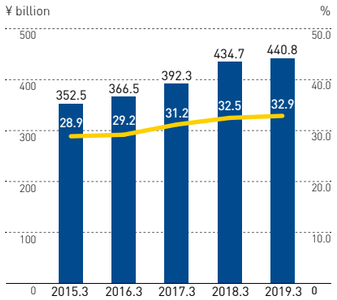
Profit Attributable to Owners of the Parent / ROE



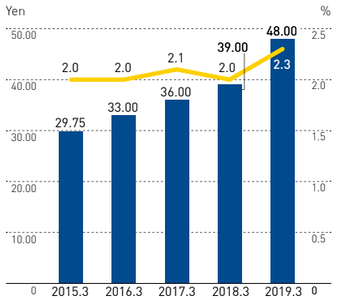
Operating Cash Flow / Investing Cash Flow / Free Cash Flow



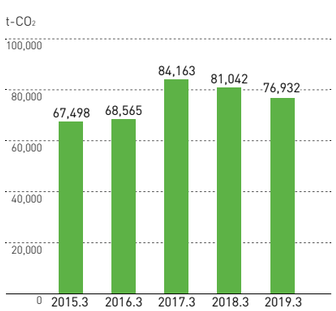
Owners' Equity / Owners' Equity Ratio



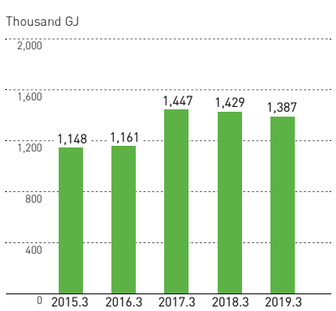
Dividend per Share / DOE



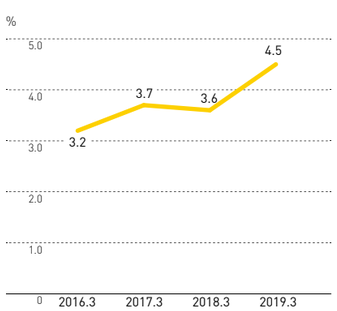
CO_2 Emissions



Amount of Energy Consumed



Percentage of Female Managers



Note: The Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc., from the beginning of the fiscal year ended March 31, 2019. Figures for the fiscal year ended March 31, 2018 have been adjusted to reflect retroactive adoption of the accounting standard.

Message from the Chairman



Transforming into a “Social Infrastructure Company That Contributes to the Community and Health” by Venturing into Uncharted Areas

It gives me great pleasure to address our stakeholders in this, our third integrated report. Launched in 2003, the Alfresa Group marked its 15th anniversary in the fiscal year ended March 31, 2019. During that time, we have worked to hone the strengths of our businesses by continuing to meet the expectations of our customers, mainly in the pharmaceuticals distribution industry. We are now the No. 1 company in Japan in terms of sales in both the ethical and OTC pharmaceuticals wholesale markets. Through our broad range of business fields, including the manufacture and wholesale of pharmaceuticals and other products as well as the operation of dispensing pharmacies, we actively support the supply chain for pharmaceuticals, which is part of Japan’s social infrastructure. In doing so, we have grown to become a corporate group that carries out a social mission ensuring a stable supply of needed pharmaceuticals, when and where needed.

In the Alfresa Group’s principles, we have committed ourselves to Our philosophy of "We create and deliver a fresh life for all," which has guided the Group’s journey to date. Today, the management environment is changing as a result of social issues such as overcoming the challenges of a declining birth rate and an aging population and realizing sustainable economic growth, as well as various system reforms in the medical field. Under these conditions, Our Philosophy will also guide us as we venture into uncharted areas and seek to find new ways to contribute to society, and propel us toward Our Vision of becoming a Healthcare Consortium.

In the 19–21 Mid-term Management Plan that was announced in May 2019, the Alfresa Group aims to expand into wide-ranging business areas in the health field from areas mainly involving pharmaceuticals. However, we are not aiming simply to expand the scale of our business. Our goal is to realize high-value-added services that meet the expectations of our local customers in an even wider range of business areas. We will achieve this by leveraging our core capabilities in pharmaceuticals distribution while integrating the functions of Group companies and using proactive investments, as well as collaborating with outside companies.

Our integrated reports comprehensively introduce the Group’s initiatives, from business activities through to initiatives in the ESG fields. Through this year’s report, we hope to offer our stakeholders a look at our first steps on a new growth journey, starting from the fiscal year ending March 31, 2020.

October 2019

H. Kanome.

Representative Director & Chairman
Alfresa Holdings Corporation

Message from the President



Alfresa Group's Vision and Values

Dramatic and exciting changes are occurring in the Company's business environment. In an era of change, we may encounter completely new issues and various challenges. Alfresa Group employees, including myself, confront issues and challenges as we carry out our daily work. When I ask myself what standards should guide us in these situations, I think that the Alfresa Group's principles, composed of Our Philosophy, Our Vision, and Our Promises, is the one and only answer. This is the steadfast management foundation that has guided the Group since its foundation, and will continue to guide us going forward.

The Group has already achieved No. 1 status in Japan's ethical pharmaceuticals wholesaling industry. However, my aim is to evolve the Group into a leading company in the healthcare field that creates values for society based on the Group's principles, at which a large workforce enjoys working and for which they have a strong affinity. To achieve this, we are focusing on creating fulfilling workplaces where each employee can see that their work is vital. The best measure of work fulfillment is whether we have a real sense that our work is truly beneficial to the people around us—for team members, the community, and society. It is only through this fulfillment that we are able to grow professionally and personally. The direct relationship between our daily work and social value is clearly defined in the Group's principles, particularly Our Promises.

Focused on Profitability and Productivity in the 16–18 Mid-term Management Plan

The 16–18 Mid-term Management Plan (from fiscal 2016 to fiscal 2018) started in April 2016, and over the three years of the plan we have achieved our initial targets for operating income margin, profit margin, return on equity (ROE), and dividend on equity (DOE). In the fiscal year ended March 31, 2019 alone, profit attributable to owners of the parent reached a record high, and both the operating income margin and profit margin surpassed the plan's targets.

In particular, I believe we achieved good results in our initiatives to further improve the profit margin and increase productivity, which were themes of the plan. Other achievements included reforming the sales function in the Ethical pharmaceuticals wholesaling business and enhancing distribution capabilities for PIC/S GDP* compliance and for regenerative medicine products.

The Group's core Ethical pharmaceuticals wholesaling business is facing a business environment where there is little scope structurally for market expansion. This obliged us to shift our focus to profitability, and as a result net sales in fiscal 2018 came in slightly lower than the plan's target. However, it is unrealistic to aim for continuous expansion of profit alone in the face of lackluster net sales growth. Growth in net sales means increasing the number of loyal customers who support the Company, and leads to an increase in the Company's influence in the health-related industry, and by extension, expansion of new business opportunities in the areas where employees can actively build new skills and knowledge. As president, I believe that we should aim for this kind of high quality growth.

In that sense, I feel we should have done better in terms of investment, which was just ¥65.3 billion against a planned total of ¥100.0 billion or more. The main reason was that capital investments, such as acquisition of land for distribution centers, and business expansion investments, including M&As, did not proceed as well as planned. Our ability to work quickly to lay foundations for the future is an issue that remains to be addressed.

* PIC/S GDP (Pharmaceutical Inspection Co-operation Scheme Good Distribution Practice) is an international quality control standard that deals with the distribution of pharmaceuticals including temperature control, hygiene control, preparation of various standard procedure manuals, and so forth.

Formulation of the New Mid-term Management Plan and Forecast for the Business Environment

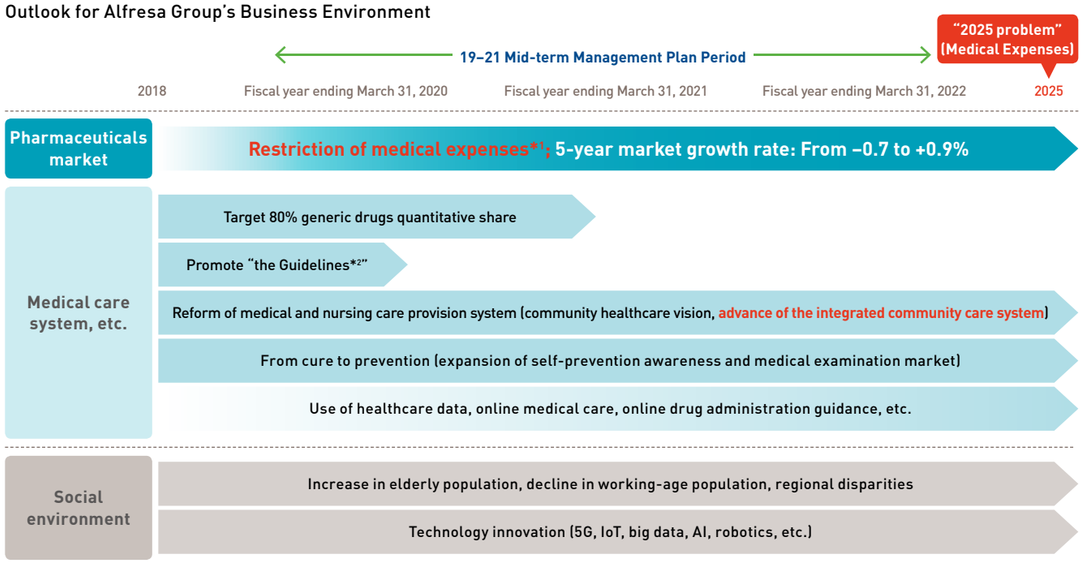
The new 19–21 Mid-term Management Plan (from fiscal 2019 to fiscal 2021) began in April 2019. Looking at the mid-term macro environment in Japan that is the basis of this plan, we expect changing population trends, a decline in the working-age population, and structural changes in the health-related industry, accelerated by new technologies such as AI and the Internet of Things (IoT).

In the ethical pharmaceuticals market, the internal structure of the market has changed dramatically. Reforms to the national health insurance (NHI) drug pricing system have had an impact, along with the volume expansion of generic products, contraction in long-listed pharmaceutical products, and rapid growth of specialty products and regenerative medicine products. However, the size of the ethical pharmaceuticals market is expected to remain about the same over the medium to long term. On the public systems front, Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical

Institutions/Pharmacies ("the Guidelines") that came into effect in April 2018 are likely to drive further advances in distribution reform efforts among all the players involved in the ethical pharmaceuticals industry. Moreover, the system for provision of healthcare services in Japan is steadily advancing with structural changes to realize the integrated community care system, looking ahead to the "2025 problem." By 2025, all of the baby-boomer generation in Japan will have passed 75 years of age and become 'advanced seniors' under the classification of Japan's public healthcare system.

In this environment, the Group must not only demonstrate initiatives quickly ahead of changes in the future but also transform its own business model while anticipating the needs of the times and of society. We must strive resolutely to achieve dramatic growth by taking up the challenge of uncharted business opportunities.

Outlook for Alfresa Group's Business Environment



*1 Source: CRECON Research & Consulting, Inc., Nov. 2018
*2 Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies, published by the Ministry of Health, Labour and Welfare (MHLW)

The New Mid-term Management Plan

The Challenge of Further Growth—"Together with Health, Together with Communities"

Under the 19–21 Mid-term Management Plan, we have adopted five Group management policies to realize our vision of becoming a Healthcare Consortium: "Build up a Group collaboration structure," "Reform business models," "Contribute to the health of community members," "Further improve productivity," and "Develop talent." We will emphasize two of these policies in particular. One is to "Reform business models." Here, we will invest actively in growth fields to drive reform, expanding our business fields from the existing pharmaceuticals wholesaling business to cover a wide area in health-related fields. The other is to "Contribute to health of community members." Under this policy, we will further strengthen our initiatives for the integrated community care system.

19–21 Mid-term Management Plan Group Management Policies

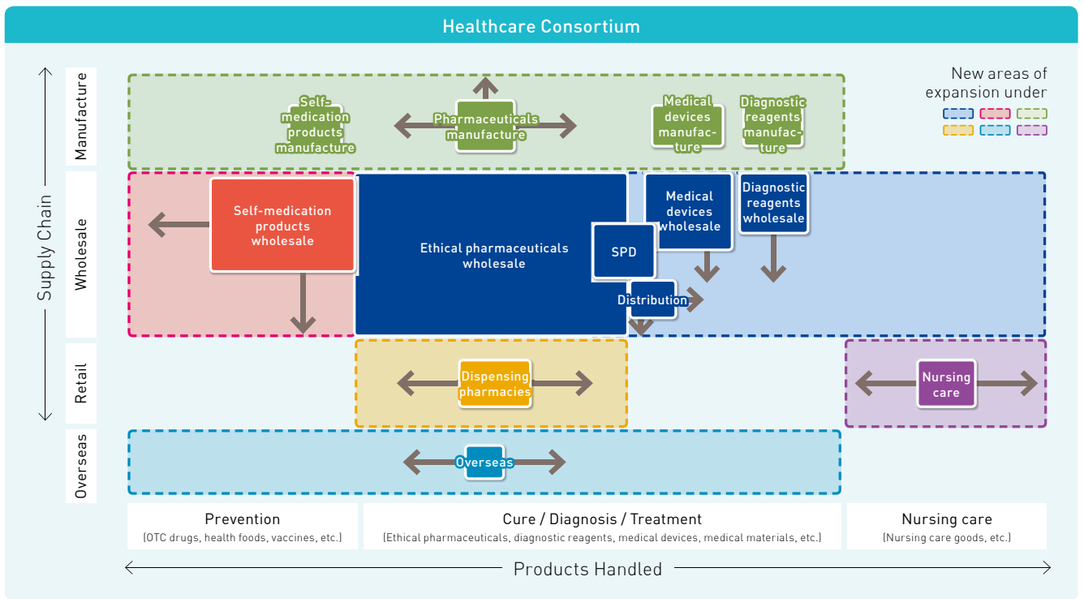
- Build up a Group collaboration structure
- Reform business models
- Contribute to the health of community members
- Further improve productivity
- Develop talent

We have positioned our No. 1 Ethical pharmaceuticals wholesaling business as the engine for all our business activities. From a long-term perspective, the future growth rate of the ethical pharmaceuticals market does not hold significance, and we must continue to secure profits while pursuing further efficiency gains. Meanwhile, the Group has been working to expand its business fields in healthcare, and must now achieve high quality growth by striving resolutely to enter new fields with a more proactive approach. Under our Group management policies of "Reform business models," we will focus particularly on our growth fields of the Self-medication products wholesaling business, the Manufacturing business, and overseas business. In addition, we will actively expand into new business fields such as the nursing care business. Over the three years of the new plan, we will make investments of ¥84.0 billion as business reinforcement investments and ¥36.0 billion as business expansion investments, thereby increasing both our investment amount and the fields for investment.

As an initiative for the integrated community care system in Japan, a new system for provision of healthcare services that considers regional characteristics, we will transform our business lines and structure in line with public system changes. In addition to healthcare services, we will look at various potential growth fields including nursing care and home care under our Group management policy of "Contribute to the health of community members." Starting from the nationwide pharmaceuticals distribution network that we have built up over many years, we will build a platform for connecting healthcare, nursing care, home care, and local governments, aiming to evolve from an infrastructure for pharmaceuticals distribution to a comprehensive service provider for community healthcare as a first step. As a second step, we will continue to develop, aiming to move beyond medical-related products distribution to realize a "local community health and medical care platform" that enables the provision of various services related to the integrated community care system by connecting a wide range of service providers. To realize this, we need to expand our business areas over a wide range in health-related fields, as I have mentioned. That is to say, we must work together as one both to strengthen our initiatives on the integrated community care system and to transform our business models. The Alfresa Group is called to leverage its combined capabilities to a greater degree than ever before, including business collaboration across the entire Group and business alliances with companies in other industries.

In this way, as we strive resolutely to become a leading company in health-related fields, the Alfresa Group will transform itself by steadily executing the strategies of the 19–21 Mid-term Management Plan. By further improving our profit structure and engaging in management with an awareness of capital cost, we are determined to continuously improve our corporate value.

Reform Business Models





Further Productivity Improvement and Talent Development

Our Group management policies also include "Further improve productivity" and "Develop talent."

Since the previous plan, we have been working to streamline the Ethical pharmaceuticals wholesaling business mainly through marketing reform and distribution reform. Now, we will look to drive efficiency gains in our existing operations in all segments by applying new technologies. The management resources made available through these efficiency increases will be reallocated into new operations, thereby creating a Group-wide positive cycle for realizing further productivity increases.

Meanwhile, "Develop talent" is an essential strategy for our high quality growth. More than anything else, it is human resources that will drive our business model transformation and expand high-value-added businesses. Under the new plan, of the four requirements for our valuable people, we will prioritize "Willingness to venture into uncharted areas" and "Ability to adapt to changing environments." We will carry out talent development in line with these two requirements.

Developing talent is certainly a perennial theme of corporate management. However, we have emphasized it this time. In the creation of new businesses, highly motivated human resources are even more important for driving progress than innovative concepts and strategic business plans. The soil in which these new businesses will grow is our employees' willingness to venture, in the spirit of taking up challenges in new, untried fields to create value and contribute to society. By fostering this together with the capacity to adapt flexibly in a changing business environment, we are committed to developing talent for a new era.

Eternal Mission: Creating Alfresa's Unique Value

Corporate management must look beyond the three-year mid-term management plan and continue to develop even further into the future. That is why we need to outline what the Group would like to be in the medium to long term as Our Vision. Based on the expectations of our stakeholders and the demands of society, we have arranged the medium-to-long term opportunities and risks for the Company, and for the first time have identified eight priority issues as materialities. Under the Group management policies of the 19–21 Mid-term Management Plan, we aim to "Contribute to the health of community members." The materialities we have established echo this with "Contributing to local communities." We recognize this as an extremely important issue for the Company. Amid a rapidly changing business environment, in addition to our business activities, we must also strengthen our non-business activities to forge links with local communities, and strive to become a Group that is widely recognized as a vital player in society. Moreover, by raising our profile within the community, I believe that employees will also carry out their work each day with a sense of pride as a member of the Alfresa Group.

As a corporate group conducting business in fields related to life and health, the Alfresa Group has established the Alfresa Group's principles, and puts these into practice in order to fulfill its responsibilities to stakeholders. Enhancing corporate governance is fundamental for fulfilling our social responsibility as a company and increasing corporate value, and we have therefore been working to upgrade our systems.

Regretfully, despite these efforts, the Company discovered improper acts relating to medication history management and guidance at certain dispensing pharmacies operated by its consolidated subsidiary, Apollo Medical Holdings Inc., and in June 2019 we established a third-party special investigation committee. Subsequently, the facts are being investigated and we are scheduled to announce measures to prevent a recurrence (*information as of end of August 2019). I would like to tender my apologies once again to our stakeholders for the concern that we have caused.

With regard to the matter of Apollo Medical Holdings Inc., we recognize that part of the reason was that our Group governance did not function adequately. We are determined to ensure that such an incident never happens again. To make sure that all our day-to-day operations are compliant, and that our Group governance is functioning, I believe it is important for us to return to our foundation, the Alfresa Group's principles. I consider it my duty to strengthen Group-wide initiatives to ensure that the principles are thoroughly understood and implemented.

Meanwhile, as a new initiative for the Board of Directors, which forms the backbone of corporate governance, we have introduced this year a stock-based performance-linked remuneration system. This system is designed to achieve a high degree of interrelationship between the remuneration of directors, etc., consolidated performance targets, and the Company's stock price, and it provides an incentive for directors, etc., to achieve the consolidated performance targets. The management team would like to share the results of increasing corporate value with our shareholders. Looking ahead, we will make even greater efforts to take the next step toward shareholder-focused corporate management.

Contributing to the Creation of Platforms That Connect Community Members

Competition has already begun around the integrated community care system. With a strong network covering domestic hospitals and dispensing pharmacies, the Alfresa Group is currently in an extremely advantageous position. Going forward, we seek to play an even more active role by building a platform to connect physicians in communities, pharmacists, and local governments, as well as service providers covering a wider area, such as nursing care and home care. We will therefore step up our research, development, and investment toward becoming a Healthcare Consortium.

In the coming era, the Group will not only pursue profits in health-related business fields but will also strive to become a leading company that can contribute to an even wider range of fields in society. Furthermore, the main players in this strategy will be the individual employees of the Alfresa Group. That is why talent development is the foundation of our management. The true growth strategy of the Group is talent who will strive resolutely in new fields, understanding the contribution of their work to society and members of the community, and who will adapt in an era of multiple changes. My mission is to create an environment and foster a corporate culture that enable employees to take up challenges. My overarching aim is to make every employee feel proud to be part of the Alfresa Group, and realize true fulfillment in their work. As motivated employees engage in creative innovation with a sense of mission, they will aim to achieve further growth of the Group by bringing new added value to society.

I ask all our stakeholders for their continued guidance and support of the Alfresa Group.

October 2019

19–21 Mid-term Management Plan

The Challenge of Further Growth—"Together with Health, Together with Communities"

Building a Robust Corporate Structure Able to Adapt to Environmental Change and Achieve Sustainable Growth



Yasuki Izumi
Director & Deputy President
Assistant to the President,
Group Business & Affiliate Control & Group Information System
Alfresa Holdings Corporation

Under the 16–18 Mid-term Management Plan, which finished in the fiscal year ended March 31, 2019, we achieved our targets for operating income margin, profit margin, ROE, and shareholder returns. Under the 19–21 Mid-term Management Plan, which started in the fiscal year ending March 31, 2020, our management targets include a certain level of net sales, operating income margin, and profit margin, while we are also setting out to make aggressive growth investments with a cumulative investment plan of ¥120.0 billion.

