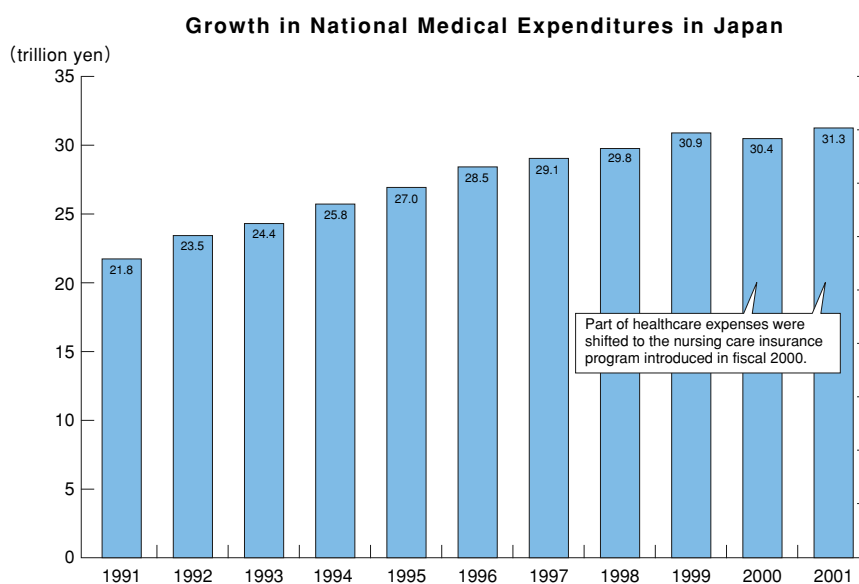


Operating Environment

Japan operates a national health insurance system that allows all citizens to receive appropriate medical treatment at any time and on an equitable basis. The system also guarantees patient access to any hospital or clinic so that patients can choose freely among healthcare providers. Acknowledged around the world as a first-class healthcare solution, the Japanese NHI system has been confronted in recent years with a crisis that stems from rapidly changing demographics (a falling birth rate combined with increased longevity) and increasingly tight government budgets. The shift from acute to chronic in the nature of the most frequently occurring diseases has compounded the problem, leaving many hospitals struggling to avoid bankruptcy.

Successive reforms to the system in recent years have caused major changes in the operating environment for medical institutions. Business conditions have become steadily harsher, and the healthcare sector now faces a turning point.

For many years, the Japanese government has enacted biennial revisions in the official reimbursement prices of drugs in order to contain medical costs. In 2002, for the first time ever, the NHI revision also included cuts in payments for medical services. The level of the flat-rate co-payment paid by senior citizens was also increased in the same year. In April 2003, payments by NHI users were raised to 30% of the total cost of care. This series of steps to constrain medical expenditures have increased the financial pressures on medical institutions and pharmacies.



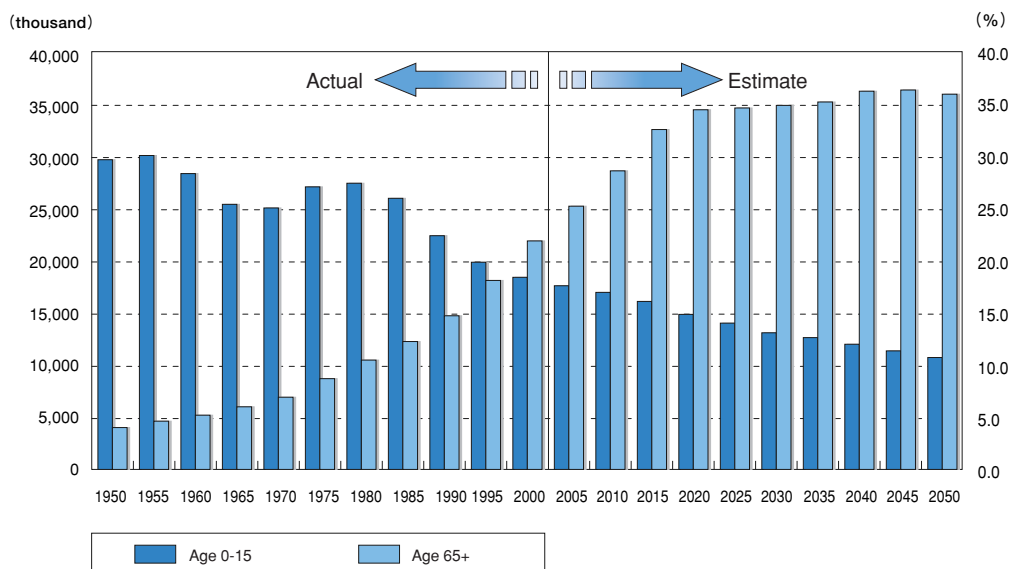
Source : The Ministry of Health, Labor and Welfare, White Paper (2003)

The moves to increase patient co-payments have tended to limit the number of patient visits. Since the free access principle still applies, medical institutions are increasingly engaging in competition to attract patients. The quality of medical treatment and related services has become a key determinant of patient choice. As a result, improving the quality of care to attract more patients and increase revenues and boosting operational efficiency have become urgent issues for medical institutions and pharmacies.

Separately, the aging of Japan and the change in disease patterns has shifted the spotlight to seeking ways to achieve further improvements in the health of the general population. To realize a society able to improve the quality of life of senior citizens, the Ministry of Health, Labor and Welfare (MHLW) has adopted a plan that aims to promote longevity through improved lifestyles, with an increased emphasis on healthy living and preventive medicine. Legislation enacted in May 2003 introduced further reforms to the NHI system to promote the necessary changes for the realization of this vision. Local governments have taken up the challenge and are enacting various changes around Japan.

In this environment, pharmaceutical wholesalers with the skill to offer solutions for these issues will gain access to increasingly broader markets. They can succeed not only in the ¥6 trillion pharmaceutical market, but also in the ¥30 trillion healthcare market, which includes pharmaceuticals, as well as in many other fields involved in preserving good health.

Population Trends for Senior Citizens and Young People in Japan



Source : The Ministry of Health, Labor and Welfare, White Paper (2003)