FY4/12 2Q
Results Briefing

AIN PHARMACIEZ

December 8, 2011

Results Overview

Consolidated P/L

Net sales in 1-2Q increased 11.3% YoY and exceeded plan by 1.2%, due to a strong performance by the dispensing pharmacy business. Ordinary income rose 40.4% YoY and exceeded plan by 21.5%, reflecting active efforts to promote generic drugs and efficiency gains in store operations in the dispensing pharmacy business, and a move into profit in the drug and cosmetic store business.

(¥ million)

	FY4/11 1-2Q results	FY4/12 1-2Q plan	FY4/12 1-2Q results	YoY change	Vs plan (%)	YoY change (%)
Net sales	61,840	68,000	68,833	6,993	101.2	111.3
Gross profit	9,143	10,400	10,905	1,762	104.9	119.3
% of net sales	**14.8**	**15.3**	**15.8**			
SG&A expenses	5,725	6,320	6,123	398	96.9	107.0
% of net sales	**9.3**	**9.3**	**8.9**			
Operating income	3,417	4,080	4,781	1,364	117.2	139.9
% of net sales	**5.5**	**6.0**	**6.9**			
Ordinary income	3,469	4,010	4,871	1,402	121.5	140.4
% of net sales	**5.6**	**5.9**	**7.1**			
Net income	1,697	1,970	2,364	667	120.0	139.3
Net income per share (¥)	115.47	123.56	148.34	32.87	120.1	128.5

- Figures in the table are rounded down

Dispensing Pharmacy Business (Consolidated)

Net sales in the dispensing pharmacy business increased 12.9% YoY and exceeded plan by 1.5%, reflecting strong same-store sales and contributions from new stores and M&A deals. Margins also rose on improved efficiency in store operations and an increase in dispensing fees due to active promotion of generic drugs. As a result, segment income increased 28.3% YoY.

(¥ million)

	FY4/11 1-2Q results	FY4/12 1-2Q plan	FY4/12 1-2Q results	YoY change	Vs plan (%)	YoY change (%)
Net sales	54,409	60,495	61,411	7,002	101.5	112.9
Gross profit	6,942	8,150	8,610	1,668	105.6	124.0
% of net sales	**12.8**	**13.5**	**14.0**			
SG&A expenses	2,630	3,100	3,023	393	97.5	114.9
% of net sales	**4.8**	**5.1**	**4.9**			
Operating income	4,312	5,050	5,587	1,275	110.6	129.6
% of net sales	**7.9**	**8.3**	**9.1**			
Segment income	4,485	5,170	5,754	1,269	111.3	128.3
% of net sales	**8.2**	**8.5**	**9.4**			
Total number of stores at end of period	404	465	462	—	—	—

- Figures in the table are rounded down
- Segment income is adjusted ordinary income shown on the quarterly consolidated statements of income
- Prescription volume: +7.2% YoY
- Average prescription price: +5.8% YoY

Drug and Cosmetic Store Business (Consolidated)

Although same-store sales in the drug and cosmetic store business declined YoY, net sales were steady YoY owing to a contribution from new stores opened in FY4/11 and in FY4/12 1-2Q. The business also moved into profit, reporting segment income of ¥52 million. This reflected active efforts to close or relocate unprofitable stores, strengthen the merchandise lineup, centered on cosmetics and over-the-counter (OTC) drugs, and review sales promotion approaches.

(¥ million)

	FY4/11 1-2Q results	FY4/12 1-2Q plan	FY4/12 1-2Q results	YoY change	Vs plan (%)	YoY change (%)
Net sales	7,315	7,385	7,312	-3	99.0	100.0
Gross profit	2,225	2,290	2,304	79	100.6	103.6
% of net sales	30.4	31.0	31.5			
SG&A expenses	2,386	2,420	2,296	-90	94.9	96.2
% of net sales	32.6	32.8	31.4			
Operating income	(160)	(130)	7	167	―	―
% of net sales	―	―	0.1			
Segment income	(108)	(100)	52	160	―	―
% of net sales	―	―	0.7			
Total number of stores at end of period	51	55	53	―	―	―

- Figures in the table are rounded down
- Segment income is adjusted ordinary income shown on the quarterly consolidated statements of income

Consolidated B/S

Compared with end-FY4/11, debt was roughly unchanged but cash on hand and in banks increased, resulting in net cash of ¥4,918 million.