19–21 Mid-term Management Plan
Group Management Targets
(For the fiscal year ending March 31, 2022)

Net Sales	¥2,750.0 billion
Operating Income Margin	1.7% or more
Profit Margin*	1.4% or more
Investment Plan (Cumulative)	¥120.0 billion
ROE	8% level
Shareholder Returns	DOE: 2.3% or more

* Profit attributable to owners of the parent

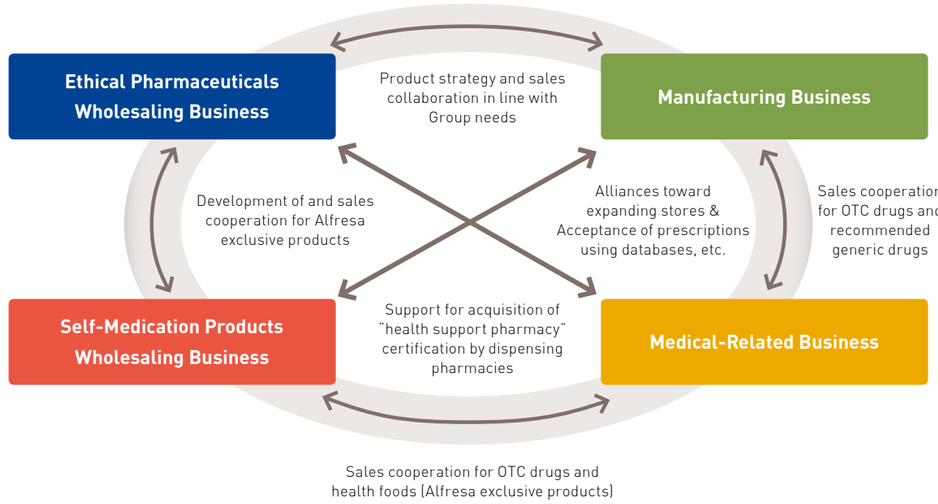
The "2025 problem," when one in five Japanese population will be aged 75 or over, will soon be upon us. Moreover, government-led structural changes through the community healthcare vision and the integrated community care system are making steady progress. These factors are bringing a major turning point in the Alfresa Group's management environment. The Group aims to sustainably increase its corporate value by realizing a Healthcare Consortium as stated in Our Vision under its principles. Under the newly formulated 19–21 Mid-term Management Plan, we aim to stay ahead of changes in the external environment over the medium to long term by venturing into new fields. The plan also calls for the Group to transform itself and develop a robust corporate structure that is able to adapt to change. In particular, the five Group management policies express the Group's direction and specific measures.

These policies include three major themes. The first is "Contribute to the health of community members." During the period of the previous mid-term management plan, we made progress toward the integrated community care system by linking governments, medical institutions, and medical professionals with one another, and with the Group via its pharmaceuticals distribution platform, which is No. 1 in Japan. Under the 19–21 Mid-term Management Plan, we plan to expand our measures even further and we recognize the need to optimize the form of our core businesses to suit the approach of the government under the integrated community care system and status of healthcare in each community. This change lies at the heart of realizing the Healthcare Consortium.

In particular, we will focus on expanding growth fields that are currently minor aspects of the Ethical pharmaceuticals wholesaling business. The ethical pharmaceuticals distribution platform, which is a major strength for the Group, must evolve into a platform that can distribute a wider range of products and services beyond pharmaceuticals. For example, our business fields can be expanded by adding medical products such as medical materials, medical devices, and nutritional foods to the platform.

Another important feature of the 19–21 Mid-term Management Plan is active investments to promote the Group's growth, looking forward 10 and 20 years into the future, with ¥36.0 billion earmarked for business expansion investment. In responding to the integrated community care system and realizing a Healthcare Consortium, we will grasp new frontline needs and changes in our customers and plan to steadily expand new businesses in fields peripheral to the Ethical pharmaceuticals wholesaling business and the Self-medication products wholesaling business, while expanding the Manufacturing business further upstream in the supply chain.

Cases for Collaboration among Each Business Segment



To expand its business fields in step with the changing markets, the Group must secure functions that it lacks and build the capability to provide high-value-added services. This corresponds to the second theme of the Group management policies, "Build up a Group collaboration structure." I believe that the Group still has significant latent potential for developing diverse new businesses and services through business collaborations. As a responsible person for Group Business & Affiliate Control, I will lead these efforts. For example, I will work to create a structure for sharing best practices among Group companies and also build frameworks for partnership and collaboration with companies in other industries by looking outwards with a view to creating new value-added services. Through these efforts, I hope to connect various stakeholders in the integrated community care system and create an open platform.

This brings us to the third theme, "Develop talent." The Group's talent is the principle driving force for the 19–21 Mid-term Management Plan. The Alfresa Group has a workforce of around 15,000 people, and most of these are deployed on the front lines. It is on this interface with customers and patients that you will find the true essence of the Group, as well as the first buds of transformation. We set "Develop talent" as a theme of the Group management policies because I believe it is vital to share with the entire Group that its transformation can only occur through individual efforts undertaken by each of the employees that support the Group on the front lines. In addition to making investments in talent to accelerate our transformation, we will also strengthen on-the-job training (OJT) and create a corporate culture of taking on challenges.

Over the next three years, these three themes will guide the efforts of the Alfresa Group to transform itself and create sustainable corporate value.

Developing Talent for Uncharted Business Opportunities

The Alfresa Group considers its valuable people to be the true driver for sustainable growth into the future. We are working to develop talent who can lead this growth. Company Representative Director & President Taizo Kubo and Director & Deputy President Yasuki Izumi talk about their passion concerning talent development strategies under the 19–21 Mid-term Management Plan.

Talent Needed for Transformation

Kubo Talent development is both an old and a new theme for corporate management. The ethical pharmaceuticals wholesaling market is not predicted to grow over the medium to long term, and we are expecting changes to the system for provision of healthcare services, such as the integrated community care system. To pursue a Healthcare Consortium and see growth across the entire Alfresa Group, the Group must expand its business capabilities into new fields. We need new talent who have a desire to take on challenges and the ability to adapt to new environments to undertake this challenge. It is against this backdrop that we have once again included "Develop talent" as one of the Group management policies in the 19–21 Mid-term Management Plan.

Alfresa Group's Four Requirements for Our Valuable People





Izumi Of the Alfresa Group's four requirements for our valuable people, "Strong sense of mission for work that supports life" and "High ethical standards that earn trust" must not be overlooked, as these are the basis of our business. However, the reason that the 19–21 Mid-term Management Plan emphasizes "Willingness to venture into uncharted areas" and "Ability to adapt to changing environments" is that we are looking to further strengthen our new business capabilities.

Kubo Paradoxically, a certain amount of failure is necessary to succeed in an "uncharted" field. We must endure failure in the early stages to find the final path to success. The management team will fully support our valuable people who understand the value of failure and try hard to adapt to new environments with a desire to take on challenges. The Group would like to nurture this kind of talent under its "Develop talent" policy.

Alfresa Group's Original Approach to Developing Talent

Izumi One of our initiatives is to increase the frontline abilities of our people by strengthening our OJT. I would like to have diverse talent, such as senior and junior employees of all ranks and positions work together, learning and teaching one another and taking on challenges in their daily operations in order to discover latent new seeds for businesses opportunities, operational improvements, and service quality improvements on the front lines and grow them into something big. We will gain experience through work, review what we have learned, and talk with each other about our new discoveries. This process will be conducted actively and shared throughout the entire Group. In every Group company, we will provide coaching training and followership training for middle management, who will play a supporting role.

Group Training Record

Training program	Target	No. of participants (Per program)	Program history
Director and executive officer training Acquire basic mindset as a top manager, increase company decision-making capability	Directors and executive officers	Around 10	2 years
AEP (Alfresa Group Executive Program) Development of next-generation management	General managers	Around 15	7 years
ASPAC (Alfresa Group Study Program Abroad Course) Cultivation of global thinking and perspective	Branch / section managers to executive officers / general managers	Around 15	7 years
ABS (Alfresa Group Business School) Nurture candidates for next-generation management	Section managers to young branch managers	Around 20	7 years
Fresh members' seminar Sharing the Group's principles, etc.	New recruits	Around 200	12 years
Hospital sales representative training Establishing a marketing style to match the environmental changes in hospitals	Hospital sales representatives	Around 10	6 years

(Note) Shaded fields represent specialist talent training.

Another initiative is strategic career plans for future management. Nurturing the next generation of management candidates is an important priority for the Group. We will promote strategic job rotations so that candidates can systematically experience various positions to develop our future management team. These kinds of personnel transfer pose some difficulties for smaller Group companies, but we will look at strategic job rotations across Group companies.

Kubo It would also be effective to bring middle management from Group companies together to set up Group-wide projects. By setting up projects to address medium-term issues for the Alfresa Group and engaging with them, we will further develop the skills and capabilities of the diverse talent that is present in various positions throughout the Group. In addition, the project members will encourage one another's development, which will help to foster human networks later on. By setting out themes and establishing multiple projects to resolve medium-term issues for the Group, the transformation of the overall Group will proceed dynamically, and the organization will be invigorated.



Taizo Kubo
Representative Director & President

Yasuki Izumi
Director & Deputy President

Our Valuable People Are the Growth Driver for the Alfresa Group

Izumi All employees will conduct a complete review of their duties keeping in mind a "willingness to venture" and an "ability to adapt." I want everyone to make full use of their own capabilities in their work. Giving a full effort, keeping nothing back, helps individuals to grow and develop their capabilities. The accumulation of such efforts will help to lift the overall abilities of the Alfresa Group. We cannot grow if we do not strive.

Kubo Developing talent is a Group-wide theme for all business segments and positions. I want to change our corporate culture into one of taking on challenges, seeing the value of failure in a positive light, and continuing to strive.

To realize the sustainable growth of the Alfresa Group over the medium to long term, we must thoroughly and simply implement the Group's founding principles by developing completely uncharted services and products, and delivering them to customers more efficiently. I aim to work together with the talent who will lead us into the next era to open up the path.

Finally, my wish is that in the future as many employees as possible will be able to look back on their lives and feel proud that they worked at the Alfresa Group, and that they grew personally through their work in their companies.

Message from the Finance Director

Growth Investment to Raise Corporate Value



Seiichi Kishida
Director, Vice President & Executive Officer
General Affairs, Financial Planning
Alfresa Holdings Corporation

Review of the Fiscal Year Ended March 31, 2019 and the 16–18 Mid-term Management Plan

In the fiscal year ended March 31, 2019, net sales and operating income both increased year on year. This reflected the success of measures carried out under the 16–18 Mid-term Management Plan, such as marketing reform and distribution reform, along with thorough efforts under Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies. Furthermore, profit attributable to owners of the parent also reached a new record high, partly due to recording extraordinary income on the sale of investment securities.

On the other hand, where we had planned to make growth investments for expanding our earnings base, some of our investments for business expansion, including M&As, did not proceed as quickly as we had originally anticipated, and there were delays in acquiring land for distribution center investments due to conditions in the real estate market, so that cumulative investments reached only ¥65.3 billion compared to our planned total of ¥100.0 billion or more under the plan.

(¥ billion)	2017.3	2018.3	2019.3
Net Sales	2,551.8	2,602.9	2,640.5
Operating Income	33.2	41.7	44.7
Profit*1	30.8	35.5	41.6
Total Assets	1,255.9	1,337.4	1,341.9
Owners' Equity Ratio (%)	31.2	32.5	32.9
ROE (%)	8.1	8.6	9.5
Earnings per Share (¥)	142.58	164.25	195.79

Issuer Rating from R&I*2: **A+** (Stable)

*1 Profit attributable to owners of the parent
*2 Rating and Investment Information, Inc.

Financial and Capital Strategy in the 19–21 Mid-term Management Plan

Pursue the optimal balance of financial soundness, capital efficiency, and shareholder returns

Our basic approach to financial and capital strategy under the 19–21 Mid-term Management Plan is to raise corporate value by pursuing the optimal balance of financial soundness, capital efficiency, and shareholder returns. In particular, we will press forward even further with investments and measures to promote growth, based on issues identified in the previous plan.

Looking at financial soundness, the Group's businesses support the domestic pharmaceuticals supply chain, and in that respect they form a social infrastructure that delivers pharmaceuticals reliably to patients. Establishing a stable financial base is therefore a precondition for our business activities. As of June 2019, we have a stable "A+" rating from Rating and Investment Information, Inc. (R&I), and an owners' equity ratio of more than 30%. We intend to maintain these going forward.

Raise Corporate Value

1. Financial Soundness	Maintain stable financial base as a social infrastructure company
2. Capital Efficiency	Active investment toward expanding the Healthcare Consortium and efficient use of capital
3. Shareholder Returns	Stable, continuous return of profits

With regard to capital efficiency, the 19–21 Mid-term Management Plan continues the policy of its predecessor by aiming to achieve ROE of around 8% over the Company's capital cost by making efficient use of assets and capital, while engaging proactively in growth investments for expanding our Healthcare Consortium.

For shareholder returns, we have set a target for DOE of 2.3% or higher, and adopted a policy of providing a stable, continuous return of profits. To enhance the return of profits to shareholders even further, we have raised our target DOE level by 0.3 percentage point from the previous plan. Our annual dividend for the fiscal year ended March 31, 2019 was ¥48 per share, an increase of ¥9 from the previous fiscal year, including a 15th anniversary commemorative dividend. For the fiscal year ending March 31, 2020, we plan to increase the ordinary dividend even further, to ¥50.

Approach to Capital Cost and ROE

The Alfresa Group uses capital cost as a management indicator, measuring and updating provisional figures each year while referring to information from multiple external professional organizations. In addition to monitoring the profitability of existing businesses, we also refer to the latest cost of capital when making investment decisions and evaluating businesses or investment securities.

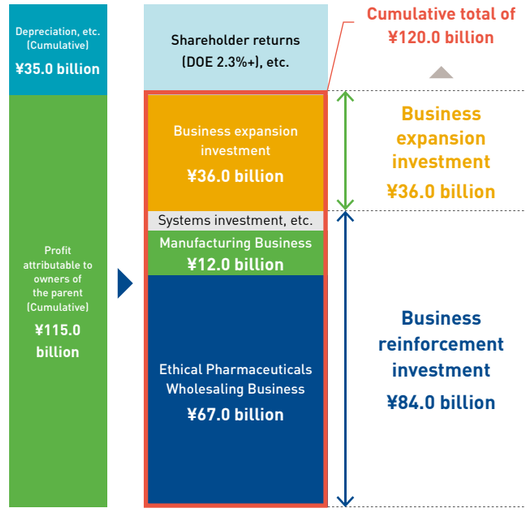
Furthermore, ROE at the 8% level is appropriate as a step toward an even higher level of capital efficiency that we are aiming at for the future. To achieve our goal, we will take steps to expand profits in parallel while driving even further efficiency gains. Specifically, we have set targets for the turnover ratios of inventories, receivables, and payables, and will increase awareness of asset management on the frontline level so as to raise the asset turnover ratios. In addition, we will trim down some of our investment securities, starting with stock that we no longer have any reason to hold, and keep a discerning eye on securities market conditions.

Capital Allocation Plan

During the period of the 19–21 Mid-term Management Plan, we will accelerate investments for growth. We are planning to make investments totaling ¥120.0 billion. Of this amount, we have allocated ¥36.0 billion for M&As and capital alliance for business expansion investment in health-related fields. In addition, we are planning to invest ¥84.0 billion for reinforcing our business foundations, including distribution center upgrades, IT system investments, production facility enhancements, and R&D for new products.

Sure and swift investments for establishing a new earnings base are now our priority, and we will take a proactive yet measured approach to ensure that investment discipline remains rigorous, while also making effective use of cash flows for shareholder returns.

19–21 Mid-term Management Plan
Investment Plan (Cumulative total of 3 years)



Under the 19–21 Mid-term Management Plan, the Group will concentrate on capturing business opportunities and building an earnings base to enable sustainable growth. We will use our sense of crisis over the slowdown in market growth to inspire our efforts to transform our business model and lay the foundation for increasing corporate value in the future.

Message from Segment Top Management



Ethical Pharmaceuticals Wholesaling Business

Koichi Masunaga
President
Alfresa Corporation

Becoming the Leading Company in Ethical Pharmaceuticals Wholesaling

The Alfresa Group aims to become the leading company in the Ethical pharmaceuticals wholesaling business. This means being No. 1 not only in terms of sales but also in all other aspects, including proposal capabilities for customers and social recognition and contribution. Under the new mid-term management plan, we consider our top priority themes to be responding swiftly to changes in the business environment and initiatives for the integrated community care system.

Our strength lies in some of our Marketing Specialists (MS) being accredited Medical Management Specialists. MS serve as regional coordinators, and can make a significant contribution to building platforms that connect various stakeholders in the integrated community care system.

Looking ahead, we will focus on our nationwide pharmaceuticals distribution network as a starting point to enhance our distribution and MS functions, and achieve further productivity increases to respond accurately to market needs. At the same time, we will evolve our role as a provider of comprehensive support for regional healthcare and work toward being a company that our employees can continue to be proud of.

Becoming an "Only One" Wholesaler Differentiated by the Pursuit of Originality

In the current adverse business environment, I believe it would be difficult to survive by simply extending our existing wholesaling functions. As such, the Alfresa Group is promoting business model reforms, aiming to become a Total Healthcare Merchandising Wholesaler (THMW), an "only one" wholesaler preferred by customers and consumers. Specifically, in addition to our wholesaling function that delivers nationwide, we will strategically execute value-added proposals that solve issues faced by customers. In doing so, we will become a healthcare industry leader capable of providing a comprehensive range of health products and services. By carrying out this strategy, I believe we will not only grow the Company's business but ultimately contribute to society by extending healthy lifespans.

The driving force for implementing THMW and creating new value is of course our valuable people. My mission is to expand and continue investment into further developing talent, and to continue the challenge of transforming our business model.



Self-Medication Products Wholesaling Business

Hisashi Katsuki
President
Alfresa Healthcare Corporation



Manufacturing Business

Koichi Shimada
President and CEO
Alfresa Pharma Corporation

Further Increasing the Value of the Manufacturing Business

The Alfresa Group's Manufacturing business has a unique product portfolio and business model that hold high growth potential. However, the current business scale is not large enough. To serve as a solid pillar of growth for the Group in the difficult business environment, in addition to conducting safe, reliable, and sincere manufacturing, we will strive to expand products and businesses that have the support of medical professionals, while enhancing synergies by strengthening the value we provide to Alfresa Group businesses. Under the new mid-term management plan, we are working to achieve a net sales target of ¥60.0 billion. We will also invest in our business and in our valuable people in order to continuously increase the value of the Manufacturing business, aiming to achieve an even higher level with a strong sense of determination.



Medical-Related Business

Shizuhisa Kanemoto
President
Nihon Apoch CO., LTD.

Contributing to Community Medical Cooperation through Family Pharmacies with Close Community Ties

The most important issue for the Alfresa Group's dispensing pharmacy business is to improve the quality of service provided by pharmacists and to increase our value to the local community.

Dispensing pharmacies are in direct contact with patients, and the key to their success lies in the close relationships they can achieve with patients by providing quality service. Specifically, to help realize the integrated community care system, we aim to team up with stakeholders such as medical institutions and nursing care facilities, and become an essential part of local community health and medical care.

One of the distinguishing features of the Alfresa Group compared to other companies is our ability to gather and analyze information through our other businesses. As we move forward, we will further reinforce collaboration within the Group and work to make full use of ICT, such as online drug administration guidance. We will also focus our efforts on the education and development of knowledgeable and experienced pharmacists who can provide quality service. We will continue to pursue our vision for a dispensing pharmacy business that embodies the unique qualities of the Alfresa Group.

Working to Develop New Business Pillars to Support the Group's Future

Alfresa Holdings Corporation is developing its business along the two axes of overseas business and new business. In overseas business, we are driving our expansion in the Chinese and Vietnamese markets by applying strengths developed in our domestic operations. In China, in addition to the activities of our joint venture in importing and wholesaling pharmaceuticals, REMEJE PHARMACEUTICALS (CHINA) CO., LTD., which was established in 2005, we have also concluded a comprehensive strategic business alliance with China Resources Pharmaceutical Commercial Group Co., Ltd., and are now entering the promising supply, processing, and distribution (SPD) market for consignment of in-hospital distribution, among others. Meanwhile, in Vietnam, our joint venture Alfresa Codupha Healthcare Vietnam Co., Ltd. is growing steadily in its business of medical devices, diagnostic reagents, and other products, and we will work to strengthen it further.

Meanwhile, in new business, we plan to strengthen our strategic initiatives in growth markets with a view to expanding our Healthcare Consortium. These initiatives include strengthening relationships with medical device and diagnostic reagent wholesalers, initiatives in the nursing care and regenerative medicine-related business fields, and incorporating cutting-edge technologies such as healthcare tech.

As the management environment becomes increasingly difficult, we will develop second and third business pillars in preparation for sustainable growth, map out a route to growth for the entire Group, and deliver tangible results.



Overseas Business Development

Ryuji Arakawa
Director, Vice President & Executive Officer,
Corporate Communication, Business Development & International Business
Alfresa Holdings Corporation

Strategy by Segment:

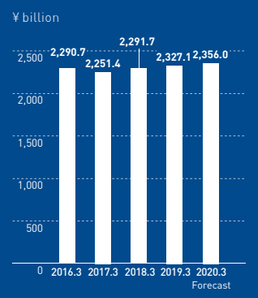
Ethical Pharmaceuticals Wholesaling Business



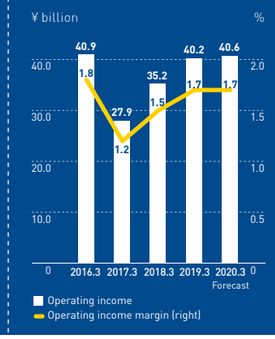
Operating Companies

- Alfresa Corporation
- Shikoku Alfresa Corporation
- TS Alfresa Corporation
- Meisho Co., Ltd.
- RYUYAKU CO., LTD.
- Tohoku Alfresa Corporation
- Alfresa Medical Service Corporation
- Alfresa Shinohara Chemicals Corporation

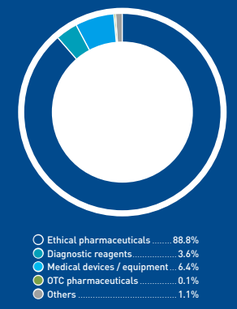
Net Sales



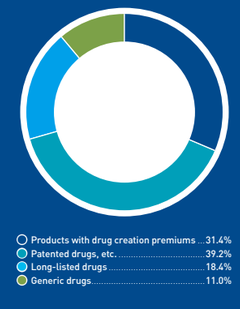
Operating Income / Operating Income Margin



Sales Composition by Field



Sales Composition by Product Category



Business Environment and Growth Opportunities

Business Environment

- Stalling pharmaceutical market growth due to public medical expense curbs
- Advance of the integrated community care system driven by aging society
- Expansion in specialty products
- Technological innovation with AI, IoT, robotics, etc.

