

## Market and Business Growth

The generics market in Japan continues to grow steadily as various measures are implemented to promote the use of generics and achieve the government's goal of a 30% volume share for generic drugs in by the end of fiscal 2012.

Whereas, the volume share of generics exceeds 50% across the board in the U.S., Canada, the U.K., Germany and other large countries around the world, in Japan, it was a mere 17.6% in fiscal 2008\*.

In order to reduce patient co-payments and increase the efficiency of medical insurance fiscal policy, the Japanese government has set the target of increasing the volume share of generic drugs to at least 30% of all ethical drugs by the end of fiscal 2012. Following the latest revision of the prescription form and the revision of the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities in April 2008, in April 2010 changes to the medical system were implemented, including a review of additional medical service fees for the dispensing of generic drugs.

In addition, full-scale expansion of the market for generic drugs is underway. For instance, the number of hospitals that have introduced the Diagnosis Procedure Combination (DPC) system, which offers attractive incentives for the dispensing of generics, was 1,449 as of April 1, 2011.

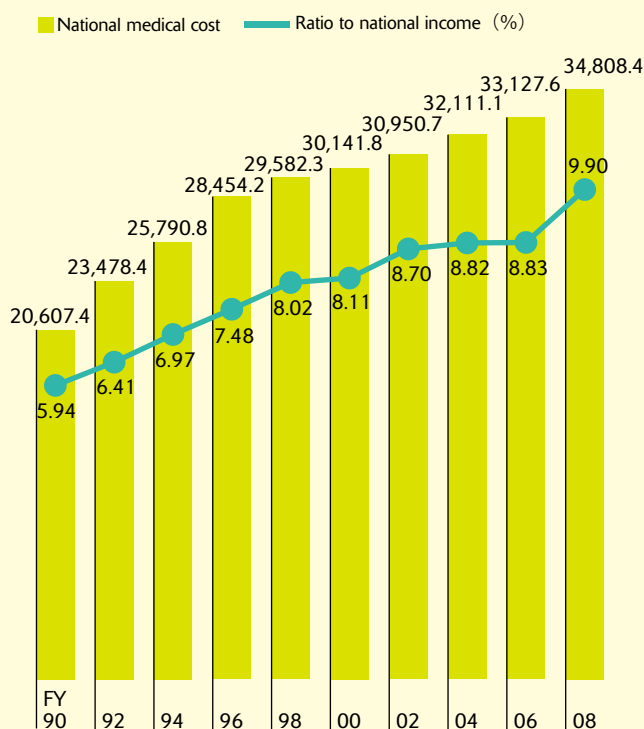
We estimate that the generic drug prescription rate reached approximately 23% on a volume basis in March 2011.

Awareness of generics is likely to increase apace. In May 2011, further promotion of use of generic drugs was incorporated in the national government's social security reform proposal, ensuring continued government promotion of generics use. In 2012, the International Generic Pharmaceutical Alliance (IGPA) will hold its annual conference in Japan.

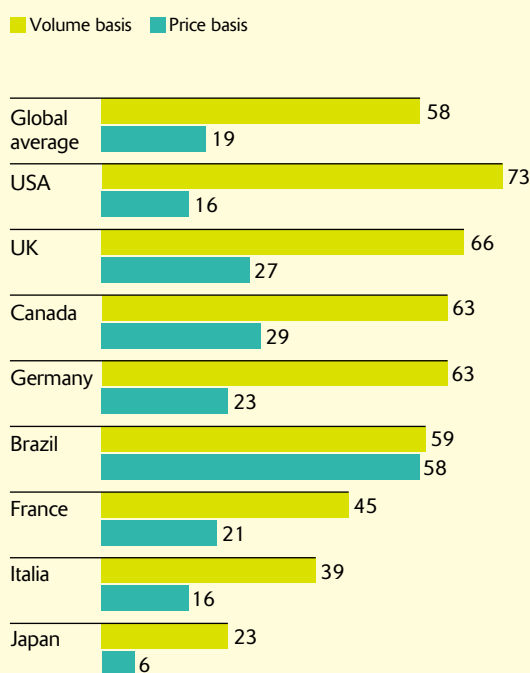
In this market environment, as the company with the top brand name in generics, Sawai has set forth the "Patients first" corporate philosophy. To ensure that patients can obtain and use inexpensive, high-quality generics with confidence and peace of mind, we will work to establish a stable supply system based on industry-leading production capacity and an R&D system to develop high-quality pharmaceuticals and will engage in further information provision and education activities.

\*Source: Japan Generic Medicines Association

**Growth of National Medical Costs** (Billions of yen)



**Generic Drug Share in Major Countries** (CY2009/%)



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### Measures for Promoting Generic Drug Use in Japan

- Fiscal 2002** Changes in medical service fees and dispensing fees, including an additional fee for dispensing generic drugs, a fee for generic drug information provision and a fee for prescriptions that include generic drugs

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- Fiscal 2003** Introduction of the DPC flat-fee payment system

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- Fiscal 2006** Revision of the prescription form to include physician signature authorizing substitution of generic drugs

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- Fiscal 2008** Full-scale implementation of generic drug dissemination promotion measures, including the revision of the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities, additional fees for the dispensing of generic drugs, further revision of the prescription form (physician signature required to prohibit substitution of generic drugs) and abolition of the fee for prescriptions that include generic drugs

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- Fiscal 2010** Implementation of additional measures to increase the share of generic drugs, including introduction of quantity-based staged incentives, change in the calculation basis from the number of prescriptions to the quantity of drugs prescribed and an increase in the number of additional points

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- Fiscal 2012** Planned revision of medical and nursing care compensation

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- Fiscal 2013** Planned reform of the medical care system for the elderly

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- Fiscal 2014** Planned revision of medical care compensation

### Market Share of Generic Drugs in Japan

Source: Japan Generic Medicines Association

Mar. 2013  
**Government Target:**  
 Achieve 30% share of Japanese drug market on a volume basis

