

## To Our Stakeholders



Yoshiki Bessho  
Chairman and Executive Officer

Hiroshi Ota  
President and Chief Executive Officer

The intensification of competition among pharmaceutical wholesalers has led to a sharp drop in the retail price of drugs. While the Suzuken Group acknowledges the serious nature of these developments, we also consider the current situation to be an ideal opportunity for implementing change. In looking to reform an earnings structure that is capable of safeguarding an appropriate level of profit, we are putting into practice management strategies capable of enhancing our corporate value.

## Creating a Corporate Philosophy for the Suzuken Group to Further Improve the Company's Existence Value

Suzuken has established two medium-term visions that underlie our medium-term business plan: "Establishing a medical distribution platform" and "Becoming the best partner for medical treatment and healthcare." These involve enhancing our corporate value by taking advantage of the Group's integrated strength and firmly establishing and increasing awareness of the Suzuken brand. In looking to further these objectives the Group has newly established a Group corporate philosophy in the current fiscal year that is comprised of our mission, vision, and values.

## Current State of the Pharmaceutical Distribution Industry

Despite an average mark down of 5.2% in Japan's NHI drug tariff list in April 2008, the healthcare pharmaceutical market actually rose 2.4% on the same period for the previous fiscal year due to a combination of factors including the ongoing aging of Japanese society, a growing market for drugs for lifestyle-related diseases and anti-cancer drugs, and the increasing prevalence of influenza and pollen allergies.

In the pharmaceutical wholesale industry, in response to the urgent proposals of the "Council for Improvement of the Distribution of Ethical Drugs" under the auspices of Japan's Ministry of Health, Labour and Welfare, we have been working toward improving the distribution of pharmaceutical products by bringing together pharmaceutical companies, pharmaceutical wholesalers, healthcare facilities, and health insurance pharmacies. This has led to some progress in the improvement of "Long-term non-conclusion of agreements and shipments with provisional invoice prices<sup>1</sup>," and "Aggregated transactions<sup>2</sup>." However, in regard to the improvement of "Negative primary sales differentials<sup>3</sup>," factors such as intensification of price competition arising from competition for market share between pharmaceutical wholesalers has prevented any improvement in this area.

## Business Report for the Fiscal Year Ended March 2009

Consolidated net sales for the fiscal year ended March 2009 rose 3.4% on the previous fiscal year to ¥1,641,332 million (\$16,748,286,000). Operating income fell 36.9% to ¥14,681 million (\$149,806,000) and net income declined 66.8% from the previous fiscal year to ¥7,072 million (\$72,163,000). The Group's total dividends for the full year ended March 2009, in overall consideration of the amount of surpluses that can be paid in dividends and the Group's dividend policy, came to ¥31 per share (\$0.316), a ¥6 rise over the preceding dividend forecast, while full year dividends increased by ¥12 per share over the preceding dividend to ¥62 (\$0.633). Regarding the acquisition of treasury stock, based on a resolution of the Group's Board of Directors at a meeting held on February 6, 2009, the Group acquired a total of 1,927,900 treasury stock, bringing its holdings of treasury stock to 3,967,415 shares as of the end of the fiscal year under review.

Sales in the ethical pharmaceuticals market increased 2.4% on the previous fiscal year buoyed by factors such as Japan's aging society, with sales in the Group's Pharmaceutical Distribution Business growing 2.5% over the previous year. Due to the intensification of competition for market share between pharmaceutical wholesalers and demands for price reductions from healthcare facilities and health insurance pharmacies, the Pharmaceutical Distribution Business experienced an approximate one-point drop in the gross margin ratio from the preceding fiscal year to 7.31%. In the Pharmaceutical Manufacturing Business, sales of *Seibule*, an agent for postprandial hyperglycemia developed by Sanwa Kagaku Kenkyusho Co., Ltd., a consolidated subsidiary of the Suzuken Group, rose 70% year on year, to ¥12,600 million. A contract fee was also obtained following the conclusion of a licensing agreement between Sanwa Kagaku Kenkyusho Co., Ltd. and Kowa Company, Ltd. for the joint development and marketing of SK-0403 (a DPP-IV inhibitor) as a drug for the treatment of diabetes. The above factors led to a 0.47 point drop in the consolidated gross margin ratio from the preceding fiscal year to 9.87%.

1. "Long-term non-conclusion of agreements and shipments with provisional invoice prices." This refers to pharmaceutical wholesalers providing certain products to healthcare facilities at provisional prices that have not been agreed to over the long-term (tentative pricing).

2. "Aggregated transactions (lump sum contract)." This refers to a method of delivery in which a uniform discount is provided for the total amount comprising a combination of multiple items.

3. "Negative primary sales differentials." This refers to the situation in which products are sold to healthcare facilities and health insurance pharmacies at a cheaper than cost price following discount.

Consolidated selling, general and administrative expenses rose ¥6,595 million from the preceding fiscal year as a result of new running costs incurred by the distribution centers and acquisition of a new subsidiary in October 2008 as part of the Group's focus on entry into the health insurance pharmacy business. A total of 157 employees applying for second career support on leaving the Company at the end of December 2008 partially offset this increase. Additionally, an employment transfer system for the Group's consolidated distribution subsidiaries and pharmaceutical distribution subsidiary, Shoyaku Co., Ltd., was implemented in January 2009, whose effects were felt in the fourth quarter. This led to the consolidated selling, general and administrative expenses ratio coming to 8.98%, a comparable level to the preceding fiscal year. The above factors led to operating income falling 36.9% to ¥14,681 million. Net income similarly fell 66.8% to ¥7,072 million, reflecting a significant decline on the previous fiscal year in accounting for ¥155 million in extraordinary lump sum payments for establishing support measures for employees' second career and employment transfer systems, and extraordinary losses from the write down of investment securities etc.

#### **Reforming our Earnings Structure to Maintain our Target of Achieving Sales of ¥2 Trillion and ROE of 10%**

It has now been one year since announcing our new medium-term business plan covering the three-year period from April 2008 to March 2011. Remaining vigilant to the latest fluctuations in the market environment, we shall continue to review our action plan and take steps toward reforming our medium-term business plan.

#### **Dividend Policy**

A fundamental policy of the Suzuken Group is to maintain stable dividends. Based on this policy, we aim to incrementally raise dividends in line with ongoing earnings expansion, targeting a consolidated payout ratio of 30%. Accordingly, our dividend payment per share for the financial period ended March 2009 follows our dividend policy of "maintaining stable dividends," coming to a full year dividend per share of ¥62. With respect to distribution of retained earnings, our core priorities are to broaden our business and strengthen our sales foundation, in order to protect our competitive edge and maintain stable growth amid the difficult conditions surrounding our industry. For payment of dividends on surplus, the Group's fundamental policy is to pay an interim dividend and year-end dividend, with the decision pertaining to payment of dividends based on compliance with Article 459 Paragraph 1 of the Companies Act. This allows the Board of Directors to make decisions pertaining to distribution of retained earnings without recourse to a resolution of the General Meeting of Shareholders. The Suzuken Group is engaged in the business of "Health creation," and our Pharmaceutical Distribution Business is at the core of these operations as we remain committed to further high value business development that is focused on the overall healthcare sector. We shall strive to enhance our Group's sense of unity and overall strength while bringing together our collective expertise in continuing our progress toward a Group capable of delivering wide-ranging value. We look forward to the ongoing understanding and support of all of our stakeholders.

July 2009

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