Strengths of the Business Segment

- Nationwide ethical pharmaceuticals distribution network
- Strong proposal capabilities leveraging Medical Management Specialist accreditation
- High-performance, efficient distribution system
- Highest productivity in the ethical pharmaceuticals wholesaling industry

Growth Opportunities

- Improve profitability through distribution reforms
- Develop new business opportunities by Medical Management Specialists
- Expand sales of medical goods using pharmaceuticals distribution network
- Further upgrade distribution function and increase efficiency using advanced technologies such as AI and robotics
- Expand sales of specialty products through nationwide distribution network and diverse Group functions

Performance and Achievements of the 16–18 Mid-term Management Plan

Performance

	Targets	2019.3 (Results)
Net sales	¥2,400.0 billion	**¥2,327.1 billion**
Operating income margin	1.5%	**1.7%**

Major Initiatives and Achievements

- Promoted distribution reforms in line with the Guidelines of the Ministry of Health, Labour and Welfare (MHLW)
- Promoted acquisition of Medical Management Specialist professional credentials by Marketing Specialists (MS)
- Developed transportation and delivery tools compatible with the PIC/S GDP Standard
- Jointly developed the pharmaceuticals delivery system "saios" together with NAVITIME JAPAN Co., Ltd.
- Began consigned transportation management of investigational products for regenerative medicine
- Established the Tonomachi Regenerative Medicine Distribution Station as a storage and transportation base for regenerative medicine products
- Launched research groups with companies in other industries (Mitsubishi Logistics Corporation, Yamato Transport Co., Ltd.)
- Established Tohoku Alfresa Corporation and realigned business in the Hokkaido area
- Reached basic agreement on examining construction of new platform for distribution management of specialty pharmaceuticals (PHC Corporation, Fujitsu FIP Corporation)

Initiatives and Targets of the 19–21 Mid-term Management Plan

Business Policy

- **Further "evolution" of the MS function**
  - Strengthen proposal-type marketing
  - Practice area marketing strategy
  - Efforts toward integrated community care system
  - Focus on medical goods*
- **Focus on specialty products**
- **Upgrade, raise efficiency, and standardize Group distribution**

* Medical goods include diagnostic reagents, medical devices, medical materials, nutritional foods, etc.

Targets for the Fiscal Year Ending March 31, 2022

Net sales

¥2,413.0 billion

Operating income margin

1.7%

Investment plan (Cumulative)

¥67.0 billion

Key Strategies

1. Further "evolution" of the MS function

We will strengthen proposal-type marketing to hospitals through team marketing that unifies our sales persons in charge of diagnostic reagents, medical devices, medical materials, and SPD, etc., centered on pharmaceuticals' MS. Moreover, since the status of local medical care differs by area, we will deploy marketing strategies that suit local characteristics. With our pharmaceuticals' MS acting as coordinators to assist the construction of the integrated community care system, we will support the development of "community medical cooperation" and advance commercialization of new businesses and services arising from that cooperation in each local community. We will also strengthen sales of medical goods, the market for which has high growth potential.

2. Focus on specialty products

The Alfresa Group's strengths include the No. 1 share of the pharmaceuticals market and a specialty distribution network with high national coverage rate through an alliance with Moroo Co., Ltd. in Hokkaido and TOMITA Pharmaceutical Co., Ltd. in Kyushu. In addition, we will aim to win new orders by upgrading our distribution functions and enhancing the marketing function for our specialty products.

3. Upgrade, raise efficiency, and standardize Group distribution

While complying with the PIC/S GDP Standard, we will advance upgrades toward the future, such as distribution of regenerative medicine products and so forth. In addition, we will raise delivery productivity using IoT and examine and introduce options for upgrading our distribution function and efficiency using AI and robotics. We will also promote further standardization of these throughout the Group.

Strategy by Segment:

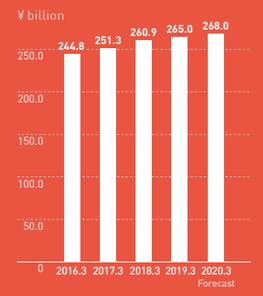
Self-Medication Products Wholesaling Business



Operating Companies

- Alfresa Healthcare Corporation
- Mogi Pharmaceutical Co., Ltd

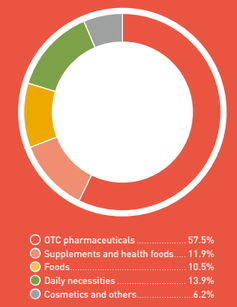
Net Sales



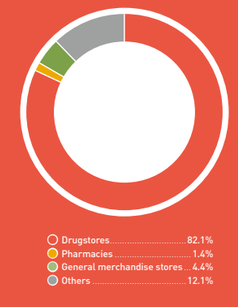
Operating Income / Operating Income Margin



Sales Composition by Product



Sales Composition by Customer



Business Environment and Growth Opportunities

Business Environment

- Public medical expense curbs
- Contraction of consumer market due to population decline
- Contraction in inbound demand
- Rising personnel costs and distribution costs in the retail industry due to staff shortages
- Reorganization of major drug store companies
- Diversification of distribution channels (Expansion of online sales)

Strengths of the Business Segment

- Top wholesaler of the Japanese over-the-counter (OTC) pharmaceuticals market
- Nationwide OTC pharmaceutical distribution function
- Sophisticated merchandising function
- Development and sales of Alfresa exclusive products for niche categories with evidence-proven unique features
- Fully developed education and training systems for professionals (Development of experts to undertake sophisticated merchandising offerings)

Growth Opportunities

- Expansion in self-medication and self-prevention due to public medical expense curbs
- Increase in overseas demand for OTC pharmaceuticals
- Differentiation through strengthening of the merchandising function
- Opening of new markets and sales channels through Alfresa exclusive products
- Expansion of product lines carried by drugstores through M&As, etc.

Performance and Achievements of the 16–18 Mid-term Management Plan

Performance

	Targets	2019.3 (Results)
Net sales	¥245.0 billion	**¥265.0 billion**
Operating income margin	0.4%	**1.0%**

Major Initiatives and Achievements

- Reinforced business foundation by reforming distribution and strengthening profit management
- Strengthened proposal-based sales through business talks, exhibitions, etc., held by Alfresa Healthcare Corporation
- Discovered and nurtured exclusive manufacturers and products
- Opened Taiwan Representative Office
- Deployed OTC pharmaceuticals packaging by medicinal property group targeting dispensing pharmacies in collaboration with Alfresa Corporation

Initiatives and Targets of the 19–21 Mid-term Management Plan

Business Policy

- **Establish stable and sustainable business foundations**
- **Product proposals from the consumers' viewpoint**
- **Strengthen efforts for exclusive manufacturers and exclusive products**
- **Investment toward the future**
  - Challenge of creating new customers and developing new channels
  - Creation of next-generation supply chain
  - Efforts toward expanding product lineups (including daily necessities, beauty products)
- **Strengthen collaboration with each business segment**

Targets for the Fiscal Year Ending March 31, 2022

Net sales

¥275.0 billion

Operating income margin

1.1%

Investment plan (Cumulative)

¥2.7 billion

Key Strategies

1. Product proposals from the consumers' viewpoint

The Alfresa Group is aiming to become a Total Healthcare Merchandising Wholesaler (THMW), an "only one" wholesaler preferred by our customers and consumers. We believe the key to differentiating ourselves is strengthening our merchandising function. Using our proprietary data analysis tool, the Consumer Decision Tree (CDT) theory, we create shelving allocations categorized by illness or health issue, and propose attractive sales floor layouts to our customers in the drugstore industry that enable consumers in stores to understand and select products easily. Under the 19–21 Mid-term Management Plan, we will refine these proposal capabilities while introducing the CDT/Gross Profit (GP) strategy to propose sales floors to our customers that will boost their sales and gross profit margins.

2. Strengthen efforts for exclusive manufacturers and exclusive products

The Group is working on development of highly original, exclusive products that create new value for the self-prevention market. The health- and beauty-related fields are broad, and contain many latent issues and needs. By becoming closely attuned to individual needs and developing products that solve these issues, we believe there are numerous untapped business opportunities to be explored. Furthermore, we will open up new channels such as dispensing pharmacies collaborating with the Group's ethical pharmaceuticals wholesaling companies, and promote marketing activities through our Taiwan Representative Office, which opened in 2018.



Examples of Alfresa exclusive products

Strategy by Segment:

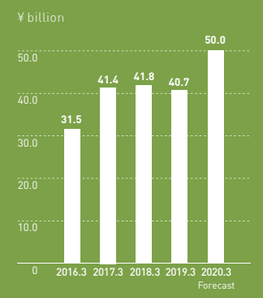
Manufacturing Business



Operating Companies

- Alfresa Pharma Corporation
- QINGDAO NESCO MEDICAL CO., LTD.
- Alfresa Fine Chemical Corporation
- Sannova Co., Ltd.

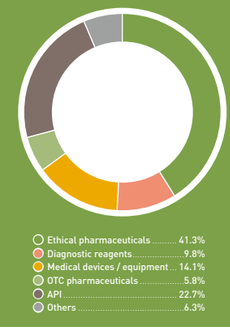
Net Sales



Operating Income / Operating Income Margin



Sales Composition by Field



Business Environment and Growth Opportunities

Business Environment

- Expansion in specialty products
- Launch of innovative new drugs, and declining NHI drug price trend for existing pharmaceuticals
- Decrease in long-listed drugs and emergence of generic drugs
- Increase in awareness of self-prevention and health checkup market
- Increased activity in business transfers in pharmaceutical manufacturers' long-listed drug product fields
- Quality control and stable supply management in active pharmaceutical ingredients (API), especially in emerging countries
- Expanding demand for health checkup services in the Asian region
- Expansion of preventative medicine and bespoke medical care

Strengths of the Business Segment

- Ensure quality by Alfresa's quality management system
- High-quality, stable supply system
- Compliance with international manufacturing management standards and quality management standards such as GMP*1 and QMS*2
- Acquisition of quality management system accreditation such as ISO 13485 and ISO 9001
- Manufacture and marketing of a wide range of pharmaceuticals, including therapeutic agents for rare diseases, and for disease fields such as neuropsychiatric disorders, allergies, and gastrointestinal tract disorders
- Manufacture of high-quality API products
- Tight synergies with the No. 1 ethical pharmaceuticals wholesaling business in the Group

Growth Opportunities

- Expand sales of products aligned with Group needs by linking with the No. 1 ethical pharmaceuticals wholesaling business
- Expand product lines by transferring pharmaceuticals products from pharmaceuticals manufacturers
- Refine competitiveness in the consigned manufacturing business and the API manufacturing business with high-quality, stable supply, and increase the scale of overseas sales in these operations
- Expand sales of fecal occult blood testing equipment and diagnostic reagents with expanding demand for health checkup services in the Asian region
- Adopt a common quality management system for the three manufacturing business subsidiaries

Performance and Achievements of the 16–18 Mid-term Management Plan

Performance

	Targets	2019.3 (Results)
Net sales	¥44.0 billion	**¥40.7 billion**
Operating income margin	7.7%	**3.8%**

*1 GMP (Good Manufacturing Practice) is an international standard that deals with the manufacturing and quality management standards for pharmaceuticals and quasi-drugs.
*2 QMS (Quality Management System) is a standard for manufacturing control and quality control of medical devices and external diagnostic reagents.

Major Initiatives and Achievements

- Launched new fully automated feces / urine analyzer AA01 along with fecal and urine testing reagents
- Took over 41 long-listed products business from DAIICHI SANKYO COMPANY, LIMITED and DAIICHI SANKYO ESPHA CO., LTD.
- Concluded contract to supply fecal testing devices and diagnostic reagents to Shanghai Fosun Long March Medical Science Co., Ltd. in China

Initiatives and Targets of the 19–21 Mid-term Management Plan

Business Policy

- **Advance reliable, safe, and sincere manufacturing**
- **Expand products in line with Group needs**
- **Expand scale of the consigned manufacturing and the API business**
- **Expand overseas operations**

Targets for the Fiscal Year Ending March 31, 2022

Net sales

¥60.0 billion

Operating income margin

5.2%

Investment plan (Cumulative)

¥12.0 billion

Key Strategies

1. Advance reliable, safe, and sincere manufacturing

To ensure rigorous quality assurance and quality management, the Group has developed a comprehensive management system for the pharmaceuticals, diagnostic reagents, and medical devices that it manufactures and sells, covering everything from acceptance of raw materials through to shipment of final products. It also has a high-quality, stable supply system. We continue to promote initiatives for increasing productivity and reducing costs, and are examining the introduction of a laboratory information management system (LIMS) to further increase the reliability of quality management.

2. Expand products in line with Group needs

We will strengthen the links between the Manufacturing business and the Group's Ethical pharmaceuticals wholesaling business to expand our product lines in line with Group needs. We will also continue to focus on acquiring product businesses by taking them over from pharmaceuticals manufacturers.

3. Expand scale of the consigned manufacturing and the API business

We will effectively leverage the characteristics of Alfresa Pharma Corporation and Sannova Co., Ltd. to establish Group-wide consigned manufacturing capabilities. In addition, we will strengthen our connections with Alfresa Fine Chemical Corporation to increase our competitive advantage in high-quality, stable manufacturing of API products, while strengthening their sales overseas.

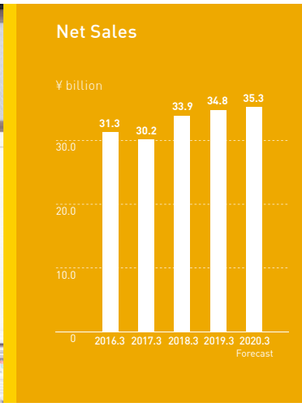
4. Expand overseas operations

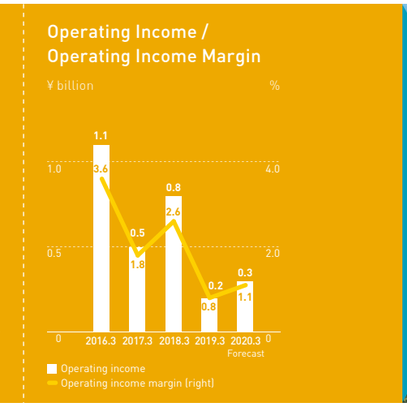
Having selected target areas based on our market intelligence, we will expand sales by building a global strategy for licensing new products and selling surgical sutures, fecal occult blood testing equipment and diagnostic reagents, and diagnostic reagents using new biomarkers, among other products. We will focus specifically on expanding sales in China, Europe, and the United States, as well as on expanding business in Vietnam.

Strategy by Segment:

Medical-Related Business







Operating Companies

- Apollo Medical Holdings Inc.
- Nihon Apoch CO., LTD.

Performance and Achievements of the 16–18 Mid-term Management Plan

Performance

	Targets	2019.3 (Results)
Net sales	¥36.0 billion	**¥34.8 billion**
Operating income margin	2.5%	**0.8%**

Major Initiatives and Achievements

- Merged wholly owned subsidiaries (Nihon Apoch CO., LTD. and Youth Care Co., Ltd.)

Initiatives and Targets of the 19–21 Mid-term Management Plan

Business Policy

- Reorganize stores in line with functions required
- Raise efficiency and sophistication of operation aiming at improving profitability
- Contribute to local communities by becoming multifunctional
- Strengthen collaboration with each business segment

Targets for the Fiscal Year Ending March 31, 2022

Net sales ¥34.8 billion

Operating income margin 1.0%

Investment plan (Cumulative) ¥1.1 billion

Key Strategies

1. Contribute to local communities by becoming multifunctional

The construction of the integrated community care system is proceeding toward its 2025 target year. Under the new medical care provision system, dispensing pharmacies and pharmacists will be required to play a very different function.

Dispensing pharmacies play an important part in community-based medical care provision systems, and the Alfresa Group aims to function as a "family pharmacy," with all of its pharmacies implementing unified, continuous management of medication information to provide appropriate pharmaceutical management and guidance. To this end, the Group is pursuing value-driven business by transforming its business model from location-oriented to function-focused. Specifically, we will focus our efforts on strengthening home care service capability, hiring and utilizing dietitians in a move toward preventative medicine, and acquiring "health support pharmacy" accreditation. As a dispensing pharmacy business within a corporate group that has the No. 1 ethical pharmaceuticals wholesaling business, we will make full use of Group synergies with other business segments to take on an essential role as a dispensing pharmacy in the communities we serve.

2. Ensuring compliance

The Company discovered improper acts relating to medication history management at certain dispensing pharmacies operated by Apollo Medical Holdings Inc., and established a third-party special investigation committee to investigate this matter. We apologize to all of our stakeholders. After the investigation, we will announce the measures to prevent a recurrence, and ensure implementing them in order to restore trust.

Strategy by Segment:

Overseas Business Development





Business Environment and Overview

The Alfresa Group is currently pursuing its overseas business development in China and Vietnam. In China, the Group established joint venture REMEJE PHARMACEUTICALS (CHINA) CO., LTD. in 2005 as a representative office for pharmaceuticals and healthcare-related products. In Vietnam, the Group established joint venture Alfresa Codupha Healthcare Vietnam Co., Ltd. (Alcopha) in 2013 to conduct import and sales mainly of medical devices and materials and diagnostic reagents, and is gradually setting up a stable management foundation.

In February 2019, the Group concluded an agreement on a comprehensive strategic business alliance with major Chinese pharmaceutical wholesaler China Resources Pharmaceutical Commercial Group Co., Ltd. (headquarters: Beijing, China). Moreover, in March 2019 Alfresa Pharma Corporation concluded a contract to supply fecal testing devices and diagnostic reagents to Shanghai Fosun Long March Medical Science Co., Ltd. (headquarters: Shanghai, China). During the period of the 19–21 Mid-term Management Plan, the Group will focus on expanding business and developing new business fields with its alliance partners in order to realize business growth.

Growth through Collaboration in Asia

Chinese market

Under a comprehensive strategic business alliance with China Resources Pharmaceutical Commercial Group Co., Ltd., the two companies are engaged in strategic talks for developing and realizing joint businesses. This includes pooling their respective management resources, such as brands, marketing and distribution networks among medical institutions and so forth, as well as expertise, to explore business opportunities in the SPD business and new pharmacy business in the Chinese pharmaceuticals distribution market, and import and export operations for goods between Japan and China.

Moreover, Shanghai Fosun Long March Medical Science, the medical diagnostic business division of the Chinese comprehensive medical manufacturer, Fosun Pharma, has a distribution network for sales of diagnostic reagent products throughout China, which it will use to expand Alfresa Pharma's distinctive fecal testing devices and diagnostic reagents in the Chinese market.

Vietnamese market

Alcopha, the Group's joint venture with Vietnamese medical-related products wholesaler Codupha, imports products from overseas manufacturers, primarily Japanese manufacturers, and uses Codupha's nationwide network of sales channels in Vietnam to sell to hospitals, clinics, and pharmacies. The Group has collaborated with Japanese medical institutions and manufacturers to support Japanese-style health checks using state-of-the-art medical equipment, and the number of local hospitals now implementing the checks has grown. Alcopha provides support from consulting to preparation and distribution of the necessary materials for health checks.

Furthermore, we are also working with Codupha to develop the SPD business. Currently, we are focusing on medical supplies, and will now look to add pharmaceutical products. We also aim to promote information systems that are widely used by medical institutions in Japan throughout Vietnam.



A "HemoTect NS-Prime" analyzer introduced at a hospital in Vietnam

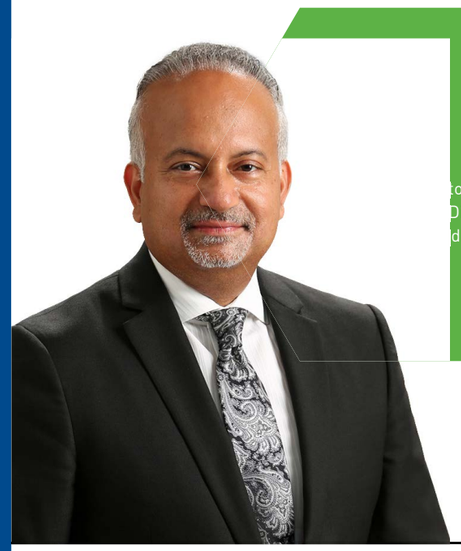
1

Special Feature

Supply Chains

to Support Evolving Medical Care

In recent years, there have been considerable advances in the development of "specialty products," which include pharmaceuticals that have extremely low patient numbers and distribution volumes or require special distribution systems and management, such as strict distribution management suited to particular diseases. The manufacturers of these specialty products and the Alfresa Group, which distributes them, are collaboratively building supply chains to deliver such products to patients. Mr. Sulekh from pharmaceuticals manufacturer Biogen Japan Ltd., whose products are distributed by the Alfresa Group, told us about specialty products and their supply chains.



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Director
d.

Q **What are the main fields of focus for Biogen?**

A Since its foundation in 1978, Biogen has followed a corporate philosophy of "Caring Deeply, Working Fearlessly, Changing Lives." Moreover, in the field of neuroscience, where there are significant unmet medical needs, we have been working to develop and provide innovative new drugs for diseases such as multiple sclerosis and spinal muscular atrophy (SMA)*. In 2000, the company started operations in Japan, and Biogen Japan has been serving the needs of Japanese patients under the vision of "Make Impossible Possible."

* Spinal muscular atrophy (SMA) is a progressive disease. SMA type I is terminal and occurs in approximately 1 in 20,000 births. It is a leading genetic cause of death among infants.

Q **How would you characterize the Japanese market?**

A Japan has an aging society, which is a risk factor for neurological diseases such as Alzheimer's and Parkinson's diseases. In addition, the Japanese ethical pharmaceuticals market is the third largest in the world. These make Japan a highly strategic market for us. There is also a positive environment for the development of drugs for rare diseases that have low patient numbers, such as rapid approval review of innovative new medicines.

Q **What kind of issues do you face with regard to distribution of drugs for rare diseases?**

A In treatments for rare diseases, which have low distribution volumes and generally higher prices, we need to have the right processes in place, such as better inventory management, supply management, and temperature control. Moreover, when we launched the first ever treatment for SMA in 2017, we found there was a lack of disease awareness and that patients did not know how to access the drugs.