(¥ million)

End-FY4/11			
Assets		Liabilities	
Current assets Cash on hand and in banks	38,032 15,437	Current liabilities Short-term debt	37,616 5,883
Fixed assets Investments in securities	38,871 2,959	Long-term liabilities Long-term debt	9,824 7,331
Deferred assets	35	Total net assets	29,498
Total assets	76,940	Total liabilities and net assets	76,940

(¥ million)

End-FY4/12 2Q			
Assets		Liabilities	
Current assets Cash on hand and in banks	40,695 18,355	Current liabilities Short-term debt	40,371 5,965
Fixed assets Investments in securities	40,842 2,949	Long-term liabilities Long-term debt	10,130 7,471
Deferred assets	27	Total net assets	31,064
Total assets	81,565	Total liabilities and net assets	81,565

	End-FY4/11	End-FY4/12 2Q
Interest-bearing debt （Compared with end-FY4/11）	13,214	13,437 (101.7%)
Net cash	2,222	4,918

- Figures in the table are rounded down
- Bonds as of end-FY4/11 and end-FY4/12 2Q are included in long-term debt
- Net cash ＝Cash on hand and in banks －Interest-bearing debt

Assets

Capital expenditures during the period totaled ¥2,554 million, reflecting an aggressive store opening and M&As, however cash on hand and in banks rose ¥2,918 million from end-FY4/11 due to an increase in cash provided by operating activities.

(¥ million)

	End-FY4/11 2Q	End-FY4/11	End-FY4/12 2Q	Change
Cash on hand and in banks	15,196	15,437	18,355	2,918
Notes and accounts receivable	8,532	10,247	9,767	-480
Inventories	7,384	8,375	8,348	-27
Total current assets	**37,111**	**38,032**	**40,695**	**2,663**
Buildings and structures, net	6,220	6,456	6,597	141
Land	5,011	5,420	5,457	37
Total property, plant and equipment	**12,865**	**13,451**	**13,829**	**378**
Total intangible fixed assets	**12,717**	**14,827**	**16,027**	**1,200**
Investments in securities	2,842	2,959	2,949	-10
Deferred tax assets	1,159	1,233	1,263	30
Deposits and guarantees	4,537	4,990	5,438	448
Total investments and other assets	**9,329**	**10,592**	**10,985**	**393**
Total fixed assets	**34,912**	**38,871**	**40,842**	**1,971**
Total assets	**72,061**	**76,940**	**81,565**	**4,625**

Inflow from operating activities

Due to increase in goodwill

Due to new store openings, etc.

- Figures in the table are rounded down
- Capital expenditures (purchases of property, plant and equipment and intangible fixed assets + deposits/guarantees) totaled ¥2,554 million
- Change (¥): End-FY4/12 2Q compared with end-FY4/11

Liabilities and Net Assets

Accounts payable increased ¥2,128 million due to an increase in the number of stores, reflecting new store openings and expansion through M&A.

(¥ million)

	End-FY4/11 2Q	End-FY4/11	End-FY4/12 2Q	Change
Accounts payable	21,036	19,706	21,834	2,128
Short-term debt	6,285	5,883	5,965	82
Total current liabilities	**35,498**	**37,616**	**40,371**	**2,755**
Long-term debt (including bonds)	7,036	7,331	7,471	140
Total long-term liabilities	**9,332**	**9,824**	**10,130**	**306**
Total liabilities	**44,830**	**47,441**	**50,501**	**3,060**
Common stock	8,682	8,682	8,682	—
Capital surplus	7,872	7,872	7,872	—
Retained earnings	11,007	13,227	14,874	1,647
Total shareholders' equity	**27,558**	**29,778**	**31,425**	**1,647**
Total net assets	**27,230**	**29,498**	**31,064**	**1,566**
Total liabilities and net assets	**72,061**	**76,940**	**81,565**	**4,625**

