

## Reading the Industry's Pulse

### 1 Characteristics of Japan's Pharmaceutical Industry

- Rapidly aging population with declining birthrates
- Increasing incidence of lifestyle-related diseases
- NHI (National Health Insurance) drug price revisions
- Measures to promote the use of generic pharmaceuticals
- Nationwide advancement of the separation of drug dispensing from medical practice
- Promotion of joint purchasing among hospitals

One defining characteristic of the environment faced by Japan's ethical pharmaceuticals industry lies in the revision of NHI drug prices once every two years, in principle. In essence, this is a review of the official price of ethical pharmaceuticals covered by the medical insurance system. Overall, NHI drug prices are revised down, but for pharmaceutical wholesalers, this is also an opportunity to conduct new price negotiations with customers. Meanwhile, due to Japan's aging society with declining birthrates, the launch of new products and increasing demand for pharmaceuticals targeting lifestyle-related diseases, the market continues to expand steadily, albeit gradually.

### 2 Moves to Develop Efficient Distribution by Pharmaceuticals Wholesalers

Changes in the market environment in recent years have been accompanied by increasing consolidation in the pharmaceuticals wholesale industry. Corporate mergers and acquisitions have progressed to such an extent that in the twenty-year period from 1988 to 2008, the number of companies in the industry has contracted from 418 to 123. As a result, the largest wholesalers are increasingly dominating the market, and are taking steps to develop efficient distribution. The Alfresa Group now has a 22.7% share of the market, giving it a solid industry position.

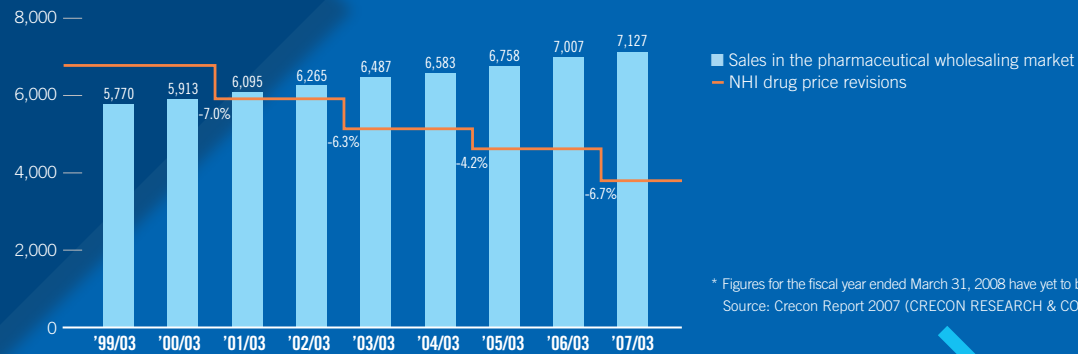
### 3 Future Growth Prospects

As with the pharmaceutical wholesale industry, the changing environment facing our customers has exposed their needs on various fronts, including the need for efficient management support. The Alfresa Group sees these growing needs as new business opportunities, and will further enhance its functions for providing high-value-added services while aggressively developing new businesses, even as it remains focused on the pharmaceuticals wholesaling business.

# Trends in Japan's Pharmaceutical

### NHI Drug Price Revisions and Sales in the Pharmaceutical Wholesaling Market

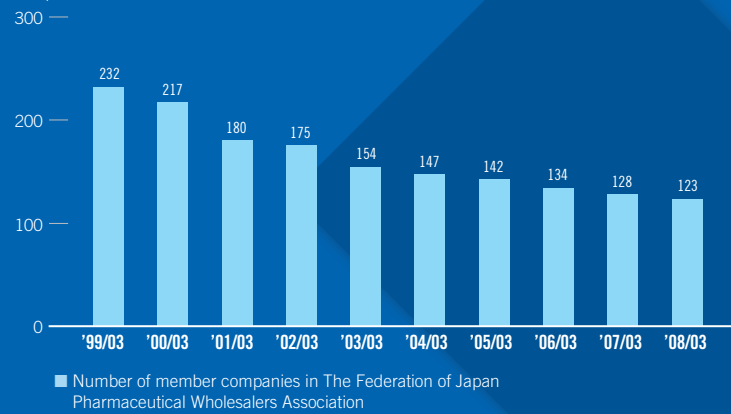
(¥ billions)



\* Figures for the fiscal year ended March 31, 2008 have yet to be announced at the printing of this report.  
Source: Crecon Report 2007 (CRECON RESEARCH & CONSULTING INC.)

### Consolidation in the Pharmaceutical Wholesale Industry

(Companies)



■ Number of member companies in The Federation of Japan Pharmaceutical Wholesalers Association  
Source: The Federation of Japan Pharmaceutical Wholesalers Association



Source: Internal documents

# Industry