Pharmaceuticals manufacturers need to not only supply innovative drugs but also create the right ecosystem to help patients recognize their illness and guide them to the right diagnosis and treatment.

Q **What initiatives have you had with the Alfresa Group regarding your drugs for SMA?**

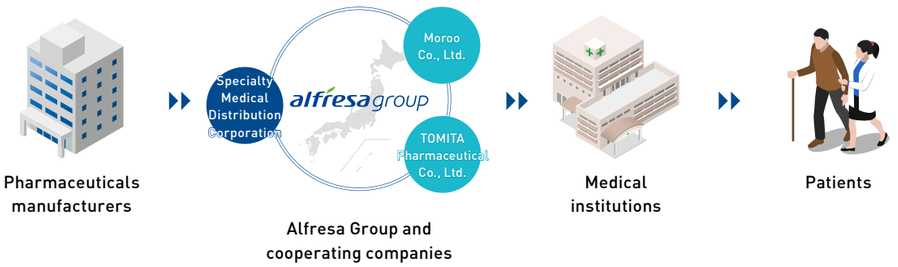
A Specialty Medical Distribution Corporation is playing the main role in the Alfresa Group's distribution of our SMA drugs. Specialty Medical Distribution understands well the complexities and challenges that we face and has leveraged its expertise to work together with us as a partner. As this partnership has evolved over time, the Alfresa Group has supported us with delivery of innovative products and connecting with patient care. In order to connect patients with SMA, a rare disease, with medical care, the Alfresa Group takes various approaches such as surveys at medical institutions, taking advantage of its relationships and network throughout Japan and its excellent sales capabilities as one of Japan's largest wholesale organizations. Specialty Medical Distribution also provides the system to manage the exceptionally complex schedule for the SMA drug injection.

Q **How do you see your partnership with the Alfresa Group evolving going forward?**

A A highly capable partner such as the Alfresa Group is essential if we are to supply innovative drugs and deliver them rapidly to patients in Japan. As a true partner, I hope we will work together to continue evolving and to pursue what is best for the patients.

Specialty Product Distribution in the Alfresa Group

The Alfresa Group has built an efficient supply chain that is centrally managed by Specialty Medical Distribution Corporation, a company dedicated to specialty product distribution. Using a nationwide network and advanced temperature control technologies, the Group tailors distribution to the characteristics of the products to deliver them safely and securely to medical institutions and patients throughout Japan. The Group is also working to support treatment schedules and increase disease awareness to ensure that patients receive appropriate treatment.



2

Special Feature

Toward Building a Local Community Health and Medical Care Platform

To increase the sustainability of social security in a super-aged society, the Ministry of Health, Labour and Welfare (MHLW) seeks to enable local governments to take the lead in creating an integrated community care system responsive to regional characteristics that provides not only medical and nursing care but also housing, preventive care, and living support services as an integrated system.

In step with these environmental changes, the Alfresa Group aims to act as a bridge connecting various players in the integrated community care system, such as local governments and medical institutions, and to evolve into the role of a provider of comprehensive support for community healthcare.

1. Evolving from the Role of an Infrastructure for Pharmaceuticals Distribution to the Role of a Provider of Comprehensive Support for Community Healthcare

The Japanese government is promoting the building of an integrated community care system targeting 2025, and initiatives are underway in every region of the country. One of the challenges to overcome is how to link the medical institutions and nursing care facilities, etc., that have functioned separately up until now. Through its Ethical pharmaceuticals wholesaling business, the Alfresa Group has already established relationships with over 100,000 medical institutions and dispensing pharmacies, who are the leading players in the integrated community care system. We aim to use this strength to serve as a connection between medical care, nursing care, home care, and local governments involved in community healthcare.

In preparation, since 2017 we have encouraged our MS responsible for medical institutions to acquire Medical Management Specialist credentials. Medical Management Specialist is a private-sector qualification certifying competence in medical institution management. We believe that the acquisition of this knowledge and capability will yield deep insight into the integrated community care system. Furthermore, in January 2019 we set up a joint research group with Yamato Transport Co., Ltd., which has started studying new distribution network formats in light of the future changes to the healthcare provision system. We are promoting new initiatives aimed at evolving from the role of an infrastructure for pharmaceuticals distribution to that of a provider of comprehensive support for community healthcare.

2. Envisaging a New Business Model

In the 19–21 Mid-term Management Plan, we have already started looking at the future after the integrated community care system is established. The goal of the integrated community care system is to provide support within the community to enable people to continue living to the end of their lives in the area and the style that they are accustomed to. In the future, we envisage the creation of new services in collaboration with wide-ranging service providers beyond the medical field, such as insurance, housing, and payment. Looking five and ten years ahead, we will continue studying ways to be deeply involved in community health and living.

"Local community health and medical care platform" in collaboration with wide-ranging service providers



Integrated Community Care System Initiatives in Fujimino City

Fujimino is a city with a population of roughly 110,000 located in the southwest of Saitama Prefecture. The local government is taking a progressive approach under the integrated community care system. Mr. Nakano from Fujimino City Hall told us about the initiatives and issues for the system in this city.



Kouken Nakano
Deputy Section Chief and Assistant Chief, Audit and Guidance Officer
In Charge of Community Support, Senior Welfare Section, Social Welfare Department
Fujimino City Hall

In Fujimino, we started working on the integrated community care system from around 2013. At first, we weren't sure how to begin. A major step forward occurred when the project for promoting links between home care and nursing care was positioned as a community support project. Among the many initiatives, home care is the area that is most difficult without making links with many professions. By establishing a Community Health Care and Nursing Care Consultation Desk within the medical association, we created deep connections between the Social Welfare Department and the medical association where previously there had been none. Furthermore, where some nursing care workers had encountered high barriers to establishing links with doctors, we held training seminars for various professionals This led to a change in awareness among them, and I feel that they established relationships by meeting face to face.

My first encounter with Alfresa Corporation came when my section was involved in dementia awareness-raising activities as the main initiative in the Dementia Promotion Project. Alfresa Corporation had visited us for regular information exchange on health and medical care initiatives, and when I learned they were focusing on dementia awareness-raising and treatment activities as part of their community contribution, I had a talk with them. They had a wealth of private-sector information and expertise in matters such as provision of dementia awareness-raising pamphlets and street campaigns. It was a great opportunity to find out what each of us was able to do.

For our next initiative, we are thinking to deal with leftover medicines and multiple drug dosages from multiple institutions, which are issues for elderly people receiving care at home. This will require connections between family doctors and pharmacists associations, and will need to be developed at scale. I am hopeful that private-sector companies will have tools and solutions that can help.

In building the integrated community care system, it is important to create connections between multiple professions. I believe this project will only be able to move forward with the active assistance of private-sector companies. Looking ahead, I will work to build an integrated community care system tailored to the needs of Fujimino by drawing on wisdom from various sources.

Alfresa Group's Foundation for Growth

The Alfresa Group's management resources and intangible assets are the source of its competitive advantage. Securing and strengthening them is essential to realizing a sustainable business model.

We therefore aim to achieve a sustainable increase in corporate value by reflecting ESG important issues in our medium- to long-term strategies and measures as we engage in business.

CSR Basic Policy

We contribute to the development of a society in which everyone can live in health by conducting business activities based on the Alfresa Group's principles and by addressing social and environmental agendas.

The Group formulated the CSR Basic Policy to enable it to work together as one in its CSR activities. Guided by this policy, the Group will steadily promote CSR activities by having all of its people properly understand and implement the Group's principles in the form of Our Philosophy, Our Vision, and Our Promises, while practicing two-way communication with its various stakeholders.

19–21 ESG Important Issues

The Alfresa Group set forth "ESG Important Issues" in the 19–21 Mid-term Management Plan.

Contribute to a sustainable society through sustained growth

Environment	Society		Governance	
Give consideration to the environment	**Respect human rights and realize a fulfilling workplace**	**Contribute to local communities**	**Strengthen management foundations which support growth (Corporate governance)**	**Improve and strengthen business foundations (Compliance & risk management)**
• Use energy efficiently • Reduce greenhouse gas emissions	• Respect human rights • Promote diversity • Advance work–life balance • Prepare a comfortable work environment and promote health	• Actively contribute to society • Contribute to the realization of harmonious coexistence with local communities	• Enhance and strengthen corporate governance system • Implement optimal capital policies • Enhance information disclosure	• Promote and thoroughly implement compliance • Promote and strengthen risk management • Enhance and strengthen disaster countermeasures

Corporate Governance

Basic Policy

As a corporate group conducting business in a field related to life and health, the Alfresa Group is determined to put the Group's principles into practice and to fulfill its responsibilities to various stakeholders. The Group believes that the enhancement of corporate governance is fundamental to fulfilling corporate social responsibilities and to enhancing corporate value. Going forward, the Group will continue to promote initiatives in line with the purpose of Japan's Corporate Governance Code, working to further increase corporate value.

From the perspective of achieving sustainable growth and long-term enhancement of corporate value, the Group regards the essence of corporate governance as being the assurance of the transparency and fairness of decision-making, the full and effective use of management resources, and the improvement of management vitality by means of rapid and resolute decision-making. Accordingly, the Group will work to enhance corporate governance in line with the following basic concepts.

(1) To respect shareholders' rights and ensure equality of treatment.

(2) To build good and harmonious relationships with stakeholders including shareholders.

(3) To disclose corporate information appropriately and ensure transparency.

(4) To build a structure that effectively utilizes outside directors and outside Audit & Supervisory Board members, ensuring the effectiveness of the Board of Directors' supervisory function of business execution.

(5) To enhance internal-control systems, including the assurance of the reliability of financial reporting.

(6) To engage in constructive dialogue with shareholders whose investment policies match the medium- to long-term interests of shareholders.

Establishment of Corporate Governance Guidelines

The Alfresa Group has established Corporate Governance Guidelines as basic principles concerning corporate governance. The purpose of these guidelines is to further enhance corporate value so that the Group can fulfill its responsibilities to customers, business partners, employees, shareholders, local communities, and other stakeholders in a manner characterized by reliability, safety and sincerity by realizing its principles in the form of Our Philosophy, Our Vision, and Our Promises.

Corporate Governance Guidelines
https://www.alfresa.com/eng/ir/pdf/cgguideline.pdf

Corporate Governance Structure

Overview of Corporate Governance Structure and Reason for Its Adoption

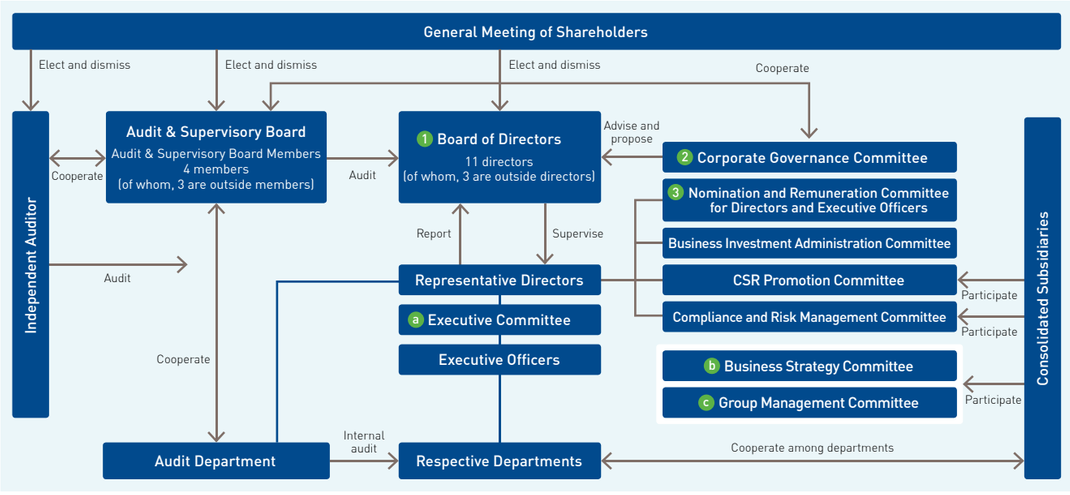
The Company has adopted the organizational structure of a "company with an Audit & Supervisory Board." The Audit & Supervisory Board and Audit & Supervisory Board members audit directors' performance of their duties. The Company has also introduced an executive officer system to clarify the division of responsibilities for managerial decision-making, supervision, and business execution. The responsibilities for decision-making and supervision are assumed by the Board of Directors, and responsibility for business execution is assumed by the executive officers. Of the 11 directors three are outside directors (of whom, two are women), who provide advice and proposals based on their respective expert viewpoints.

Corporate Governance Structure at a Glance (As of June 26, 2019)

Organizational structure:	Company with an Audit & Supervisory Board
Executive officer system adopted:	Yes
Number of directors:	11
Of whom, number of outside directors:	3
Directors' term of office:	One year
Number of Audit & Supervisory Board members:	4
Of whom, number of outside members:	3
Number of independent officers:	6
Outside directors involved in determining remuneration:	Yes
Organizations to assist in decision-making:	Executive Committee, Group Management Committee, and Business Strategy Committee
Advisory committees:	Corporate Governance Committee and Nomination and Remuneration Committee for Directors and Executive Officers
Performance-linked remuneration system:	Yes
Takeover defense measures:	No

Corporate Governance

Corporate Governance Structure



Overview of Board of Directors and Advisory Committees

Name	Description	Number of meetings held
1 Board of Directors	The Board of Directors is made up of 11 directors of the Company (nine men and two women, of whom three are outside directors). Meetings are attended by the Audit & Supervisory Board members. Regular meetings are held once per month, in principle, but extraordinary meetings may also be convened as necessary. These meetings are held to approve important matters stipulated by laws and regulations, as well as determine matters pertaining to management, and to supervise directors' performance of their duties.	19
2 Corporate Governance Committee	The Corporate Governance Committee is composed of outside directors, outside Audit & Supervisory Board members, standing Audit & Supervisory Board members, representative directors, and the directors who are elected on the basis of resolutions of the Board of Directors. The chairperson is elected mutually from among the independent officers. The Committee's purpose is to enhance the transparency and fairness of management and ensure the continual improvement of corporate governance from the standpoint of all stakeholders. It engages in exchanges of opinions from long-term and varied perspectives with regard to corporate governance, visions and strategies encompassing all aspects of corporate management, and matters such as the progress of the mid-term management plan, and provides advice and proposals to the Board of Directors.	4
3 Nomination and Remuneration Committee for Directors and Executive Officers	The Nomination and Remuneration Committee for Directors and Executive Officers is made up of five directors (including three outside directors, of whom one is the chairperson) who are elected on the basis of resolutions of the Board of Directors. The Committee deliberates on personnel matters and remuneration with respect to directors and executive officers, and on other important matters related to management.	4

Composition and Overview of Each Meeting Body

Name	Description	Number of meetings held
a Executive Committee	The Executive Committee is made up of the representative director & president of the Company and executive officers nominated by the Company's Board of Directors. Meetings are attended by Audit & Supervisory Board members. The Committee deliberates and approves matters related to the management of the Company, apart from the matters the Company's General Meeting of Shareholders and Board of Directors are responsible for approving. Regular meetings are held twice per month, in principle, but extraordinary meetings may also be convened as necessary.	16
b Business Strategy Committee	The Business Strategy Committee comprises directors and executive officers of the Company and also certain directors of Group companies. In addition to regular meetings, extraordinary meetings may be convened as necessary. The Committee deliberates on issues related to the Group's management strategy, as an advisory body to the representative directors of the Company.	9
c Group Management Committee	The Group Management Committee is made up of the directors, certain executive officers, and certain Group company presidents. Regular meetings are held three times a year, in principle, but extraordinary meetings may also be convened as necessary. The Committee's role is to align the management intentions of Group companies in several aspects of Group-wide matters. As such, the Committee discusses the common business issues related to overall Group management.	3

Risk Management Structure

To enable timely and accurate management and implementation of measures for various risks, the Group engages in risk management, including measures aimed at preventing risks at ordinary times, and measures for responding after the occurrence of a crisis that has a serious negative impact on corporate management.

Name	Description
Business Investment Administration Committee	The Business Investment Administration Committee deliberates on business investment projects submitted by the Company or Group companies that exceed the standard amount and important investment projects that require multifaceted and careful consideration. The deliberation results are reported to the Executive Committee or the Board of Directors.
CSR Promotion Committee	The CSR Promotion Committee works with Group companies to consider important policies related to CSR for the entire Group in order to contribute to increasing corporate value over the medium to long term, reports and evaluates the CSR activities of the Company and each Group company, and reports as necessary to the Executive Committee or the Board of Directors.
Compliance and Risk Management Committee	The Compliance and Risk Management Committee formulates compliance and risk management promotion plans, considers important policies regarding compliance and risk management for the entire Group, reports and evaluates the compliance and risk management activities of the Company and each Group company, and reports as necessary to the Executive Committee or the Board of Directors.

Outside Directors and Outside Audit & Supervisory Board Members

The Company makes it a basic policy to include more than one independent outside director on the Board of Directors. Outside directors are elected from among candidates that meet not only the outside director requirements stipulated by Japan's Companies Act but also the Company's independence standards for outside directors, etc. Outside directors are elected from persons with points of view that are pragmatic, based on extensive corporate management experience, or are objective and professional, based on high-level insight into such areas as social and economic trends. Meanwhile, outside Audit & Supervisory Board members also meet pre-determined standards in the same way as outside directors. They are elected mainly from persons who have specialist insights on legal and regulatory compliance or finance and accounting, or extensive corporate management experience and wide-ranging knowledge.

Reasons for Election of Outside Directors and Outside Audit & Supervisory Board Members

Outside directors	Reason for election	Expected field of expertise and knowledge	Attendance at Board of Directors' meetings (19 times in total)
Kimiko Terai	In addition to her high-level insight and broad experiences as an economist, Dr. Kimiko Terai is an academic expert specialized in the financial field, including in the area of the social security system. We therefore believe that she will provide her opinions from a broad perspective to reflect on the management of the Company based on her professional knowledge and experiences.	Economics Social security	18/19
Yoichiro Yatsurugi	Mr. Yoichiro Yatsurugi has a wealth of experience, a proven track record, and a high level of insight based on his years of experience as an executive at multiple companies. He also has a high level of IT expertise. Therefore, we believe that he will provide his opinions from a broad perspective based on his deep insight into corporate management, and apply them to the management of the Company.	Corporate management Management strategy IT	18/19
Shiho Konno	In addition to her high level of expertise as an attorney at law, Ms. Shiho Konno has broad knowledge, including in the area of corporate governance. Therefore, we believe that she will provide opinions from a broad perspective based on her professional knowledge and experience, and apply them to the management of the Company.	Legal and risk management Corporate governance	19/19

Name	Reason for election	Attendance at Board of Directors' meetings and Audit & Supervisory Board meetings	
		Board of Directors' meetings (19 times in total)	Audit & Supervisory Board meetings (17 times in total)
Seisui Kamigaki	Mr. Seisui Kamigaki has served as a prosecutor and a commissioner at the Japan Fair Trade Commission. He has a high level of expertise and broad insight into general legal affairs and corporate compliance. We expect that his opinions from an objective and neutral perspective will continue to be indispensable in strengthening the Company's audit system.	19/19	17/17
Yoshitaka Kato	Mr. Yoshitaka Kato has a high level of expertise in the areas of finance and accounting as a certified public accountant. We believe that he will provide opinions from an objective and neutral perspective as an accounting expert, and apply them to the audit system of the Company.	19/19	17/17
Takashi Ito	In addition to his high level expertise as an attorney at law, Mr. Takashi Ito has broad legal knowledge, including in the area of civil law, criminal law, labor law, and intellectual property law. We therefore believe that he will provide opinions from an objective and long-term perspective based on his expert knowledge and extensive experience, and apply them to the audit system of the Company.	13/13	12/12

Strengthening the Functionality of the Audit & Supervisory Board and Its Members

The Audit & Supervisory Board members attend important meetings of the Board of Directors and other meetings, and carry out auditing of directors' performance of duties. The Audit & Supervisory Board is made up of four Audit & Supervisory Board members (three of whom are outside members) and meets regularly, in principle, or as necessary. The Board reports on audit results and discusses audit details. The Audit & Supervisory Board members receive reports from the directors, employees, and the independent auditor in a timely and appropriate manner and share necessary information with the independent auditor, the internal audit division, and the outside directors in order to increase the quality of audits and realize efficient audits.

Internal Audit

The Company has formed an Audit Department reporting directly to the representative director & president. Under the direction of the representative director & president, the Department performs internal audits. The Department also strives to promote collaboration such as by reporting on the status of internal audits to the Audit & Supervisory Board members as necessary.

Independent Auditor

The Company receives regular reports and explanations for improving operations from the independent auditor, KPMG AZSA LLC, through accounting audits and internal control audits on financial reporting. The Group Audit & Supervisory Board Members' Meeting is held every half year to allow Audit & Supervisory Board members from the Company and its consolidated subsidiaries to share information and acquire and improve audit methods. The independent auditor also attends these meetings to promote further communication.

Evaluation of the Effectiveness of the Board of Directors

Article 27 of the Company's Corporate Governance Guidelines stipulates that the Board of Directors shall conduct an annual self-review as to whether or not the execution of its duties is being conducted in accordance with the guidelines, so as to enhance the effectiveness of corporate governance. Moreover, in addition to this self-review, as a method for analyzing and evaluating the overall effectiveness of the Board of Directors, the Corporate Governance Committee shall deliberate on the following main evaluation items based on General Principle 4 of Japan's Corporate Governance Code, before reporting on them to the Board of Directors for further discussion and final evaluation: (1) Role of the Board of Directors, (2) Operation of the Board of Directors, (3) Composition of the Board of Directors, (4) Support system for outside directors and Audit & Supervisory Board members, and (5) Other (Discretionary systems and independence standards).

In the fiscal year ended March 31, 2018, the Company introduced a new survey for all directors and Audit & Supervisory Board members (a questionnaire about the effectiveness of the Board of Directors), the results of which were verified by the Corporate Governance Committee and the Board of Directors.

As a result, the Board of Directors was evaluated as having retained its overall effectiveness in the fiscal year ended March 31, 2019. However, the various opinions received from the Corporate Governance Committee and the directors and Audit & Supervisory Board members during the evaluation and analytical process will be given due consideration as the Company continues its efforts to further enhance the overall effectiveness of the Board of Directors.

