

## Interview with the President

Please outline Suzuken's operating results in the fiscal year that ended in March 2005.

Net sales increased for the sixth consecutive year, rising to an all-time high. Sales of companies that were newly added to the Suzuken Group through mergers or acquisitions made a major contribution to the top line. However, operating income was down for the first time in four years, and net income fell for the first time in three years. Following the April 2004 NHI price reductions, we worked hard on negotiating with customers to sell products at suitable prices. However, our earnings were held down by customers' demands for price discounts and intense competition from other wholesalers.

- ▶ *Net sales: ¥1,330,983 million, up 11.5%*
- ▶ *Operating income: ¥12,361 million, down 37.3%*
- ▶ *Net income: ¥12,576 million, down 27.3%*
- ▶ *Diluted net income per share: ¥135.46*
- ▶ *Operating cash flow per share: ¥197.60*
- ▶ *Return on equity: 5.7%*
- ▶ *Dividends per share: ¥30, up ¥4*
- ▶ *Share of Japanese ethical pharmaceutical market: 19.2%*

## What are your most important issues and goals for the fiscal year ending in March 2006?



In the pharmaceutical wholesaling business, we will enhance the functions of the mobile computers that every Suzuken sales personnel carries. That will allow these individuals to conduct higher quality sales activities and spend more time with customers. Another ongoing theme is measures to improve the quality of logistics services while cutting costs.

In the pharmaceutical manufacturing business, Suzuken Group member Sanwa Kagaku Kenkyusho Co., Ltd. is conducting some of the world's most advanced R&D activities concerning drugs for the treatment of diabetes. At present, this company is concentrating on obtaining regulatory approval for *Miglitol*, an agent for treating postprandial hyperglycemia, as well as on developing markets for this drug. *Miglitol* holds down the increase in blood glucose following a meal by slowing the digestion and absorption of glucose in the gastrointestinal tract. We believe the introduction of this drug will help improve the treatment of diabetes and the quality of life of the estimated 16.2 million diabetics in Japan.

Turning to new businesses, we are aiming to launch the capsule endoscope in Japan. This miniature camera, which patients simply swallow, will make it possible to view the inside of the entire digestive tract, including the small intestine, which cannot be easily observed using conventional means. We expect to launch this product some time during the current fiscal year.

Our goal is to translate these initiatives, along with many other actions, into higher earnings and greater value for shareholders.

## What specific actions are you taking to manage Suzuken with the interests of shareholders in mind?

Distributing earnings to shareholders is one of our most important initiatives. Our basic policy is to pay a consistent dividend that, at the same time, reflects consolidated earnings, the payout ratio and total dividend payments as a percentage of consolidated equity. Including an interim dividend of ¥13, dividends per share applicable to fiscal 2005 were ¥30. This includes a commemorative dividend of ¥2 per share associated with the integration of the operations of ASTIS Co., Ltd. and Okinawa Yakuhin Co., Ltd., and a year-end commemorative dividend of ¥2 per share to mark the 10th anniversary of our initial public offering. We use retained earnings to sustain growth by funding measures that help preserve our competitive edge in an extremely difficult operating climate. Funds are primarily used to expand our businesses and solidify our operating base. As of March 31, 2005, we had repurchased a total of 1.94 million shares at a cost of about ¥5.0 billion. These purchases help raise the return on equity and give us an equity structure that permits a rapid response to shifts in market conditions. We remain dedicated to strengthening our operating base while taking actions that will increase shareholder value.

How is Suzuken progressing toward the goals of the medium-term management plan, which ends in March 2007? In particular, what are you doing with regard to business reforms?

## Pharmaceutical Wholesaling Business

### Nationwide Expansion and the M&A Strategy

There were 142 pharmaceutical wholesalers in Japan at the end of March 2005. Five years earlier there were 217, so 75 companies have disappeared. The rapid realignment of our industry appears to be largely over. However, we are still seeing growth in the collective market share of corporate groups formed by the major wholesalers. So the effective number of wholesalers is much less than 142. In both Europe and the United States, the pharmaceutical wholesaling industries are dominated by each region's top three companies. In Japan, the four largest groups have a combined market share of about 76%.

