

Investor Relations

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About *The Investor*

This is a publication of the Cardinal Health Investor Relations department and contains select news impacting Cardinal Health and its businesses, as well as questions frequently asked of the Cardinal Health Investor Relations department. This document is not intended to supplant Cardinal Health's filings with the SEC, and it is not an offer to sell securities of Cardinal Health. Investors should read Cardinal Health's SEC filings for a more complete understanding of the performance and financial condition of the company.

Implications of the Veteran's Administration Contract

On December 31, 2003, the Veteran's Administration ("VA") announced the contract award for pharmaceutical distribution services. While Cardinal Health has not serviced the VA business in the past, and was not awarded the contract for future business, questions have been raised about the implications of the award for Cardinal Health's pharmaceutical distribution business model.

Specific key questions and answers are:

Question: Why does the government buy from a distributor?

Answer: Even though the government is the largest purchaser of pharmaceuticals, the need for just-in-time distribution close to the point of care is critical. In fact, a few years ago the VA recognized this critical need by moving from self-distribution to buying from a wholesaler. The efficiency of the distribution channel and the ability to order and receive pharmaceuticals within hours combine to make the government's investment in inventory and cost structure substantially below what might be accomplished without the use of a distributor. This contract award validates the importance of distributors to the health care supply channel.

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Question: Will this award affect the degree of price discounting that Cardinal Health expects to provide to its customers?

Answer: No. Cardinal Health does not expect the VA award to impact in any way its future pricing to customers. The VA business is unique and unlike any other customer type.

Question: Why is the VA business unique?

Answer: The VA, like other federal government agencies, is a large single buyer of pharmaceuticals with the ability to enforce strict contract compliance. As a result of its size and strict contract compliance, the VA negotiates contract prices with pharmaceutical manufacturers at discounts from Wholesale Acquisition Cost ("WAC") that are substantially greater than any other customer type. These manufacturer discounts are processed by the wholesaler at the time of billing as a credit to the buyer and a chargeback to the manufacturer and result in contract prices that approach 50% of WAC.

The manufacturer discount structure for the government creates a unique customer pricing model that is different from any other customer type. While vendor margins for all classes of trade are based on WAC, customer discounts from wholesalers are based on WAC or the contract price, whichever is lower. Because of the high credit rating of the government and relatively fast payment terms, additional discounts are typically given.

Question: Did Cardinal Health compete aggressively for the VA business?

Answer: Yes. Cardinal Health submitted a response to the request for proposal to the VA that included a full complement of distribution and technology solutions and a pricing offer in accordance with the company's disciplined pricing philosophy. The winning bid on the contract is substantially more aggressive and inconsistent with our pricing philosophy.

Question: What is CAH pricing philosophy?

Answer: Cardinal Health has a disciplined pricing philosophy that delivers value to its customers, is competitive in the marketplace, and yields favorable returns to Cardinal Health's shareholders and is applied consistently across all customers. Cardinal Health's pricing is set after a detailed analysis that:

- * is specific to each customer, considering product and service requirements, cost of logistics, administration, and capital;
- * considers future trends in vendor margins, productivity, and the cost of capital, and;
- * includes a full absorption of all fixed and variable costs.

With Cardinal Health's more favorable cost structure, it expects this pricing philosophy to drive a return on sales that is superior to the industry average.

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Question: So, what is the effect on Cardinal Health's pharmaceutical distribution business model?

Answer: The VA contract award does not impact our view of the pharmaceutical distribution business model Cardinal Health has communicated over the past several months. The Cardinal Health Investor newsletter issued in December detailed the changes taking place in the company's pharmaceutical distribution business, including a transition to a more efficient "just-in-time" inventory model for manufacturers, continued improvement in productivity, and a slowdown in price discounting to providers. For further reference, the December Investor newsletter is available on cardinal.com in the investor relations section of the website.

Forward Looking Information

Except for historical information, all other information in this communication consists of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these uncertainties are described in Cardinal Health's Form 10-K, Form 8-K and Form 10-Q reports (including all amendments to those reports) and exhibits to those reports, and include (but are not limited to) the costs, difficulties, and uncertainties related to the integration of acquired businesses, the loss of one or more key customer or supplier relationships or changes to the terms of those relationships, changes in the distribution patterns or reimbursement rates for health-care products and/or services, the costs and other effects of governmental regulation and legal and administrative proceedings, and general economic and market conditions. Cardinal Health undertakes no obligation to update or revise any forward-looking statement.

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