Remuneration for Directors and Audit & Supervisory Board Members

Our officers' remuneration is based on the standard amount for each rank of officer. In setting this standard amount, we use remuneration data from external specialist organizations as well as publicly available information to assess the remuneration level of companies in both the same and other industries.

The remuneration composition differs between internal directors, outside directors, and Audit & Supervisory Board members. Until now, in addition to basic (fixed) remuneration, internal directors have been paid performance-linked bonuses for steadily meeting performance targets for each fiscal year. However, starting from the fiscal year ending March 31, 2020, we have introduced a stock-based performance-linked remuneration system. In order to achieve the mid- to long-term performance objectives set forth in the 19–21 Mid-term Management Plan, we have introduced a performance-linked stock compensation system with the aim of increasing the motivation of directors and other officers of the Company, enhancing long-term corporate value, and ensuring our values are aligned with those of shareholders by achieving a high correlation between our consolidated performance and stock price.

Percentage of Remuneration under Standard Performance Achievement Represented by Performance-Linked Bonuses and Stock Compensation

Classification		Fixed remuneration	Performance-linked remuneration	
		Basic remuneration	Bonuses	Stock compensation
Director	Fiscal year ended March 31, 2019	78%	22%	—
	Fiscal year ending March 31, 2020	70%	20%	10%
Outside director, Audit & Supervisory Board member	—	100%	—	—

1. Method of Calculating Performance-Linked Remuneration

• Method of Calculating Bonuses

The amount of bonuses paid was determined individually by multiplying the standard amount by the bonus composition ratio (22%) according to the degree of achievement of the targets for each fiscal year, such as the ratio and level of profit attributable to owners of the parent. However, from the fiscal year ending March 31, 2020, in order to ensure our values are aligned with those of shareholders, and to further motivate officers to contribute to corporate performance, the Company has reviewed the plan to individually determine the amount to be paid by multiplying the base amount by the bonus composition ratio (20%) within a range from 0% to 200%, in accordance with the degree of achievement against original targets for consolidated operating income margin and profit margin attributable to owners of the parent for each fiscal year.

• Method of Calculating Stock Compensation

Stock compensation serves as an incentive to increase corporate value over the long term, and will be introduced to the compensation system starting from the fiscal year ending March 31, 2020. The number of our shares to be issued is determined by annually granting and accumulating the base points calculated according to the amount obtained by multiplying the base amount by the stock compensation composition ratio (10%), and after the conclusion of the mid-term management plan, varying the cumulative value of the base points within the range of 0% to 200% according to the achievement level of the business performance targets in the mid-term management plan. As with bonuses, the performance indicators utilized include the consolidated operating income margin and profit margin attributable to owners of the parent, which have been positioned as KPIs for the mid-term management plan. In doing so, we aim to ensure our values are aligned with those of shareholders and to further motivate officers to contribute to corporate performance.

2. Method of Deciding on Remuneration, Etc.

• Method of Deciding on Remuneration

The policy for deciding on remuneration, including the remuneration composition and standard amount, and the method for calculating remuneration are deliberated by the Nomination and Remuneration Committee for Directors and Executive Officers (a voluntary committee chaired by an outside director and comprising a majority of outside directors) and then reported by the representative directors to the Board of Directors, which then decides on the total amount of remuneration. Individual remuneration amounts, etc., for directors is decided by the representative directors, having received authorization by the Board of Directors, based on the deliberations of performance evaluation results by the Nomination and Remuneration Committee for Directors and Executive Officers. Furthermore, individual amounts of remuneration, etc., for Audit & Supervisory Board members are decided through discussion among the Audit & Supervisory Board members.

• Process for Deciding on Remuneration for the Fiscal Year Ended March 31, 2019

For the fiscal year under review, the Company decided on matters pertaining to remuneration for directors and Audit & Supervisory Board members through four meetings of the Nomination and Remuneration Committee for Directors and Executive Officers (all members of the Committee attended all meetings) and three meetings of the Board of Directors.

Remuneration for the Fiscal Year Ended March 31, 2019

Classification	Total amount of remuneration, etc. (¥ million)	Total amount of remuneration, etc., by type (¥ million)		Number of eligible recipients
		Basic remuneration	Bonus	
Internal directors	338	236	101	8
Internal Audit & Supervisory Board members	24	24	—	1
Outside directors and outside Audit & Supervisory Board members	57	57	—	7

Investment Securities

• Classification Criteria and Approach

With regard to the classification of investment securities held for purely investment purposes and investment securities held for purposes other than pure investment, those that are held entirely for the purpose of receiving profit from changes in the price of the shares or dividends pertaining to the shares are classed as investment securities held for purely investment purposes.

• Policy and Method of Examining the Rationality of Holdings

The Alfresa Group's policy on holding investment securities is to hold only shares that align with an important strategic purpose, such as maintaining and developing good business and collaboration relationships, or creating new business opportunities related to realizing a Healthcare Consortium, and to reduce holdings of shares that do not have such important purposes. Based on this policy, each year the Company confirms the significance of holding each investees' shares, performs a quantitative examination to determine whether the benefits and risks of holding are commensurate with the capital cost as well as a qualitative examination to determine the significance of holding over the medium to long term, and report the details of examinations to the Board of Directors.

Investment Securities

	2017.3	2018.3	2019.3
Number of holdings	168	163	**146**
Amount on the balance sheet (¥ billion)	119.5	139.1	**110.9**

Outside Directors' Discussion on Corporate Governance



Group Structural Reform and Further Governance Enhancement

In April 2019, the Alfresa Group launched the 19–21 Mid-term Management Plan. We asked our three outside directors to discuss their opinions of the new mid-term management plan, the status of outside directors' roles, and issues with the Group's governance.

Enhancing Board Quality and Management through Diverse Perspectives and Expertise

Konno Our Company has many points of contact with institutional investors overseas, and I sense a high level of awareness regarding the diversity of the Board of Directors. Two of the three outside directors are women, each with their own diverse background. As I am a lawyer I am expected to contribute to the fields of legal, compliance, governance, and the promotion of diversity. Moreover, I believe that the fundamental value of an outside director lies in monitoring functions, such as offering advice and supervision to the Company, rather than management functions that contribute directly to earnings or relate to business execution. I also think this value is really demonstrated during extraordinary times more than during run-of-the-mill operations.

Yatsurugi I think I was selected because of my experience in corporate management. However, I have basically only experienced working in foreign enterprises, and I tend to be somewhat outspoken, so when I was approached about becoming an outside director my initial reaction was of mild surprise that I would be considered for the position. To add to what has just been said, I believe there is also a significant role for outside directors during ordinary operations; for example, the process of frankly questioning the reason for "normal" business processes that are accepted in the Company without examination helps to make management more visible.

Terai I was appointed outside director of the Company in 2015. In 2017, my two colleagues were appointed and the topics of conversation among outside directors changed considerably. I feel that diverse perspectives among us have made the function of the outside directors more fruitful. I tend to view our industry from a macro perspective due to my background as a researcher of economics, placing a particular focus on public finance and social security. The Company's operating business is facing a shift in government policy and a dramatic change in the external environment. My goal is to support the Group's structural reforms by providing appropriate advice as an economist.

Toward Improving Group Governance; After the incident of misconduct at Apollo Medical Holdings

Yatsurugi The incident of misconduct* at consolidated subsidiary Apollo Medical Holdings Inc., announced in June 2019, was regrettable. Although the company has an excellent internal reporting system comparable to those of many other companies, and top management has encouraged its use, it did not work as planned in this case. The cause and countermeasures must be considered based on the result of an investigation undertaken by a third-party special investigation committee, but the basic question of why the internal reporting system did not work in the first place, whether there were issues with trust in the system and the organization culture, and so forth also need to be considered, and if so, reflected upon humbly.

* The misconduct relates to invoicing of dispensing fees pertaining to medication history management and guidance that was conducted without appropriate management of medication history at certain dispensing pharmacies operated by Apollo Medical Holdings.

Konno Looking at the issue of effectiveness of the internal reporting system, I think it's necessary to examine whether it was sufficiently separated from the chain of command and whether there might be a more effective alternative method. I also think we need to reflect on this incident as outside directors, in that we didn't have a sufficient grasp of problems at a subsidiary before mainstream media covered the issues. There are many instances at other companies where the internal reporting system has not worked well; however, I think it is important for Alfresa to consider how to make effective organization-wide improvements to Group governance in order to prevent a recurrence.

Terai The three outside directors assembled and discussed this matter, and to a certain degree, we have gotten a common perspective on it. However, it's extremely regrettable that the internal reporting system did not function properly. Even if only one person suspected misconduct, then the matter should be picked up and dealt with appropriately in the organization. Furthermore, top management needs to reiterate the Company's position on ensuring that whistleblowers should not be disadvantaged. To avoid regrettable incidents such as this one, I think it is also necessary for all directors to adopt a unified stance to change the culture in the organization. I stress the need for further invigoration of the Corporate Governance Committee as a body that can call for such measures.

Beyond the Mid-term Management Plan

Konno In the process of drafting the new mid-term management plan, we were allowed to give various opinions, remaining mindful of the shareholders' point of view. I particularly emphasized the ESG perspective. Compared to CSR, which is strongly associated with corporate social contribution activities, ESG initiatives contribute to society through the Company's main business operations, making them the main tenet of its sustainable growth. This makes them a focus for investors. This perspective was absent in the first draft of the mid-term management plan, and I made repeated proposals to have the plan changed to its current form.

Terai While retaining the main theme of the previous plan, "realizing a Healthcare Consortium," the new plan has added a new concept, "together with communities," which is a clearer statement of the Company's message of using its strengths in marketing capabilities with strong local ties and connections.

However, turning our attention to the business environment, there is a sense of crisis in that the current earnings structure, with four major pharmaceuticals wholesalers competing with each other, may not be sustainable in the future. The Company needs to crystallize and reinforce its differentiation strategy. Steadily implementing the strategies of the new plan, we must be vigilant in looking out for long-term problems to be solved.

Yatsurugi The mid-term management plan needs to have a story that lays out its basic framework first before filling in all the details, so that diverse stakeholders can understand it.

Introduction of a Stock-Based Performance-Linked Remuneration System

Yatsurugi For the new performance-linked executive remuneration plan, I believe we had an open discussion that considered the aspect of fairness. However, personally, I feel that the design of the plan is a bit complicated. I think it might have been preferable to make the performance-linked portion more generous as is the case with foreign enterprises. That would have been simpler and clearer.

Konno I had been proposing a review of executive remuneration for some time, so I see the implementation of a new system as a big step forward. Having internal directors and executive officers share the interests of shareholders is also important in terms of governance.

Terai Specializing in social security systems, my opinion is that it is difficult to evaluate a reward system on the basis of market principle alone, because of the highly public nature embedded in the pharmaceuticals industry in Japan. However, introduction of the incentive plan can be taken as adapting the Company to the changing business environment surrounding it and enabling the Company to maintain the top position in the pharmaceuticals wholesaling industry. I expect to see positive ripple effects as a result.

Closing Comments

Konno We have achieved compliance with all the principles of Japan's Corporate Governance Code. However, the work of improving governance more at the actual business practice level remains ahead of us. Taking lessons from the recent problem at Apollo Medical Holdings, we should review our corporate governance system and ensure that it grows stronger through adversity.

Yatsurugi I am not particularly good at traditional Japanese-style harmonious communication, but I am sensitive to matters that are opaque and without clearly defined rules, and am inclined to treat them with suspicion. I will continue to apply my external perspective to making the operation of the Company easy to understand for people on the outside.

Terai However exquisite the strategy, it will not be appreciated if it's not communicated to external stakeholders such as shareholders. Moreover, it will be meaningless if it isn't sufficiently implemented inside the Company. I will strive to check initiatives on the management side rigorously and provide support behind the scenes to see that the vision and the thinking embodied in these strategies are put into action.

Conducting Sincere Business Activities through Enhanced Organizational Governance

The Alfresa Group has established compliance guidelines based on the observance of laws and regulations, as well as consideration of appropriate action taking into account the spirit of the laws and regulations and also social norms, ethics, and morals. Through these guidelines, the Group is promoting compliance.

Basic Policy and Approach

The Alfresa Group's principles are shared throughout the Group and taught to each employee. We cultivate an ethical perspective and sense of responsibility and promote sincere business activities to carry out our social mission through business. The Group works to practice appropriate business transactions in a spirit of fairness, transparency, and free competition in order to earn trust and maintain good relationships with stakeholders. Furthermore, we take measures to reduce risks that affect our company activities; and as a corporate group that distributes pharmaceuticals—a key element of social infrastructure—we are preparing so that the supply of pharmaceuticals affecting people's lives will not be interrupted, even in the event of an earthquake or other large-scale natural disaster.

The Group's Goals and Promotion Structure

Amid the string of corporate scandals that has appeared over the past few years, there have been several cases where major corporations have lost trust due to compliance violations and had their business foundation shaken. Compliance is the basis for all business activities, and it is vital that all employees understand their company's code of conduct and act in accordance with it.

Moreover, to avoid a crisis or minimize the losses if one occurs, it is essential to identify and evaluate risks that can obstruct the continuity of company activities, as well as the impact of these risks, and to take countermeasures in advance. Amid calls to be alert for a major earthquake such as one in the Nankai Trough or directly underneath the Tokyo metropolitan area, we are responding by taking measures to prepare for a major crises.

What the Group Aims to Be

- The Alfresa Group's principles completely penetrate our people* and are always put into practice.
- Our people observe the Alfresa Group Compliance Guidelines and conduct business with sincerity.
- A risk management structure has been established to reduce risk, and a solid business continuity plan (BCP) is in place.
- The Alfresa Group maintains the trust of society.

* The Alfresa Group refers to its employees as "our people."

Promotion Structure

The Company has established the Compliance and Risk Management Committee, which promotes overall compliance and risk management for the Group. The Committee comprises members selected from the management teams of Alfresa Holdings Corporation and Group companies, and is held regularly twice a year with the goal of reducing risk.

Alfresa Group Compliance and Risk Management Promotion Structure



Key Measures and Progress of Initiatives

Spread and Practice the Group's Principles

The Group's principles are explained at meetings, new employee training, and other activities at Group companies, and posters of the principles are displayed at Group companies and business sites to raise awareness. Moreover, Group-wide initiatives were started to bring all employees together and put the Group's principles into practice. For example, the Group is working as one on traffic safety when driving and the "Alfresa Group Fresh-Up Campaign," which promotes work–life balance.

Enhance and Strengthen Internal Controls and Compliance

Compliance

The Alfresa Group defines compliance as "officers and employees complying with laws, internal and external regulations, and social norms, and proactively taking the initiative to fulfill legal responsibilities and ethical responsibilities expected by society." The Company's employment regulations stipulate disciplinary action for compliance violations in accordance with their severity. Companies bear legal and ethical responsibility, and if they lose society's trust their very business foundation may become destabilized, threatening the stability of living and happiness of its employees, as well as their families. To remain trusted by society, the Group's individual employees are required to take the importance of compliance personally and act with a constant awareness of reliability, safety, and sincerity espoused in the Group's principles. This kind of behavior will help to create corporate value.

The Alfresa Group has organized the Alfresa Group Compliance Guidelines in the *Compliance Handbook*, which it has distributed to every officer and employee to ensure the guidelines are known throughout the Group.



Compliance Consulting Offices (Internal Reporting System)

The Group has compliance consulting offices in place as a means for Group employees to consult and make reports. This ensures that violations of laws and corporate ethics are discovered early or prevented.

Compliance consulting offices are set up within the Group companies, and Alfresa Holdings Corporation operates the general compliance consulting office, which is open to consultations from the entire Group. In addition, external hotlines are available at Group companies to make it easier for people at Group companies to make a report.

Status of Internal Reporting (Alfresa Group)

	2017.3	2018.3	2019.3
Number of internal reports	43	50	**63**

Due consideration is given to the privacy and other human rights of users, with confidentiality ensured. As for people who provide information for the benefit of the public, whistleblowers' rights are protected and they are dealt with fairly.

Alfresa Group Compliance Guidelines

I Basic Attitude
(1) Positioning of Alfresa Group Compliance Guidelines
(2) Self-awareness and high ethical perspective of the Alfresa Group as a company involved in health
(3) Reliable performance of duties and daily self-improvement
(4) Observance of employment regulations
(5) Role of managers

II Company Activities
(1) Sincere business execution
(2) Fair and free competition
(3) Prohibitions on unjustified provision of gifts and misrepresentation
(4) Appropriate use of company assets
(5) Use of intellectual property and prohibition on infringement
(6) Appropriate management and use of trade secrets
(7) Ensuring health and safety
(8) Efficient workstyles
(9) Protection of privacy
(10) Appropriate accounting treatment
(11) Prohibition on insider trading
(12) Observance of traffic regulations
(13) Respect for human rights and personality, and prevention of harassment

III Relationship with Stakeholders
(1) Disclosure of information to shareholders and investors
(2) Prohibition on provision of profits to civil servants, etc.
(3) Increase trustworthiness from customers' and suppliers' perspectives

IV Involvement with Local Communities
(1) Environmental protection
(2) Rejection of relationships with anti-social forces
(3) Healthy relationships with political parties, political contributions, and donations to groups

Alfresa Group's Internal Reporting System



Compliance Training and Awareness-Raising Activities

Each year, the Alfresa Group fresh members' seminar that is held for new employees at Group companies includes a lecture on compliance by an outside lecturer. The lectures cover the approach to compliance and rules about insider trading, and every Group employee strives to understand their social responsibility and to acquire a strong knowledge of compliance. Furthermore, the *Compliance Handbook*, which lays out standards and considerations for officer and employee behavior, is distributed to all Group officers and employees, and we conduct group readings from it at each department to make sure that the content is well understood by all.

Group companies conduct a variety of training and education programs instigated by the members of the Compliance and Risk Management Council.



The Alfresa Group fresh members' seminar

Examples of Education Program Themes

- Sincere business execution
- Appropriate management of confidential information
- Prohibition of infringement on intellectual property
- Protection of personal information
- Insider trading

Compliance Training Attendance Rate

80.9%

(Ratio of people in the Group who have attended at least one compliance training program per year including part-time and temporary workers)

Corruption Prevention Initiatives

The Alfresa Group Compliance Guidelines III (2) prohibits provision of profits to civil servants, etc. This means prohibiting the provision of or encouragement to accept anything that could be mistaken for a bribe in Japan or overseas. Furthermore, anticorruption laws in overseas countries may apply to acts of bribery that take place in Japan, and since the Alfresa Group has close relationships with pharmaceuticals manufacturers and suppliers, the Group takes steps to deepen its understanding of such laws and conduct appropriate sales activities. In the fiscal year ended March 31, 2019, there were 0 infringements related to corruption prevention.

Number of Participants in Main Training Programs and Total Hours*

Theme	Number of participants	Total hours
Training programs related to corruption prevention	3,076	1,797
Training programs related to fair competition regulations	3,413	2,281

* Training conducted mainly for people responsible for marketing or delivery

Regarding Improper Acts at Dispensing Pharmacies

The Company discovered improper conduct relating to medication history management at certain dispensing pharmacies operated by its consolidated subsidiary, Apollo Medical Holdings Inc., and in June 2019 we established a special investigation committee comprising third parties (attorneys at law) to investigate the matter and formulate measures to prevent a recurrence. As of the time of writing this report, August 2019, the investigation by the committee is still in progress. In the Company's previous internal inspection, it was found that at some of the Alfresa Group's dispensing pharmacies a number of past medication history records were falsified to reduce the number of medication histories that had not been recorded. Meanwhile, at other pharmacies of the Group, while no tampering was found, inappropriate acts were discovered in the form of failing to enter medication history when making insurance claims. It is truly regrettable for an incident such as this to occur in the Alfresa Group, which operates its businesses in fields related to life and health. Going forward, the Company will conduct thorough measures to prevent recurrences at consolidated subsidiaries conducting dispensing pharmacy businesses, based on the result of the investigation by the third-party special investigation committee. In addition, the Company plans to rebuild a rigorous Group governance system to help eliminate improper acts. Details regarding this incident can be found on the Company's website.

Strengthen Risk Management Risk Management

Crisis Management

• Disaster Countermeasures

The Alfresa Group focuses on ensuring that every Group company is ready to respond in the event of a disaster, as a Group-wide initiative. For example, Group companies update their regulations and manuals and hold disaster response training events. They also check and secure the environment and emergency stockpiles.

• Disaster Training

Group companies conduct safety confirmation drills, along with yearly drills for communicating safety confirmation results of all Group employees via a Group emergency contact network. During the fiscal year ended March 31, 2019, we conducted drills for using the safety confirmation system and satellite phones in September 2018. In February 2019, the Group's system operator, Alfresa System Corporation, prepared for damage to the Group's mission-critical systems by conducting drills for switching to backup systems.