As in previous years, we continued to enlarge the Suzuken Group during the past fiscal year with the goal of becoming number one in every region of Japan. In October, we acquired ASTIS, a pharmaceutical wholesaler in Shikoku, and Okinawa Yakuhin. In January 2005, Okinawa Yakuhin merged with Suzuken Okinawa Co., Ltd. to create Suzuken Okinawa Yakuhin Co., Ltd.

M&As during the prior fiscal year, which ended in March 2004, increased sales in the past year by ¥100,741 million. In other words, these new group companies accounted for about two-thirds of our overall year-on-year sales growth of 11.5% in the past year. Collectively, the new companies contributed ordinary income\* of ¥1,098 million.

In August 2004, we opened a sales office in Akita Prefecture, reducing to only four the number of prefectures, all in Kyushu, where we are not active. We plan to use acquisitions in the near future to enter these prefectures as well. So we are on the verge of achieving our medium-term management plan goal of extending our network to every part of Japan.

\*Ordinary income is an earnings figure that Suzuken uses as one of its earnings targets. Ordinary income is equal to operating income less interest expenses, valuation gains and losses and other non-operating income and expenses.



### **Strengthen Information Skills Linked to Sales Activities**

As one way to differentiate ourselves in the extremely competitive healthcare marketplace, we set up the Click-M.I website in April 2005. This site provides support that helps medical institutions and pharmacies to enhance the quality of services along with operating efficiency. Previously, we extended support through two websites. One was Suzuken Medical Information (SMI) service, which supplied data on drugs to healthcare professionals. The other was Suzuken Click, which helped our customers to select drugs and raise operating efficiency. Click-M.I unifies these two sites and has a new look with upgraded contents. New functions include the ability to search for drug interactions and for generic drugs by efficacy, each of which has its own search engine. Convenience and usefulness have thus been greatly enhanced.

In May 2005, we started sales of MyClinic. This service uses the Internet to facilitate interactive communication between physicians and patients via PCs and mobile phones. Patients can easily submit questions to physicians concerning a disease and the status of their health. Physicians benefit by having a channel to give patients advice and directions. MyClinic has an e-magazine, too, which allows medical institutions to follow up on care extended to individual patients. This includes supplying directions on taking medication, reminders to come to hospital, the need for vaccine shots, and other information.

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### Improving Logistics Services

As we continue to extend our operations to every prefecture of Japan, building the best possible distribution network is essential to improving customer services. This is why we are building logistics infrastructures in Japan's three major metropolitan areas of Tokyo, Osaka and Nagoya. Our Konan Distribution Center serves the Nagoya region. In Tokyo, we plan to begin operations of our Toda Distribution Center, which will offer same-day delivery to many areas of the Tokyo region, in October 2005. In the Osaka area, we have purchased a site for a distribution center in Kobe. These new facilities will make it easier for us to lower the out of stock rates as well as to enhance our distribution service to our customers.

In addition to building our own facilities, we are working with pharmaceutical manufacturers to start a joint distribution business. Our aim is to take the lead in creating a new logistics model for the pharmaceutical industry. As part of this process, we established two companies in March 2005. The first is CollaboCreate Co., Ltd., which handles planning and management tasks for joint distribution. The second is CollaboWorks Co., Ltd., which will operate effective and efficient joint distribution systems.

### Sale of the Over-the-Counter Drug Wholesale Business

In April 2005, we spun off our over-the-counter drug wholesale business and sold it to Kobashou Co., Ltd., Japan's leading wholesaler of over-the-counter drugs, through an exchange of stock. The wholesaling of non-prescription drugs in Japan is undergoing dramatic changes, notably the growth in the types of retailers that sell these drugs. Another trend is growth in product categories. Responsible for these changes are the increasing tendency for people to choose their own medications and the easing of regulations on pharmaceutical sales.

