

INTERVIEW WITH TOP MANAGEMENT

About 10 months have passed since Mediceo Paltac Holdings Co., Ltd. embarked on a new start in October 2005. President and CEO Sadatake Kumakura and Vice President Kunio Mikita, who also serves as President and CEO of PALTAC CORPORATION, discuss the Company's accomplishments in the year ended March 31, 2006 and its business strategies for the year ahead.



Sadatake Kumakura
President and Chief Executive Officer

Kunio Mikita
Vice President

What was the background leading to the management integration?

Kumakura: For the MEDICEO Group, which has established the largest scale in the domestic prescription pharmaceutical wholesale business, stabilizing revenues in the over-the-counter (OTC) pharmaceutical business was paramount. We studied various measures to address this, and after examining all the factors, we concluded that we needed to raise our share in the drugstore market, which is currently a large market where further growth is expected. PALTAC CORPORATION ("Paltac") does a large volume of business with drugstores, and is also a leading wholesaler of cosmetics and daily necessities with a reputation for logistics. We decided that integration would enable us to create a structure that could stabilize the revenues of the OTC business.

Mikita: People's increasing health needs and the deregulation of pharmaceutical products are resulting in the expansion of the drugstore market. There is also a trend toward a greater variety of products. In the drugstore market, where this change is pronounced, we thought that rather than being a single-industry wholesaler that handles only cosmetics and daily necessities, Paltac could maintain a favorable market position in the future by adding OTC pharmaceuticals to become a multi-channel wholesaler with a product assortment that matches our customers' business. The MEDICEO Group fit in well with the direction we wanted to take, and I think we came to the decision quickly.



How would you sum up the past fiscal year?

Kumakura: Until now, Mediceo's business, which was centered on prescription pharmaceuticals, has led the industry in Japan in sales, but we still had room for improvement in terms of profit. A feature of our results for the past fiscal year was that we were at the top of the industry in the absolute amount of profits as well, thus becoming Japan's industry leader both in name and reality. The benefits of the management reforms we have made and the results of the management integration are showing up in our bottom line.

Mikita: Since the management integration in October last year, we have successfully increased sales in the cosmetics and daily necessities wholesale business with our sales strategy for major new products of large manufacturers. In addition, we are seeing the benefits from our efforts to reduce overhead costs and increase productivity, with better results for the year than we expected. I believe the positive response and expectations from customers toward Mediceo Paltac Holdings as a multi-channel wholesaler also contributed to our performance for the year.

What developments are you planning for the Mediceo business and Paltac business?

Kumakura: As we move forward with the management integration, we plan to implement the established Paltac-style "customer-oriented distribution business model" in the Mediceo business, which is focused on prescription pharmaceuticals. The Mediceo business is a traditional type of business in which the manufacturer-centered mindset of determining how to sell the products that are made is firmly rooted. But I strongly believe that shifting to a customer-centered approach of starting out by asking what our customers want will bring about immeasurable benefits. Particularly in the area of logistics, we will apply Paltac's distribution systems know-how to our prescription pharmaceutical distribution centers to convert them into operations that can handle a customer-centered approach.

Mikita: In conducting the Paltac business, a critical point is not to seek the optimization of each separate relationship — in other words, customer and wholesaler, and wholesaler and manufacturer — but to have the functions for "total optimization" as a wholesaler situated between the customer and the manufacturer. For customers, we will propose store solutions in areas such as store efficiency, category profit management and shelf space allocation. For manufacturers, we will support cost reductions by placing regularly scheduled orders based on demand forecasts, and will also strengthen our ability to provide comprehensive service in areas such as sales information and logistics that industry-specific wholesalers



cannot deliver. In this way, we will aim for total optimization of the business flow from customer to wholesaler to manufacturer.

What are your management policies for the fiscal year ending March 2007?

Kumakura: We want to establish our corporate governance and organizational structures. Specifically, we will integrate the operations of group companies to promote common job processes, and will transfer employees who are seconded between group companies to make employment terms consistent in each group company. When we complete this step, group companies will have stronger organizations and will be able to focus better on their businesses. At the same time, we will also make cost reductions. The Mediceo Paltac Group's sales are now the fifth largest in the prescription pharmaceutical wholesale industry worldwide, but companies today are expected to meet global standards, and we still have a significant cost gap compared to pharmaceutical wholesalers in other parts of the world. Therefore, we intend to build a customer-oriented distribution business model that will drastically change the way we do business, which will lead to lower costs. In April 2006, we launched the Business Innovation Committee to handle structural reform and IT strategy. Over the next three years, we want to achieve results through a process of preparing scenarios and introducing our new business model based on an analysis of present conditions.

Mikita: In April 2006, Paltac merged with ALCOS Co., Ltd., a wholesaler of OTC pharmaceuticals, giving us the structure to make a full-fledged start as a multi-channel wholesaler. We have since successively added OTC product lines to our infrastructure in areas such as logistics and store solutions to achieve the integration of the Paltac business and healthcare business, and will focus on generating substantial synergy from the management integration.

Business Innovation Committee

Three Basic Strategies to Ensure Growth up to 5 to 10 Years into the Future

Competitive Strategy:
Cut costs

Price Strategy:
Deliver value to customers

IT Strategy:
Enterprise Architecture