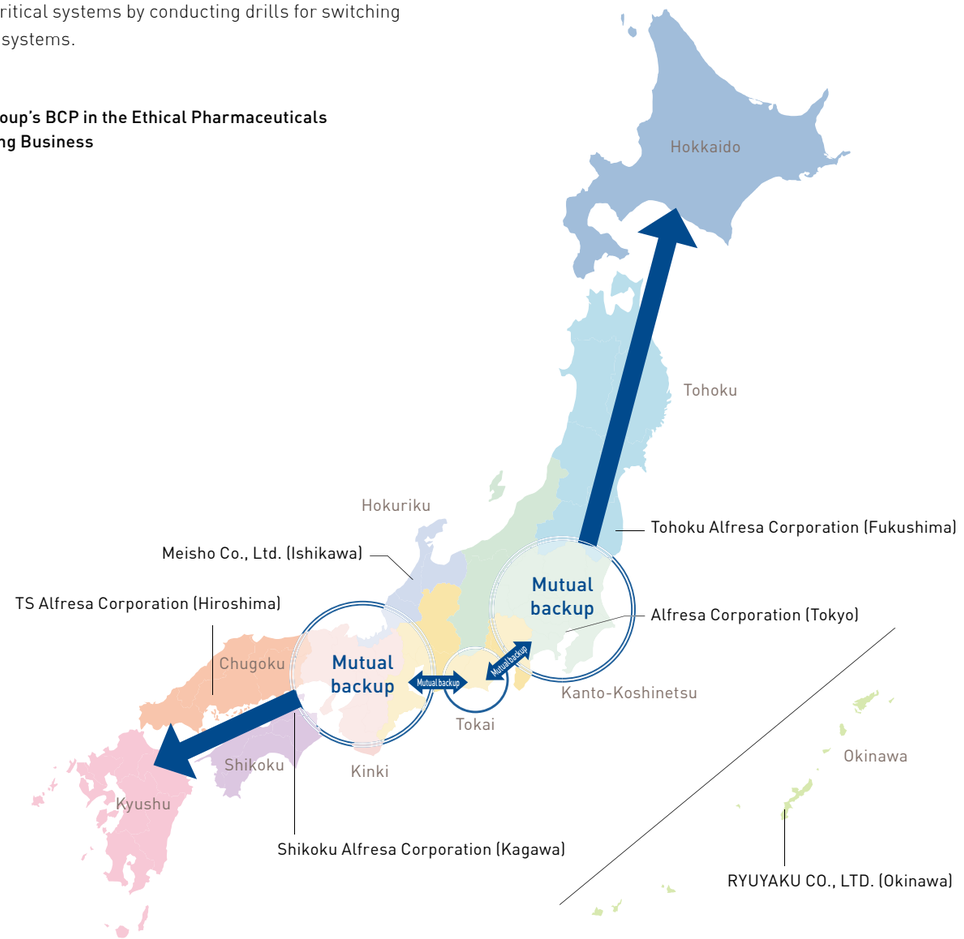
• Business Continuity Plan (BCP)

The Alfresa Group has reinforced its BCP in preparation for a large-scale disaster or pandemic. Group companies engaged in the Ethical pharmaceuticals wholesaling business have established a support system that is prepared for a disaster. A nationwide response system is in place so that even if distribution centers or branches in specific areas are affected in a disaster, other locations will be able to step in and continue supplying pharmaceuticals where they are needed. In the area of information systems, disaster recovery* plans are in place. If the Group's data center becomes damaged, systems can be switched over to a backup data center, ensuring that shared-use mission-critical systems keep functioning.

The Group has adopted a new email system that would be able to remain in use in time of disaster, to secure post-disaster communication between Group companies.

* Disaster recovery: Rapid switching of a disaster-damaged computer system to a backup system

Alfresa Group's BCP in the Ethical Pharmaceuticals Wholesaling Business



Respecting Human Rights and Creating a Proper Working Environment

To deliver a fresh life for all, our first priority is to ensure that our people work together with a positive mindset. We work ceaselessly to ensure human rights are respected and to maintain a proper working environment so that our people can work with strong motivation and make full use of their capabilities.

Basic Policy and Approach

The Alfresa Group's Philosophy is "We create and deliver a fresh life for all." In pursuit of this philosophy, it is essential not only to prevent workplace accidents but also to establish a proper working environment that allows our people to tackle their jobs with good health, a positive mindset, and strong motivation. The Group views the changing social environment as an opportunity for growth, and believes that the starting point for business growth is to ensure that its diverse talent pool can all develop and demonstrate their capabilities. Accordingly, the Group respects the human rights of our people and works hard to build a continually improving working environment.

The Group's Goals and Promotion Structure

What the Group Aims to Be

- Our workplace environments are safe and conducive to good work for our people, and the Group makes every effort to continuously improve them.
- The Group secures a sound corporate culture.
- Diverse people with different values and ideas are proud of their individuality and strive to maximize their capabilities under the Alfresa Group's principles.
- All of our people work with energy and a positive mindset.

Promotion Structure

We are establishing a structure for promoting CSR across the entire Group. The CSR Promotion Committee, comprised of members selected from the management of Alfresa Holdings Corporation and its Group companies, has been established and meets regularly three times per year.

Alfresa Group CSR Management Framework

CSR Promotion Committee
- Discuss key policies and other matters related to overall Group CSR
- Promote overall Group CSR activities

The Company and Group Companies

CSR Conference
- Promote CSR activities at each company

Recognition of Social Issues

The needs of working people in Japan are changing as a declining birth rate and increasing aging population lead to a drop in the working-age population. There are calls for workstyle reforms to help resolve these issues. Securing an adequate labor force is an urgent issue for ensuring stable, continuing business development. It is important to make the most of human resources, especially women, the elderly, and others who typically have had fewer opportunities until now. Moreover, companies are expected to realize diverse and flexible work-styles, such as curbing long working hours to protect the mental and physical health of their employees and enabling workers to balance work with childcare or nursing care. Companies are also called on to take steps for increasing productivity.

Basic Data on Human Resources (Alfresa Group)

		2017.3	2018.3	2019.3
Number of employees*1	Male	8,588	8,417	**8,360**
	Female	6,021	6,204	**6,391**
	Total	14,609	14,621	**14,751**
Number of employees, by type of employment	Full-time employees	8,455	8,631	**8,838**
	Advisors, contract employees, fixed-term employees	3,370	3,270	**3,238**
	Part-time and temporary employees	2,784	2,720	**2,675**
Number of new graduates hired	Male	—	120	**117**
	Female	—	105	**130**
	Total	236	225	**247**
Average number of years employed		16.3	16.2	**16.4**

*1 Including part-time and temporary employees

Key Measures and Progress of Initiatives

Respect for Human Rights and Prevention of Harassment

The Alfresa Group Compliance Guidelines stipulate "respect for human rights and personality, and prevention of harassment," and the Group continuously raises awareness of these issues and promotes understanding through compliance training programs and so forth. We have established hotlines for those who are encountering difficulties or concerns regarding human rights or are victimized by harassment. In addition, we strive to make our people generally aware of these hotlines.

Engagement with the Labor Union

The Alfresa Group considers that mutual trust and cooperation between labor and management will assist the Group's development going forward. As of March 31, 2019, labor union membership among the Group's regular employees stood at 51.9%. We aim to provide regular opportunities for dialogue between labor and management of the Group companies, and to cooperate with one another to build healthy relationships.

Promoting Diversity, Including Promoting Women's Active Participation

The Group is actively recruiting and appointing female employees, as well as working to promote employment of elderly workers or those with disabilities, aiming to establish an environment where individuals can utilize their potential fully and to recruit diverse talent.

Target Percentage of Female Managers Group-wide: Over 5% by March 31, 2021

Data on Promoting Women's Active Participation and Diversity (Group-wide)

		2017.3	2018.3	2019.3
Promoting women's active participation*2	Number of female executive officers	4	4	**4**
	Percentage of female managers (%)	3.7	3.6	**4.5**
	Percentage of female regular employees (%)	23.5	25.7	**27.1**
	Percentage of female new employees (%)	45.1	46.7	**52.6**
	Average years of service of female employees (Years)	—	12.1	**11.9**
	Average years of service of male employees (Years)	—	20.1	**19.7**
	Difference of average years of services between female and male employees (Years)	—	8.0	**7.8**
Number of elderly workers (over age 60)		1,072	1,138	**964**
Number of workers with disabilities		245	243	**267**

*2 Regular-employee basis

Advancing Work–Life Balance (Workstyle Reform)

We have been engaged in a Group-wide effort designed to help our people achieve work–life balance, enhance their productivity, and stay highly motivated on the job. The initiatives include seeking to reduce overtime hours and encouraging use of paid leave. We are also striving to create an environment where people feel free to utilize childcare and nursing care leave. At the Group companies, we are enhancing HR systems including introduction of a "job return" system, expansion of the scope of applicable people for short working hours for childcare or nursing care, and payment of childcare allowance.

	2015.3	2016.3	2017.3	2018.3	2019.3
Number of people taking childcare leave	73	102	52	109	**111**
Number of people taking nursing care leave	2	0	1	10	**10**
Percentage of paid leave days taken*3 (%)	—	39.0	36.6	43.5	**45.1**

*3 Including contract employees and part-time employees

Alfresa Group Fresh-Up Campaign

The campaign is a Group-wide effort designed to promote work–life balance by aiming for "a clearly defined approach to work," and working as a Group on the themes of "no overtime" days*4 and encouraging the use of paid leave.

*4 Programs such as "no overtime day," "go-home-early day," "fresh-up day," and so forth involve deciding schedules at each Group company to promote the reduction of long working hours.

Strengthening Efforts to Promote Health

The Alfresa Group, which does business in the healthcare industry, recognizes that it is vital to help our people to maintain and strive to improve their mental and physical health.

The Group companies provide regular health checkups, and encourage those with positive findings to have secondary examinations. The Group has also expanded support for women's cancer screenings and is enhancing initiatives such as making screening results visible through the introduction of a health management system and providing health improvement education. In addition, as an initiative to maintain mental health, each Group company conducts stress checks and has provided the Alfresa Group Mental Health Special Help Desk that our people and their families can use for consultation at any time. The Group strives to make efforts to resolve concerns and identify early signs of mental illness by providing adequate supports.

Health and Safety Initiatives

The Group has introduced risk management methods, mainly for its Manufacturing business. We have a policy on preventing occupational accidents and are engaged in health and safety activities. In the fiscal year ended March 31, 2019, the Group continued to maintain a low occupational accident rate*5 at 3.6.

*5 Occupational accident rate: Number of absent hours due to occupational accidents per every million labor hours

Coexisting with the Local Community and Protecting the Environment

The Alfresa Group is aware of its responsibilities as a corporate citizen, and aims to develop sustainably in coexistence with society. We conduct proactive social contribution activities and take the initiative to address global environmental issues.

Basic Policy and Approach

As a corporate group with business locations all over Japan, the Alfresa Group values community engagement in its local business activities. The Group strives to maintain harmonious relationships with the local communities where it does business and cooperates with them to achieve mutual development.

As countermeasures to global environmental problems, the Alfresa Group recognizes the importance of reducing the environmental impact of its business activities. The Group also ensures that its business operations make a social contribution, while proactively giving back to local communities and taking the initiative to address environmental issues.

The Group's Goals and Promotion Structure

What the Group Aims to Be

- Our business activities have deep roots in the local community, and the Group keeps enjoying a relationship of trust as it works together with society going forward.
- The Group understands its overall environmental impact and keeps managing its initiatives to reduce the impact properly.

Promotion Structure

At the regular meetings of the CSR Promotion Committee, we aim to promote active Group-wide social contributions and environmental preservation efforts.

Recognition of Social Issues

As social issues in Japan's regional cities, including population decline and aging demographics, are becoming more severe, companies that operate in those regional communities are facing higher expectations when it comes to creating jobs and contributing to local prosperity. Companies are required to create economic opportunities by putting down deep roots in the community and building relationships of mutual trust, thereby ensuring that the local community and the companies grow together in a sustainable manner.

Meanwhile, at the 2015 United Nations Climate Change Conference (COP21) in Paris, Japan pledged to reduce greenhouse gas emissions by 26% by 2030, compared to 2013 levels. To achieve this goal, Japanese companies are expected to strive to reduce greenhouse gas emissions by reducing energy use in their business activities.

Key Measures and Progress of Initiatives

Actively Contribute to Society

Community Support Activities such as Activities for Elderly People and People Suffering from Dementia

All Group companies involved in the Ethical pharmaceuticals wholesaling business have formed agreements with local governments to help watch over the community in order to cooperate with the integrated community care system. Furthermore, another major issue is building patient support systems in local communities to cope with an increasing number of patients with dementia due to the aging of society. As companies that support Japan's medical system, Group companies strive to train "dementia supporters"—people with an accurate knowledge of dementia who can understand dementia patients and their families well. Through our promotion of community support activities for elderly people and those with dementia, we will treasure our involvement and connections with local communities and support efforts to create communities that are easy for anyone to live in.



The orange wristband is the symbol for dementia supporters.

Number of dementia supporters **4,884**

Number of "Caravan mates*" **173**

* Persons who run dementia supporter training courses and serve as course lecturers



Dementia supporter training courses

Helping to Improve the Health of the Community

In its Medical-related business, the Alfresa Group provides wide-ranging, active support for the health of everyone in the community through dispensing pharmacies. In addition to medication support at home for patients who require home care, we hold health events where we provide measurement of blood pressure, blood flow, body fat ratio, bone mass, lung age, and skin age, as well as health consultations as part of our efforts to raise health awareness among community residents. Moreover, at some dispensing pharmacies we provided dispensing pharmacist work experience events to foster interest in the work of a dispensing pharmacist and in pharmaceuticals themselves.



Health consultation meetings

Advancing Efforts to Protect the Environment

Efforts to Reduce Environmental Impact

The Alfresa Group's main environmental impact comes from the electricity used in offices, plants, and distribution centers, and the vehicle fuel used by our MS and delivery staff to visit medical institutions or deliver pharmaceuticals. This makes up roughly 86% of our overall energy usage. The Group is taking proactive measures to reduce its environmental impact.

Overview of the Alfresa Group's Environmental Impact

INPUT

(Thousand GJ)	2017.3	2018.3	2019.3
Total energy consumed	1,447	1,429	**1,387**
Electricity	785	794	**795**
Gasoline	465	428	**391**
Diesel	13	13	**11**
Other (kerosene, A heavy fuel oil, city gas, LPG)	183	194	**190**

OUTPUT

t-CO_2	2017.3	2018.3	2019.3
CO_2 emissions	84,163	81,042	**76,932**

Scope:
Alfresa Holdings Corporation, Alfresa Corporation, Shikoku Alfresa Corporation, TS Alfresa Corporation, Meisho Co., Ltd., RYUYAKU CO., LTD., Tohoku Alfresa Corporation, Alfresa Medical Service Corporation, Alfresa Shinohara Chemicals Corporation, Alfresa Healthcare Corporation, Alfresa Pharma Corporation, Alfresa Fine Chemical Corporation, Sannova Co., Ltd., Apollo Medical Holdings Inc., Nihon Apoch CO., LTD., Alfresa System Corporation

Calculation Method:
In calculating CO_2 emissions, reference was made to the Manual for Calculating and Reporting Greenhouse Gas Emissions Ver. 4.3.2 for compliance with Japan's Act on Promotion of Global Warming Countermeasures.

Switch to Fuel-Efficient Vehicles and Promotion of Eco-Driving

The total annual distance traveled for cars used by the Alfresa Group was approximately 131,600,000 km in the fiscal year ended March 31, 2019. The Group is introducing fuel-efficient vehicles, such as switching to light motor vehicles and hybrid cars. At the same time, we are reducing our fleets through efforts to optimize the number of vehicles. In addition, we have fitted fuel-efficient tires and implemented ecological, safe driving such as soft acceleration and steady speed traveling in an effort to reduce CO_2 emissions and raise awareness of safe driving.

Adoption of Light Motor Vehicles for Freight Vehicles Used in Sales and Delivery Activities

	2015.3	2016.3	2017.3	2018.3	2019.3
Number of light motor vehicles adopted	4,571	4,471	4,555	4,095	**3,824**
Percentage of total freight vehicles (%)	70.1	70.1	70.9	68.0	**67.1**

Implementing Electricity-Saving Measures

The Group is working to reduce electricity usage by ascertaining the amount of power it uses and raising awareness of saving electricity, as well as converting to LED lighting at its distribution centers and so forth.

Waste-Reduction Measures

In its efforts to reduce waste, the Group strives to reuse paperboard from product packaging as a recycled resource by compacting it with a specialized machine and selling it to a service operator. This helps to reduce both waste-processing expenses and environmental impact.

Environmental Management System

Some of the Group's business sites, such as Manufacturing business plants, have acquired ISO 14001 certification to help prevent pollution and protect the environment. Currently, four locations have obtained the certification. They have established environmental protection promotion structures and are taking systematic measures.

Manufacturing Plant Aiming for Zero Emissions

Alfresa Fine Chemical Corporation, a manufacturer of API in the Alfresa Group, detoxifies high concentrations of effluent from the manufacturing process containing fluorine, as part of its efforts to achieve zero emissions. By recycling the resulting sludge, the final waste landfill rate for the industrial waste produced by the factory is kept at 1% or lower. The quality of wastewater released from the plant is also monitored constantly by telemeter.

Management Team

As of June 26, 2019

Directors



5 3 1 2 4 6



10 8 7 9 11

1. Hiroyuki Kanome

Representative Director & Chairman

Apr 1972 Joined Fukujin Co., Ltd. (currently Alfresa Corporation)
Jun 1998 Director of Fukujin Co., Ltd.
Jun 2000 Managing Director of Fukujin Co., Ltd.
Jun 2002 Director, Vice President & Executive Officer of Fukujin Co., Ltd.
Jun 2003 Director, Senior Vice President & Executive Officer of Fukujin Co., Ltd.
Jun 2006 Director & Deputy President of Alfresa Corporation
Jun 2008 Representative Director & Deputy President of Alfresa Corporation
Apr 2009 Representative Director & President of Alfresa Corporation
Jun 2009 Director & Deputy President, Assistant to the President of the Company, Group Sales Promotion
Jul 2011 Director & Deputy President, Assistant to the President of the Company, Pharmaceutical Business
Jun 2012 Representative Director & Deputy President, Assistant to the President of the Company, Pharmaceutical Wholesaling Business
Apr 2016 Representative Director & Chairman of Alfresa Corporation (present)
Representative Director & Deputy Chairman of the Company
Dec 2017 Representative Director & Chairman of the Company (present)

2. Taizo Kubo

Representative Director & President

Mar 1979 Joined Fukujin Co., Ltd. (currently Alfresa Corporation)
Jun 2000 Director of Fukujin Co., Ltd., General Manager, Sales Planning Department
Jun 2002 Director, Vice President & Executive Officer of Fukujin Co., Ltd.
Apr 2006 Vice President & Executive Officer of the Company, Group Administration and Affiliate Control, Internal Control
Jun 2006 Director, Vice President & Executive Officer of the Company, Group Administration and Affiliate Control, Internal Control
Apr 2008 Director, Senior Vice President & Executive Officer of the Company, Group Administration and Affiliate Control, Internal Control
Apr 2009 Representative Director & President of Shikoku Alfresa Corporation
Jun 2012 Director of the Company
Apr 2013 Director, Senior Vice President & Executive Officer of the Company, Group Business & Affiliate Control, and Group Information System
Jun 2015 Director & Deputy President, Assistant to the President of the Company, Group Business & Affiliate Control, Group Information System, and Hospital & Dispensing Pharmacy
Apr 2016 Representative Director & President of the Company (present)

3. Koichi Masunaga

Director & Deputy President, Assistant to the President, Wholesaling Business

Mar 1978 Joined Fukujin Co., Ltd. (currently Alfresa Corporation)
Jun 2002 Executive Officer of Fukujin Co., Ltd.
Sep 2003 Executive Officer of the Company, General Manager, Corporate Strategy Department
Apr 2006 Executive Officer of the Company, General Manager, Group Administration and Affiliate Control Department
Jul 2006 Executive Officer of Alfresa Corporation
Oct 2008 Vice President & Executive Officer of Alfresa Corporation
Jun 2010 Director, Vice President & Executive Officer of Alfresa Corporation
Apr 2013 Director, Senior Vice President & Executive Officer of Alfresa Corporation
Apr 2016 Representative Director & President of Alfresa Corporation (present)
Jun 2016 Director of the Company
Apr 2017 Director & Deputy President, Assistant to the President of the Company, Wholesaling Business (present)

4. Yasuki Izumi

Director & Deputy President, Assistant to the President, Group Business & Affiliate Control & Group Information System

Apr 1978 Joined Nippon Shoji Kaisha, Ltd. (currently Alfresa Pharma Corporation)
Oct 2006 General Manager of the Company, Group Administration and Affiliate Control Department
Apr 2010 Executive Officer of the Company, General Manager, Group Administration and Affiliate Control Department and General Affairs Department
Jun 2012 Executive Officer of the Company, Group Business & Affiliate Control, General Manager, Business Development Department
Oct 2012 Vice President & Executive Officer of the Company, Group Business & Affiliate Control, General Manager, Business Development Department
Apr 2013 Vice President & Executive Officer of the Company, Business Development, General Manager, Business Development Department
Apr 2014 Vice President & Executive Officer of the Company, Business Development, International Business, General Manager, Business Development Department
Jun 2014 Director, Vice President & Executive Officer of the Company, Business Development, International Business, General Manager, Business Development Department
Apr 2015 Director, Vice President & Executive Officer of the Company, Business Development, International Business
Apr 2016 Director, Vice President & Executive Officer of the Company, Group Business & Affiliate Control & Group Information System, Business Development & International Business
Jun 2016 Director, Senior Vice President & Executive Officer of the Company, Group Business & Affiliate Control & Group Information System, Business Development & International Business
Oct 2016 Director, Senior Vice President & Executive Officer of the Company, Group Business & Affiliate Control & Group Information System
Apr 2019 Director & Deputy President, Assistant to the President of the Company, Group Business & Affiliate Control & Group Information System (present)

5. Ryuji Arakawa

Director, Vice President & Executive Officer, Corporate Communication, Business Development & International Business

Apr 1987 Joined Yamanouchi Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)
Apr 1999 Joined CS YAKUHIN CO., LTD.
Jun 2000 Director of CS YAKUHIN CO., LTD.
Jun 2005 Managing Director of CS YAKUHIN CO., LTD.
Jun 2007 Senior Managing Director of CS YAKUHIN CO., LTD., Director of the Company
Jun 2008 Director, Senior Vice President & Executive Officer of CS YAKUHIN CO., LTD.
Apr 2009 Representative Director & President of CS YAKUHIN CO., LTD.
Jun 2016 Director of the Company
Oct 2016 Director, Vice President & Executive Officer of the Company, Business Development & International Business
Apr 2019 Director, Vice President & Executive Officer of the Company, Corporate Communication, Business Development & International Business (present)

6. Seiichi Kishida

Director, Vice President & Executive Officer, General Affairs, Financial Planning, General Manager of Financial Planning Department

Apr 1982 Joined Nippon Shoji Kaisha, Ltd. (currently Alfresa Pharma Corporation)
Oct 2008 General Manager of Accounting Department of Alfresa Corporation
Apr 2013 General Manager of Human Resources Department of Alfresa Corporation
Apr 2017 Executive Officer of Alfresa Corporation, General Manager of Human Resources Department
Apr 2018 Executive Officer of the Company, General Manager of Financial Planning
Apr 2019 Vice President & Executive Officer of the Company, General Affairs, Financial Planning, General Manager of Financial Planning Department
Jun 2019 Director, Vice President & Executive Officer of the Company, General Affairs, Financial Planning, General Manager of Financial Planning Department (present)