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Due to these developments, we reached the decision to sell our non-prescription drug business to Kobashou, which has much expertise as a specialist in this field, through a spin-off and exchange of stock. In addition, we made an equity investment in Kobashou and named an individual to serve as a Kobashou director, a move that we believe will lead to even greater customer satisfaction at Kobashou. The sale of this business to Kobashou will reduce our consolidated sales by about ¥29.0 billion in the current fiscal year, but raise our earnings by about ¥180 million.

## Pharmaceutical Manufacturing

### Development of Drugs for Treating Diabetes

Sanwa Kagaku Kenkyusho Co., Ltd. (SKK), a Suzuken Group company that manufactures pharmaceuticals, is making steady progress on the development of *Miglitol*, an agent for treating postprandial hyperglycemia, and *Fidarestat*, a therapeutic agent for diabetic neuropathy, with the aim of starting sales as soon as possible. Regarding *Miglitol*, the first interview with reviewers was conducted in March 2004 and the compliance reviews were completed in March 2005. Currently, we are conducting activities targeting the expert discussion on review. We expect that *Miglitol* will receive final approval in the third quarter of 2005, and that we will start sales early in 2006. Regarding *Fidarestat*, we conducted a clinical trial consultation in February 2005. We are now putting together a new domestic development strategy and program based on the initiation of therapeutic exploratory Phase II clinical trials.



### Making Our Pipeline Even Stronger

By focusing R&D activities on diabetes, SKK has added two promising drugs to its pipeline, one for macular edema and the other for dyslipidemia. For *POSURDEX*<sup>®</sup>, a treatment for an eye disease called macular edema, we have signed an exclusive development and marketing licensing agreement covering Japan with U.S.-based Allergan, Inc. *POSURDEX*<sup>®</sup> is a bioerodable, extended release implant that delivers a steroid directly to the back of the eye. Until now, there has not been a drug for macular edema that is both safe and sufficiently effective.

For the treatment of dyslipidemia, a blood lipid disorder, we have signed a licensing agreement with Quark Biotech, Inc., a development-stage biopharmaceutical company based in the U.S. This agreement gives us exclusive development, manufacturing and marketing rights in Japan and East Asia for a compound for the treatment of this disease. This compound has been found to suppress triglyceride levels and has insulin-sensitizing properties. Hopes are high that these properties will lead to an effective metabolic syndrome therapy.



## Healthcare-Related Services

### Future Launch Capsule Endoscopy

This technology makes it possible to view the inside of the small intestine by having a patient swallow a capsule that incorporates a miniature camera. Regulatory approval to sell the capsule endoscope has been received in 60 countries including in Europe and the United States, and worldwide sales had reached ¥16 billion in 2004. These capsules were developed by Given Imaging Ltd., an Israeli manufacturer of medical devices. In May 2002, we formed a joint company in Japan with Marubeni Corporation and Given Imaging to import these capsules. Suzuken is the exclusive distributor. In preparation for sales in Japan, we applied for an import permit to the Pharmaceuticals and Medical Devices Agency in March 2004. With approval expected by the end of fiscal 2005, we are now establishing an internal organization to begin full-scale sales of this capsule.

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### QT Interval Prolongation Evaluation Support

Electrocardiographic QT interval prolongation is one undesirable side effect of some drugs. In some cases, this can cause a potentially fatal arrhythmia. Consequently, the International Conference on Harmonization (ICH) is considering the establishment of regulatory standards for the evaluation of QT interval prolongation. In May 2005, the ICH agreed on its final proposal for clinical testing guidelines. Rules are to be announced in Japan during the current fiscal year. Although it will depend on regulatory trends, this could become a very large market. We have already established the Clinical Trial Support Center, providing a specialized unit to assist pharmaceutical manufacturers in measuring electrographic QT interval prolongation to evaluate cardiovascular safety. We have also completed development of a QT measuring system, which will be the nucleus of this service, and started performing these tests for pharmaceutical manufacturers. We are now contacting pharmaceutical manufacturers to prepare for the full-scale start of this business once the regulatory testing requirements are imposed.