7. Hisashi Katsuki

Director

Oct 1984 Joined Pigeon Corporation
Dec 2001 Managing Executive Officer of Pigeon Corporation
Apr 2004 Director of Pigeon Corporation
Jun 2009 Representative Director & President of TAMPEI NAKATA CO., LTD. (currently Alfresa Healthcare Corporation)
Oct 2011 Representative Director & President of Alfresa Healthcare Corporation (present)
Oct 2014 Representative Director & Chairman of Mogi Pharmaceutical Co., Ltd. (present)
Jun 2017 Director of the Company (present)

8. Koichi Shimada

Director

Apr 1982 Joined Nippon Shoji Kaisha, Ltd. (currently Alfresa Pharma Corporation)
Apr 2008 Executive Officer of Alfresa Pharma Corporation, General Manager, Product Strategy Department
Jun 2010 Director of Alfresa Pharma Corporation
Apr 2012 Director, Vice President & Executive Officer of Alfresa Pharma Corporation
Apr 2014 Director, Senior Vice President & Executive Officer of Alfresa Pharma Corporation
Apr 2016 Director, Deputy President & Executive Officer of Alfresa Pharma Corporation
May 2016 Director of Alfresa Fine Chemical Corporation
Apr 2017 President & CEO of Alfresa Pharma Corporation (present)
May 2017 Director & Chairman of Alfresa Fine Chemical Corporation (present)
Jun 2018 Director of the Company (present)

9. Kimiko Terai

Director (Outside Director)

Apr 2002 Associate Professor, Faculty of Business Administration, Hosei University
Apr 2007 Visiting Researcher, University of California, Irvine
Apr 2008 Professor, Faculty of Business Administration, Hosei University
Apr 2012 Professor, Faculty of Economics, Keio University (present)
Apr 2012 Adjunct Professor, Faculty of Business Administration, Hosei University
Apr 2013 Adjunct Professor, Keio Law School
Jun 2015 Director of the Company (present)
Aug 2015 Chairperson of Corporate Governance Committee of the Company (present)

10. Yoichiro Yatsurugi

Director (Outside Director)

Apr 1978 Joined IBM Japan, Ltd.
Jun 1999 President of AT&T Global Network Services Japan LLC
May 2001 Chairman of AT&T Global Network Services Japan LLC and President of AT&T Asia Pacific
Apr 2004 Executive Vice President of JAPAN TELECOM CO., LTD (currently SoftBank Corp.)
Jan 2005 President and CEO of WILLCOM, Inc. (currently SoftBank Corp.)
Apr 2007 Representative Director, Executive Vice President of SAP Japan Co., Ltd.
Sep 2007 Representative Director and President of SAP Japan Co., Ltd.
Feb 2010 Executive Counsel of Works Applications Co., Ltd.
Dec 2011 Representative Director and President of Igreque, Inc.
Dec 2015 Director, Executive Counsel of Works Applications Co., Ltd.
Jan 2016 Director of Igreque, Inc. (present)
Jun 2017 Director of the Company (present), Chairperson of Nomination and Remuneration Committee for Directors and Executive Officers of the Company (present)
Oct 2017 Executive Vice President of Works Applications Co., Ltd.
Oct 2018 Director, Deputy President of Works Applications Co., Ltd. (present)

11. Shiho Konno

Director (Outside Director)

Apr 1991 Registered as an attorney at law (Daiichi Tokyo Bar Association)
Jun 2005 Auditor of Yahoo Japan Corporation
Mar 2008 Auditor of Advanced Softmaterials Inc.
Apr 2009 Professor of Waseda Law School, Waseda University
Apr 2014 Member, Committee on Realization of a Gender-Equal Society of Japan Federation of Bar Associations (present)
Aug 2014 Auditor of Japan Corporate Governance Network
Mar 2015 Established Shiho Konno Habataki Law Office (present)
Jun 2015 Outside Director of Watami Co., Ltd.
Jun 2017 Director of the Company (present)
Jun 2018 Outside Audit & Supervisory Board Member of Shinsei Bank, Limited (present)
Outside Director of Monex Group, Inc. (present)

Management Team

As of June 26, 2019

Audit & Supervisory Board Members



3 1 2 4

1. Kenji Kuwayama

Audit & Supervisory Board Member (Standing)

Apr 1978 Joined The Mitsui Bank Limited (currently Sumitomo Mitsui Banking Corporation)
Nov 2000 Managing Director of Sakura Capital India Limited
Apr 2002 Chief Executive Officer and General Manager of Mumbai Branch, Sumitomo Mitsui Banking Corporation
Oct 2007 Joined the Company
Apr 2009 General Manager, Internal Control & Legal Department
Jun 2014 Audit & Supervisory Board Member (Standing) of the Company (present)

2. Seisui Kamigaki

Audit & Supervisory Board Member (Outside)

Apr 1973 Prosecutor of Tokyo District Public Prosecutors Office
Oct 2000 Chief Prosecutor of Naha District Public Prosecutors Office
Sep 2003 Director-General, General Affairs Department, Supreme Public Prosecutors Office
Dec 2004 Chief Prosecutor of Chiba District Public Prosecutors Office
Aug 2005 Chief Prosecutor of Yokohama District Public Prosecutors Office
Jul 2007 Commissioner of Japan Fair Trade Commission
Jul 2012 Attorney at law of Hibiya Sogo Law Offices (present)
Jun 2013 Audit & Supervisory Board Member of the Company (present), Outside Audit & Supervisory Board Member of Mitsubishi Shokuhin Co., Ltd. (present)
May 2015 Outside Director (Audit and Supervisory Committee Member) of YONDOSHI HOLDINGS INC. (present)
Jun 2015 Outside Director of Universal Entertainment Corporation (present)

3. Yoshitaka Kato

Audit & Supervisory Board Member (Outside)

Oct 1983 Joined Pricewaterhouse (currently PricewaterhouseCoopers Aarata LLC)
Oct 1990 Joined Fidelity Investments Management (Japan) Limited (currently FIL Investments (Japan) Limited)
May 1994 Joined Yamada Accounting Office (currently Yamada & Partners Certified Public Tax Accountants' Co.)
Nov 1999 Partner of YUSEI Audit & Co. (currently Grant Thornton Taiyo LLC)
Mar 2002 Managing Partner of YUSEI Audit & Co.
Jan 2010 CEO of YUSEI Advisory Co., Ltd.
Jan 2017 Chairman, Partner of YUSEI Audit & Co. (currently Grant Thornton Taiyo LLC)
Jun 2017 Audit & Supervisory Board Member of the Company (present)
Jul 2018 CEO of Crowe ProC.A Inc. (present)
May 2019 Outside Director of TWINBIRD CORPORATION (present)

4. Takashi Ito

Audit & Supervisory Board Member (Outside)

Apr 1988 Registered as an attorney at law (Daini Tokyo Bar Association)
Oct 2002 Established Shin-yotsuya Law Offices (present)
Apr 2005 Vice President of Daini Tokyo Bar Association
Apr 2008 Deputy Secretary General of Japan Federation of Bar Associations
Apr 2011 Director of Public Relations Office of Daini Tokyo Bar Association
Apr 2012 Special Staff Attorney, Office of Secretary General of Japan Federation of Bar Associations
Apr 2016 Executive Governor of Japan Federation of Bar Associations
Apr 2017 President of Daini Tokyo Bar Association, Vice President of Japan Federation of Bar Associations, Executive Governor of Kanto Federation of Bar Associations
Jun 2018 Audit & Supervisory Board Member of the Company (present)
Jun 2019 Outside Director of JIO Corporation (present)

FACT DATA

Note: The Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc., from the beginning of the fiscal year ended March 31, 2019. Figures for the fiscal year ended March 31, 2018 have been adjusted to reflect retroactive adoption of the accounting standard.

For detailed financial information, please refer to Alfresa Group Financial Section 2019.

11-Year Financial Summary

(For the fiscal years as of / ended March 31)

Millions of Yen

	2009.3	2010.3	2011.3	2012.3		2013.3	2014.3	2015.3	2016.3	2017.3	2018.3	2019.3
For the Year:												
Net sales	1,934,868	2,059,269	2,183,345	2,333,256		2,387,511	2,504,504	2,421,162	2,576,405	2,551,801	2,602,917	**2,640,511**
Gross profit	138,897	143,500	143,118	144,031		159,357	171,544	165,755	197,194	182,565	193,554	**201,310**
Selling, general and administrative expenses	130,114	128,841	133,804	134,653		135,811	136,580	136,527	151,905	149,336	151,798	**156,539**
Operating income	8,783	14,659	9,313	9,377		23,546	34,964	29,228	45,289	33,228	41,756	**44,770**
Ordinary profit	15,985	22,292	17,931	18,326		32,279	44,561	38,985	55,489	43,628	51,861	**55,125**
Profit attributable to owners of the parent	5,565	10,497	6,587	6,604		20,771	25,566	22,922	34,975	30,893	35,589	**41,699**
Depreciation (cash flow-based)	5,242	6,124	7,283	8,142		8,836	8,871	8,258	9,218	9,151	9,258	**9,523**
Capital expenditures (cash flow-based)	14,093	11,369	12,827	9,223		6,811	20,992	15,968	14,461	13,687	12,483	**13,809**
At Year-End:												
Net assets	185,724	223,263	236,768	244,015		283,956	305,436	354,123	368,727	393,550	435,934	**442,056**
Total assets	884,249	941,629	1,078,863	1,077,378		1,189,241	1,169,546	1,220,781	1,253,494	1,255,922	1,337,450	**1,341,939**
Interest-bearing debt	7,625	12,536	12,382	9,325		8,816	7,212	6,341	7,112	6,557	6,654	**6,755**
Common stock outstanding (thousands of shares)*1	169,304	207,298	207,890	207,890		235,017	235,017	235,017	235,017	235,017	235,017	**235,017**
Per Share Data*1 (Yen):												
Earnings per share	33.32	56.80	32.42	32.24		97.48	115.51	102.48	158.99	142.58	164.25	**195.79**
Net assets per share	1,076.51	1,087.90	1,135.40	1,169.28		1,281.94	1,379.04	1,576.07	1,691.63	1,810.68	2,006.53	**2,082.91**
Dividend per share	21.75	22.00	22.25	22.50		23.25	26.00	29.75	33.00	36.00	39.00	**48.00**
Main Financial Indicators:												
Selling, general and administrative expenses to net sales (%)	6.72	6.26	6.13	5.77		5.69	5.45	5.64	5.90	5.85	5.83	**5.93**
Operating income margin (%)	0.45	0.71	0.43	0.40		0.99	1.40	1.21	1.76	1.30	1.60	**1.70**
Return of equity (ROE) (%)	3.1	5.3	2.9	2.8		7.9	8.7	7.0	9.7	8.1	8.6	**9.5**
Return on assets (ROA) (%)	0.6	1.1	0.7	0.6		1.8	2.2	1.9	2.8	2.5	2.7	**3.1**
Total assets turnover (times)	2.23	2.26	2.16	2.16		2.11	2.12	2.03	2.08	2.03	2.01	**1.97**
Receivables turnover period (months)	2.96	2.89	2.90	2.88		2.84	2.80	2.98	2.82	2.85	2.80	**2.79**
Inventory turnover period (months)	0.58	0.57	0.64	0.64		0.65	0.64	0.65	0.62	0.62	0.61	**0.61**
Payable turnover period (months)	3.90	3.82	3.96	4.01		4.03	3.88	3.93	3.68	3.71	3.69	**3.71**
Owners' equity ratio (%)	20.3	23.3	21.6	22.2		23.9	26.1	28.9	29.2	31.2	32.5	**32.9**
Dividend on equity (DOE) (%)	2.0	2.0	2.0	2.0		1.9	2.0	2.0	2.0	2.1	2.0	**2.3**
Payout ratio (%)	65.3	38.7	68.6	69.8		23.9	22.5	29.0	20.8	25.2	23.7	**24.5**
Cash Flows:												
Cash flows from operating activities	32,963	6,898	52,233	14,620		82,339	(27,507)	35,813	37,836	34,342	47,575	**46,880**
Cash flows from investing activities	(16,507)	(31,226)	(4,806)	(15,578)		(1,870)	(21,769)	(6,583)	(15,245)	(13,409)	(10,154)	**(12,947)**
Cash flows from financing activities	(1,810)	24,869	(8,024)	(10,321)		(8,067)	(8,643)	(8,011)	(25,996)	(11,807)	(9,865)	**(24,860)**
Free cash flow	16,456	(24,328)	47,427	(958)		80,468	(49,277)	29,230	22,590	20,932	37,421	**33,933**
Number of employees (people)*2	13,653	13,649	13,950	13,170		13,510	13,434	14,020	14,556	14,609	14,629	**14,718**

*1 The Company implemented a 4-for-1 stock split of ordinary shares on October 1, 2014. Accordingly, the total number of shares issued and the amount for dividend per share have been stated retroactively to reflect this stock split.

*2 Includes average number of temporary employees (part-time and temporary workers)

Analysis of Financial Status

Analysis of Management Results

During the consolidated fiscal year under review (April 1, 2018–March 31, 2019), despite a degree of weakness in exports and certain sectors of production after the start of the fourth quarter, the Japanese economy was on a gradual recovery trend along with a rebound in personal consumption and an increase in capital expenditures on a full-year basis.

The Alfresa Group focused on achieving the Group management policies "Challenge 3"—"Strengthen Business Foundation with One Alfresa Initiatives," "Expand the Health and Medical-Related Fields," and "Reform Business Model Ahead of Changes in the Business Environment"—put forth in the three-year mid-term management plan, 16–18 Mid-term Management Plan *Break Through to Tomorrow*, for which the fiscal year under review is the final year.

As a result, in the fiscal year under review, the Alfresa Group posted consolidated net sales of ¥2,640,511 million, up 1.4% year on year, operating income of ¥44,770 million, up 7.2% year on year, ordinary profit of ¥55,125 million, up 6.3% year on year, and profit attributable to owners of the parent of ¥41,699 million, up 17.2% year on year.

Also, between May 14, 2018 and August 14, 2018, the Company implemented a share buyback in order to implement shareholder returns and improve capital efficiency, and acquired five million shares of its own stock at a cost of ¥13,334 million.

Analysis of Financial Position

Total assets as of the end of the fiscal year under review stood at ¥1,341,939 million, up ¥4,488 million from the previous fiscal year-end.

Total current assets increased ¥16,236 million year on year, to ¥1,036,784 million. This mainly reflected an increase of ¥14,425 million in cash and deposits in line with higher sales and profits, along with an increase in others of ¥3,822 million.

Total non-current assets decreased ¥11,747 million, to ¥305,154 million. This was mainly attributable to a decrease in total investments and other assets of ¥21,677 million, such as investment securities associated with the sale of shares and a decline in stock prices. The decrease was partially offset by an increase in net property, plant and equipment of ¥4,642 million, such as buildings and structures associated with capital investment in the Fukuoka Distribution Center of Alfresa Corporation, and an increase in intangible assets of ¥5,288 million, such as goodwill associated with the acquisition of manufacturing and sales approval for 41 long-listed drugs of Alfresa Pharma Corporation.

Total liabilities at the end of fiscal year under review stood at ¥899,883 million, down ¥1,633 million from the previous fiscal year-end.

Total current liabilities increased ¥5,676 million, to ¥859,911 million. The main factors were increases of ¥2,857 million in trade notes and accounts payable associated with an increase in procurement, and ¥2,184 million in income taxes payable associated with higher profits. Total long-term liabilities declined ¥7,309 million, to ¥39,971 million. The main changes were a decrease of ¥6,361 million in deferred tax liabilities, which primarily reflected lower unrealized gains on available-for-sale securities due to a decrease in shareholdings after selling shares and a fall in stock prices, and a decrease of ¥1,151 million in net defined benefit liability associated with an increase in pension assets.

As a result of the above, total net assets at the end of the fiscal year under review increased ¥6,122 million, to ¥442,056 million. This mainly reflected an increase of ¥31,113 million in retained earnings, as well as an increase in treasury stock, at cost of ¥13,340 million associated with a share repurchase carried out as part of shareholder returns, and a decline in other unrealized gains on available-for-sale securities, net of taxes of ¥12,557 million following a decrease in shareholdings and a fall in stock prices.

Analysis of Cash Flows

Cash and cash equivalents ("cash") at the end of the fiscal year under review stood at ¥205,085 million, up ¥9,491 million from the previous fiscal year-end. The status of cash flows in the fiscal year under review and changes from the previous fiscal year are as follows.

Net cash provided by operating activities was ¥46,880 million (¥47,575 million provided in the previous fiscal year). The main factors in the change were a decrease in cash in-flows of ¥695 million due to an increase in income taxes paid following an increase in profit. Net cash used in investing activities totaled ¥12,947 million (¥10,154 million used in the previous fiscal year). Cash outflows increased ¥2,793 million from the previous fiscal year, mainly due to payments of ¥1,401 million for acquisition of property, plant and equipment, such as investment in distribution facilities including distribution center construction and investment in manufacturing equipment to strengthen the consigned manufacturing business, as well as payments for acquisition of businesses of ¥10,401 million associated with receiving approval for manufacturing and sale of 41 long-listed drugs to expand the product lineup. These outflows were partially offset by ¥8,524 million in proceeds from sale of investment securities, which were carried out to reduce shareholdings. Net cash used in financing activities amounted to ¥24,860 million (¥9,865 million used in the previous fiscal year). The main factors in the change were cash dividends paid of ¥9,413 million, an increase of ¥1,179 million, or ¥6 per share, from the previous fiscal year to enhance shareholder returns. In addition, cash outflows increased by ¥14,994 million year on year due to a share repurchase of ¥13,340 million conducted as part of shareholder returns.

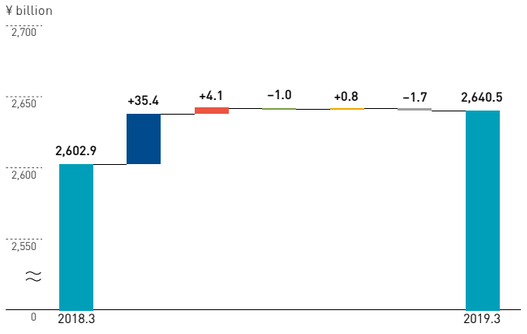
Outlook for the Fiscal Year Ending March 31, 2020

In the healthcare system, Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies that took effect from April 2018 are expected to drive further initiatives on distribution reform among all players involved in ethical pharmaceuticals distribution, such as pharmaceuticals wholesalers and manufacturers, hospitals, and dispensing pharmacies. Moreover, while the community healthcare vision for the future of medical care and nursing care is taking shape, the advance of the integrated community care system will bring changes to local government systems for supplying medical and nursing functions. These changes may influence the Alfresa Group's relationships with the medical institutions and dispensing pharmacies that are its customers as well as the pharmaceuticals manufacturers that are its suppliers. In terms of the social environment, while the number of elderly people will increase and the working population decrease, there is potential for dramatic technological innovation that could have a significant impact on the workstyles of employees.

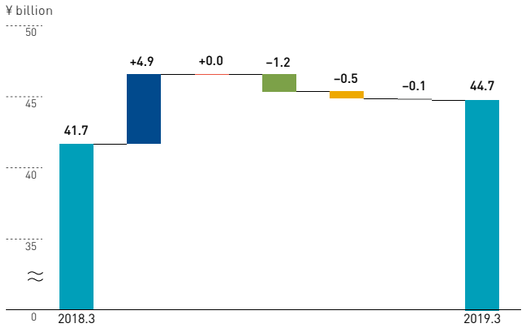
As the No. 1 ethical pharmaceuticals wholesaler in Japan, the Alfresa Group will transform itself ahead of the changes in the management environment by steadily carrying out the main strategies in the 19–21 Mid-term Management Plan. By increasing productivity and further improving management efficiency, the Group aims to continuously increase its corporate value.

Looking at the consolidated results forecast for the fiscal year ending March 31, 2020, the Group will carry out initiatives under the 19–21 Mid-term Management Plan and make continuous efforts under Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies. Through these initiatives, the Group expects consolidated net sales of ¥2,680.0 billion (up 1.5% year on year), operating income of ¥45.4 billion (up 1.4%), ordinary profit of ¥55.6 billion (up 0.9%), and profit attributable to owners of the parent of ¥37.6 billion (down 9.8%).

Net Sales

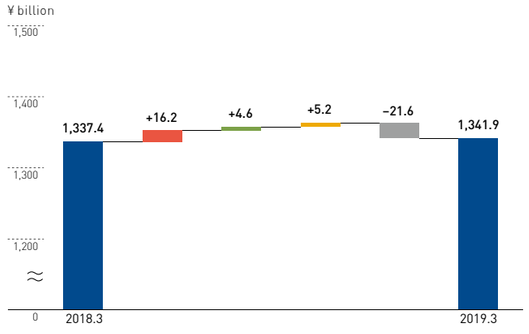


Operating Income



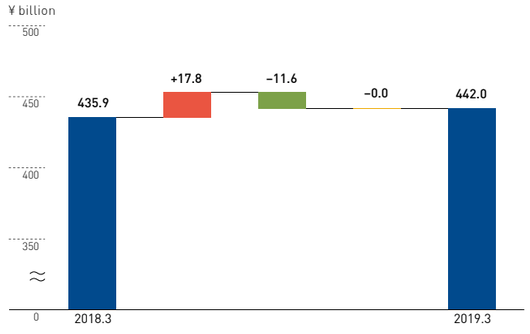
Ethical Pharmaceuticals Wholesaling Business / Self-Medication Products Wholesaling Business / Manufacturing Business / Medical-Related Business / Corporate and eliminations

Total Assets



Current assets / Property, plant and equipment / Intangible assets / Investments and other assets

Total Net Assets



Shareholders' equity / Total accumulated other comprehensive income / Non-controlling interests

Consolidated Balance Sheets

Alfresa Holdings Corporation and consolidated subsidiaries
As of March 31, 2019 and 2018

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Current assets:			
Cash and cash equivalents	**¥ 205,085**	¥ 195,593	**$ 1,847,779**
Receivables:			
Trade notes and accounts	**614,084**	612,920	**5,532,786**
Other	**80,317**	76,495	**723,641**
Allowance for doubtful accounts	**(442)**	(406)	**(3,982)**
	693,958	689,009	**6,252,437**
Inventories:			
Merchandise and finished goods	**128,016**	128,726	**1,153,401**
Work in process	**1,723**	1,321	**15,523**
Raw materials and supplies	**3,971**	3,682	**35,777**
	133,711	133,730	**1,204,712**
Other	**4,029**	2,214	**36,300**
Total current assets	**1,036,784**	1,020,548	**9,341,237**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	**4,324**	8,021	**38,958**
Investment securities	**119,553**	140,473	**1,077,151**
Net defined benefit asset	**6,268**	5,035	**56,473**
Long-term receivables:			
Long-term loans receivables	**1,807**	2,158	**16,280**
Other	**6,326**	6,554	**56,996**
Allowance for doubtful accounts	**(4,246)**	(4,266)	**(38,255)**
	3,888	4,446	**35,030**
Deferred tax assets	**3,594**	1,400	**32,381**
Other	**8,569**	8,499	**77,205**
Total investments and other assets	**146,199**	167,876	**1,317,226**
Property, plant and equipment:			
Land	**65,765**	65,248	**592,530**
Buildings and structures	**106,608**	103,181	**960,518**
Machinery, equipment, vehicles, tools and fixtures	**41,031**	36,372	**369,681**
Leased assets	**7,124**	6,655	**64,185**
Construction in progress	**2,367**	4,998	**21,326**
	222,897	216,455	**2,008,262**
Less accumulated depreciation	**(81,368)**	(79,568)	**(733,111)**
Net property, plant and equipment	**141,528**	136,886	**1,275,141**
Intangible assets	**17,427**	12,138	**157,014**
	¥1,341,939	¥1,337,450	**$12,090,629**

LIABILITIES AND NET ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Current liabilities:			
Short-term borrowings	**¥ 360**	¥ 390	**$ 3,243**
Long-term borrowings due within one year	**400**	469	**3,603**
Long-term lease obligations due within one year	**1,549**	1,410	**13,956**
Payables:			
Trade notes and accounts	**817,446**	814,589	**7,365,041**
Other	**12,731**	13,277	**114,704**
	830,178	827,867	**7,479,754**
Accrued expenses	**1,961**	1,935	**17,668**
Income taxes payable	**12,645**	10,460	**113,929**
Allowance for employees' bonuses	**8,387**	7,545	**75,565**
Allowance for bonuses to directors and corporate auditors	**425**	390	**3,829**
Allowance for sales rebates	**69**	54	**621**
Allowance for sales returns	**678**	696	**6,108**
Other	**3,253**	3,014	**29,308**
Total current liabilities	**859,911**	854,235	**7,747,643**
Long-term liabilities:			
Long-term borrowings	**951**	1,213	**8,568**
Long-term lease obligations	**3,493**	3,171	**31,471**
Net defined benefit liability	**12,889**	14,041	**116,127**
Deferred tax liabilities	**20,080**	26,442	**180,917**
Deferred tax liabilities for land revaluation	**446**	446	**4,018**
Asset retirement obligations	**935**	797	**8,424**
Provision for loss on guarantees	**106**	48	**955**
Other	**1,068**	1,119	**9,622**
Total long-term liabilities	**39,971**	47,281	**360,131**
Contingent liabilities			
Net assets:			
Shareholders' equity:			
Common stock			
Authorized—540,000,000 shares			
Issued—235,017,600 shares in 2019 and 2018	**18,454**	18,454	**166,267**
Capital surplus	**101,958**	101,945	**918,623**
Retained earnings	**288,129**	257,016	**2,595,990**
Less treasury stock, at cost—23,343,237 shares in 2019 and 18,341,083 shares in 2018	**(29,365)**	(16,025)	**(264,573)**
Total shareholders' equity	**379,176**	361,391	**3,416,307**
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities, net of taxes	**63,167**	75,725	**569,123**
Unrealized losses on deferred hedge, net of taxes	**(0)**	(0)	**(0)**
Revaluation reserve for land, net of taxes	**(3,676)**	(3,948)	**(33,120)**
Foreign currency translation adjustments	**89**	133	**801**
Remeasurements of defined benefit plans, net of taxes	**2,142**	1,467	**19,299**
Total accumulated other comprehensive income	**61,722**	73,376	**556,104**
Non-controlling interests	**1,157**	1,165	**10,424**
Total net assets	**442,056**	435,934	**3,982,845**
	¥1,341,939	¥1,337,450	**$12,090,629**

Consolidated Statements of Income and Comprehensive Income

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net sales	**¥2,640,511**	¥2,602,917	**$23,790,530**
Cost of sales	**2,439,201**	2,409,363	**21,976,763**
Gross profit	**201,310**	193,554	**1,813,767**
Selling, general and administrative expenses	**156,539**	151,798	**1,410,388**
Operating income	**44,770**	41,756	**403,369**
Other income (expenses):			
Interest and dividend income	**2,568**	2,726	**23,137**
Interest expense	**(93)**	(94)	**(837)**
Write-down of investment securities	**(31)**	(103)	**(279)**
Loss on disposal of property, plant and equipment	**(310)**	(186)	**(2,793)**
Information fees	**6,076**	6,053	**54,743**
Expenses for rental property	**(232)**	(138)	**(2,090)**
Loss on impairment of property, plant and equipment	**(1,018)**	(368)	**(9,171)**
Gain on sale of property, plant and equipment, net	**1,677**	208	**15,109**
Gain on sale of investment securities, net	**5,929**	130	**53,419**
Equity in gain of affiliates	**108**	—	**973**
Equity in loss of affiliates	**—**	(166)	**—**
Compensation income	**—**	12	**—**
Subsidy income	**—**	194	**—**
Loss on product recalls	**—**	(183)	**—**
Merger expenses	**(144)**	—	**(1,297)**
Other, net	**1,927**	1,724	**17,361**
	16,455	9,810	**148,256**
Profit before income taxes	**61,226**	51,567	**551,635**
Income taxes:			
Current	**19,707**	16,085	**177,556**
Deferred	**(220)**	(226)	**(1,982)**
	19,486	15,858	**175,565**
Profit	**¥ 41,739**	¥ 35,708	**$ 376,060**
Profit attributable to:			
Owners of the parent	**¥ 41,699**	¥ 35,589	**$ 375,700**
Non-controlling interests	**40**	118	**360**
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities, net of taxes	**(12,558)**	13,247	**(113,145)**
Unrealized gains (losses) on deferred hedge, net of taxes	**(0)**	1	**(0)**
Foreign currency translation adjustments	**(44)**	18	**(396)**
Remeasurements of defined benefit plans, net of taxes	**676**	1,259	**6,090**
Share of other comprehensive income (loss) of entities accounted for using equity method	**(0)**	1	**(0)**
Total other comprehensive income (loss)	**(11,927)**	14,528	**(107,460)**
Comprehensive income	**¥ 29,812**	¥ 50,236	**$ 268,600**
Comprehensive income attributable to:			
Owners of the parent	**¥ 29,773**	¥ 50,118	**$ 268,249**
Non-controlling interests	**39**	117	**351**

	Yen		U.S. Dollars
	2019	2018	2019
Per share amounts:			
Profit attributable to owners of the parent	**¥ 195.79**	¥ 164.25	**$ 1.76**
Cash dividends applicable to the year	**48.00**	39.00	**0.43**

Consolidated Statements of Changes in Net Assets

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2019 and 2018

Millions of Yen

	Shareholders' equity						Accumulated other comprehensive income							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities, net of taxes	Unrealized losses on deferred hedge, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests	Total
Balance at April 1, 2017	235,017,600	¥18,454	¥101,937	¥229,116	¥(16,020)	¥333,487	¥ 62,479	¥(4)	¥(3,948)	¥115	¥ 206	¥58,848	¥1,216	¥393,551
Cash dividends paid at ¥39.00 per share				(8,233)		(8,233)								(8,233)
Profit attributable to owners of the parent				35,589		35,589								35,589
Treasury stock acquired					(4)	(4)								(4)
Sale of treasury stock			0		0	0								0
Increase by merger			163	544		708								708
Change in the parent's equity arising from transactions with non-controlling shareholders			(154)			(154)								(154)
Increase (decrease) in unrealized gains on available-for-sale securities							13,246					13,246		13,246
Increase (decrease) in unrealized gains on deferred hedge								2				2		2
Foreign currency translation adjustments										18		18		18
Remeasurements of defined benefit plans											1,261	1,261		1,261
Non-controlling interests													(50)	(50)
Balance at March 31, 2018	235,017,600	¥18,454	¥101,945	¥257,016	¥(16,025)	¥361,391	¥ 75,725	¥(0)	¥(3,948)	¥133	¥1,467	¥73,376	¥1,165	¥435,934
Cash dividends paid at ¥48.00 per share				**(9,413)**		**(9,413)**								**(9,413)**
Profit attributable to owners of the parent				**41,699**		**41,699**								**41,699**
Treasury stock acquired					**(13,340)**	**(13,340)**								**(13,340)**
Sale of treasury stock			**0**		**0**	**0**								**0**
Change in scope of consolidation				**(901)**		**(901)**								**(901)**
Reversal of revaluation reserve for land				**(272)**		**(272)**								**(272)**
Increase (decrease) in unrealized gains on available-for-sale securities							(12,557)					(12,557)		(12,557)
Increase (decrease) in unrealized gains on deferred hedge								0				0		0
Revaluation reserve for land									272			272		272
Foreign currency translation adjustments										(44)		(44)		(44)
Remeasurements of defined benefit plans											675	675		675
Non-controlling interests													(8)	(8)
Other			12			12								12
Balance at March 31, 2019	235,017,600	¥18,454	¥101,958	¥288,129	¥(29,365)	¥379,176	¥ 63,167	¥(0)	¥(3,676)	¥ 89	¥2,142	¥61,722	¥1,157	¥442,056

Consolidated Statements of Changes in Net Assets

Thousands of U.S. Dollars

	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities, net of taxes	Unrealized losses on deferred hedge, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests	Total
Balance at April 1, 2018	$166,267	$918,506	$2,315,668	$(144,382)	$3,256,068	$ 682,268	$(0)	$(35,570)	$1,198	$13,217	$ 661,104	$10,496	$3,927,687
Cash dividends paid at $0.43 per share			(84,809)		(84,809)								(84,809)
Profit attributable to owners of the parent			375,700		375,700								375,700
Treasury stock acquired				(120,191)	(120,191)								(120,191)
Sale of treasury stock		0		0	0								0
Change in scope of consolidation			(8,117)		(8,117)								(8,117)
Reversal of revaluation reserve for land			(2,450)		(2,450)								(2,450)
Increase (decrease) in unrealized gains on available-for-sale securities						(113,136)					(113,136)		(113,136)
Increase (decrease) in unrealized gains on deferred hedge							0				0		0
Revaluation reserve for land								2,450			2,450		2,450
Foreign currency translation adjustments									(396)		(396)		(396)
Remeasurements of defined benefit plans										6,081	6,081		6,081
Non-controlling interests												(72)	(72)
Other		108			108								108
Balance at March 31, 2019	**$166,267**	**$918,623**	**$2,595,990**	**$(264,573)**	**$3,416,307**	**$ 569,123**	**$(0)**	**$(33,120)**	**$ 801**	**$19,299**	**$ 556,104**	**$10,424**	**$3,982,845**

Consolidated Statements of Cash Flows

Alfresa Holdings Corporation and consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 61,226	¥ 51,567	$ 551,635
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	9,523	9,258	85,800
Loss on impairment of property, plant and equipment	1,018	368	9,171
Amortization of goodwill	1,245	1,306	11,217
Increase in allowance for doubtful accounts	14	405	126
Increase in allowance for employees' bonuses	811	187	7,306
Increase in allowance for bonuses to directors and corporate auditors	25	20	225
Decrease in net defined benefit liability	(1,432)	(744)	(12,902)
Interest and dividend income	(2,568)	(2,726)	(23,137)
Interest expense	93	94	837
Gain on sale of property, plant and equipment, net	(1,677)	(208)	(15,109)
Loss on disposal of property, plant and equipment	310	186	2,793
Gain on sale of investment securities, net	(5,929)	(130)	(53,419)
Write-down of investment securities	31	103	279
Compensation income	—	(12)	—
Subsidy income	—	(194)	—
Merger expenses	144	—	1,297
Decrease (increase) in trade notes and accounts receivables	384	(11,165)	3,459
Decrease (increase) in inventories	1,460	(1,444)	13,154
Increase in other receivables	(3,407)	(24,979)	(30,696)
Increase in trade notes and accounts payables	1,151	29,362	10,370
Other, net	(234)	3,898	(2,108)
	62,193	55,150	560,347
Interest and dividends received	2,573	2,731	23,182
Interest paid	(92)	(93)	(828)
Proceeds from compensation	—	12	—
Proceeds from subsidy	—	194	—
Extra retirement payment	—	(61)	—
Payments for merger expenses	(144)	—	(1,297)
Income taxes paid	(17,649)	(10,359)	(159,014)
Net cash provided by operating activities	46,880	47,575	422,380
Cash flows from investing activities:			
Net decrease in time deposits	63	633	567
Proceeds from sale of securities	10	—	90
Payments for purchase of property, plant and equipment	(11,202)	(9,800)	(100,928)
Proceeds from sale of property, plant and equipment	2,523	1,397	22,731
Payments for purchase of intangible assets	(2,467)	(2,568)	(22,227)
Payments for acquisition of long-term prepaid expense	(138)	(114)	(1,243)
Payments for purchase of investment securities	(393)	(1,665)	(3,540)
Proceeds from sale of investment securities	8,524	1,881	76,799
Advances of loans receivable	(230)	(157)	(2,072)
Repayments of loans receivable	779	337	7,018
Payments for acquisition of businesses	(10,401)	—	(93,711)
Other, net	(13)	(96)	(117)
Net cash used in investing activities	(12,947)	(10,154)	(116,650)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	(30)	230	(270)
Proceeds from long-term borrowings	200	400	1,801
Repayments of long-term borrowings	(511)	(334)	(4,604)
Repayments of lease obligations	(1,729)	(1,600)	(15,577)
Payments for purchase of treasury stock	(13,340)	(4)	(120,191)
Proceeds from sale of treasury stock	0	0	0
Purchase of treasury stock of subsidiaries	(23)	—	(207)
Cash dividends paid	(9,413)	(8,233)	(84,809)
Dividends paid to non-controlling interests	(11)	(8)	(99)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(314)	—
Net cash used in financing activities	(24,860)	(9,865)	(223,984)
Foreign currency translation gain (loss) on cash and cash equivalents	(12)	15	(108)
Net increase in cash and cash equivalents	9,060	27,571	81,628
Cash and cash equivalents at beginning of the year	195,593	167,554	1,762,257
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	329	—	2,964
Increase in cash and cash equivalents resulting from merger	102	467	919
Cash and cash equivalents at end of the year	¥205,085	¥195,593	$1,847,779

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Significant non-cash transactions:			
Assets under finance leases	¥ 2,100	¥ 1,331	$ 18,920
Obligations under finance leases	2,181	1,450	19,650

[Fact Data]

Corporate Profile

As of June 26, 2019

Corporate Name: Alfresa Holdings Corporation

Address: 1-1-3, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

Established: September 29, 2003

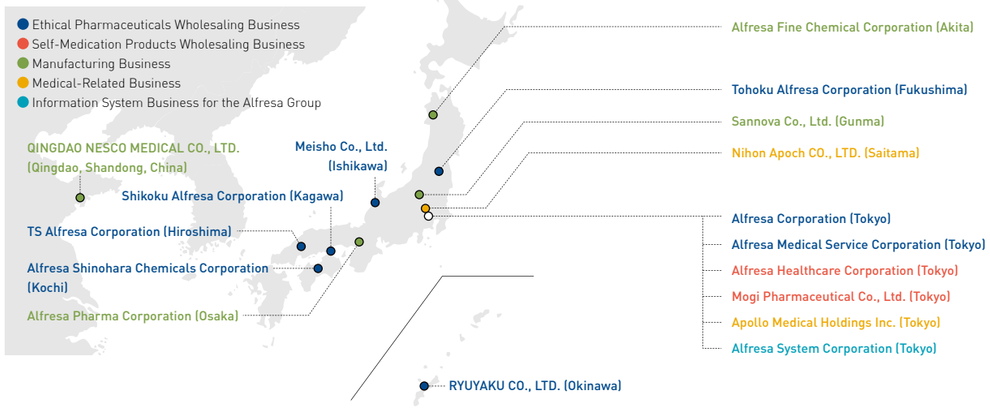
Paid-in Capital: ¥18,454 million

Representative: Taizo Kubo, Representative Director & President

Business: Management of subsidiaries that deal with wholesaling, manufacturing, marketing, and import / export of pharmaceuticals, diagnostic reagents, medical devices / equipment, etc., and operating dispensing pharmacies and conducting related businesses

Number of Employees: 14,718* (consolidated) * Including part-time and temporary employees (2,642 = Average number of workers per year) (As of March 31, 2019)

Alfresa Group





Koichi Masunaga
President
Alfresa Corporation



Masahiko Ogura
President
Shikoku Alfresa Corporation



Yuji Tsukimori
President
TS Alfresa Corporation



Kenji Orimoto
President
Meisho Co., Ltd.



Tadashi Inamine
President
RYUYAKU CO., LTD.



Keiji Kawashima
President
Tohoku Alfresa Corporation



Seiji Nakamura
President
Alfresa Medical Service Corporation



Yuichi Shinohara
President
Alfresa Shinohara Chemicals Corporation



Hisashi Katsuki
President
Alfresa Healthcare Corporation



Yusuke Mogi
President
Mogi Pharmaceutical Co., Ltd.



Koichi Shimada
President and CEO
Alfresa Pharma Corporation



Yoshinobu Oshima
President and CEO
Alfresa Fine Chemical Corporation



Toru Takekawa
President
Sannova Co., Ltd.



Tomohide Tsuzuku
Chief Executive Officer
Apollo Medical Holdings Inc.



Shizuhisa Kanemoto
President
Nihon Apoch CO., LTD.



Naruhiko Sano
President
Alfresa System Corporation

Note: Excluding the representative of a consolidated subsidiary outside Japan

Stock Information

As of March 31, 2019

Stock Code: 2784

Business Year: April 1–March 31

General Meeting of Shareholders: June

Stock Listing: Tokyo Stock Exchange (1st Section)

Transfer Agent: Mitsubishi UFJ Trust and Banking Corporation

Total Number of Shares Authorized: 540,000,000

Total Number of Shares Issued and Outstanding: 235,017,600

Number of Shareholders: 9,478

Number of Shares of Treasury Stock: 23,343,237

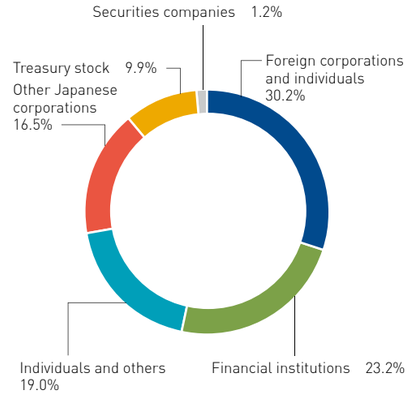
Trading Unit of Shares: 100

Top 10 Shareholders

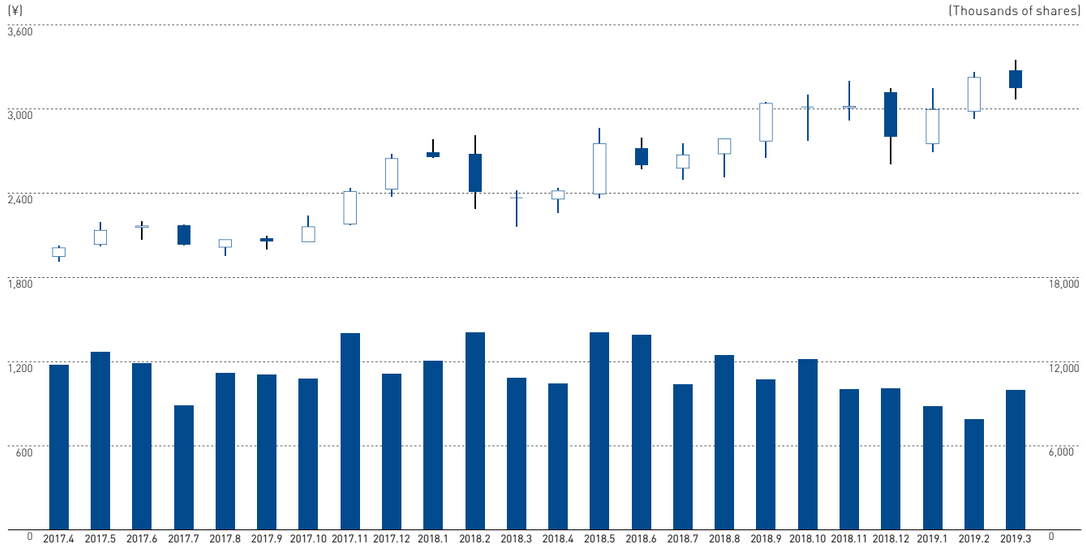
Name	Number of shares held (Thousands of shares)	Ownership ratio (%)
Alfresa Holdings Corporation	23,343	9.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,609	4.1
Japan Trustee Services Bank, Ltd. (Trust Account)	7,787	3.3
Alfresa Holdings Employees Shareholders' Association	5,358	2.3
Eisai Co., Ltd.	4,602	2.0
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,293	1.8
Trust & Custody Services Bank, Ltd. as trustee for DAIICHI SANKYO COMPANY, LIMITED Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	3,908	1.7
The Nomura Trust and Banking Co., Ltd. (Fukujin Family Trust Account)	3,800	1.6
STATE STREET BANK AND TRUST COMPANY 505001	3,380	1.4
DAIICHI SANKYO COMPANY, LIMITED	3,202	1.4

Note: Number of shares held is rounded down to the nearest thousand.

Composition of Shareholders



Share Prices / Trading Volume



Disclaimer Concerning Forward-Looking Statements

Please note that the information and materials published in this report include forward-looking statements based on forecasts available at the time the document was prepared. Certain premises are used for these descriptions. The descriptions or premises contain inherent known or unknown risks and uncertainties and may be proven inaccurate or fail to materialize in the future. Actual results may differ from these forecasts because of various changes in the business environment and other factors.

In the event that revisions or amendments to the information are desirable due to new information, future events, and other factors, it is neither a policy nor an obligation of the Company to update such information.