Increase in purchasing due to rise in number of stores

Profit growth

- Figures in the table are rounded down
- Change (¥): End-FY4/12 2Q compared with end-FY4/11

Consolidated C/F

Operating cash flow increased, mainly reflecting a rise in income before income taxes and minority interests, and depreciation and amortization (including goodwill). As of end-FY4/12 2Q, cash and cash equivalents stood at ¥18,293 million, providing further scope for investment.

(¥ million)

	FY4/11 1-2Q (a)	FY4/12 1-2Q (b)	(b)-(a)	FY4/11 (Reference)
Income before income taxes and minority interests	3,281	4,531	1,250	7,644
Depreciation and amortization	680	815	135	1,560
Amortization of goodwill	440	563	123	973
(Increase) decrease in inventories	(463)	95	558	(1,130)
(Increase) decrease in other accounts receivable	(2,267)	86	2,353	(505)
Net cash provided by operating activities	**2,756**	**7,533**	**4,777**	**7,627**
Payments for purchases of property, plant and equipment, and intangible fixed assets	(637)	(1,766)	-1,129	(1,237)
Purchase of shares in affiliated companies	—	(1,033)	-1,033	—
Net cash used in investing activities	**(1,147)**	**(3,910)**	**-2,763**	**(3,881)**
Proceeds from issuance of new shares	4,720	—	-4,720	4,720
Net cash provided by (used in) financing activities	**2,398**	**(726)**	**-3,124**	**463**
Net increase in cash and cash equivalents	4,007	2,895	-1,112	4,209
Cash and cash equivalents at end of the period	**15,196**	**18,293**	**3,097**	**15,397**

- Figures in the table are rounded down

Business Value Analysis

Earnings are firm, supporting an increase in corporate value.

	End-FY4/11 2Q	End-FY4/12 2Q	Change	End-FY4/11 (Reference)
Shareholders' equity ratio (%)	37.7	38.0	0.3	38.3
Market value equity ratio（%）	58.7	62.8	4.1	64.5
PER (times)	22.99	21.67	-1.32	12.18
EPS (¥)	115.47	148.34	32.87	255.67
PBR (times)	1.56	1.65	0.09	1.68
BPS (¥)	1705.14	1946.05	240.91	1,847.46
ROA (%)	2.5	3.0	0.5	5.5
ROE (%)	7.0	7.8	0.8	15.4
EBITDA (¥ million)	4,539	6,161	1,622	10,642
EV/EBITDA (times)	8.56	7.27	-1.29	4.30
Net D/E ratio (times)	(0.07)	(0.16)	-0.09	(0.07)
Net cash (¥ million)	1,874	4,918	3,044	2,222
Shareholder value (¥ million)	40,726	49,687	8,961	48,000
Market capitalization (¥ million)	42,331	51,260	8,929	49,665

- Figures in the table are rounded down
- Shareholder value = EV – net interest-bearing debt
- Net D/E ratio = (interest-bearing debt – cash on hand and in banks) / shareholders' equity
- Share prices used to calculate market capitalization: End-FY4/11 2Q ¥2,655 (end-Oct 2010), end-FY4/11 ¥3,115 (end-Apr 2011), end-FY4/12 2Q ¥3,215 (end-Oct 2011).
- Net cash ＝Cash on hand and in banks －Interest-bearing debt

FY4/12 Plan (Consolidated)

We forecast FY4/12 net sales will rise 10.5% YoY due to active store opening and expansion through M&A. We project ordinary income will increase 15.7% YoY on ongoing efficiency gains in store operations and cost controls.

(¥ million)

	FY4/11 results	FY4/12 plan	Change	YoY change (%)
Net sales	129,387	143,000	13,613	110.5
Gross profit	20,089	22,650	2,561	112.7
% of net sales	**15.5**	**15.8**		
SG&A expenses	11,981	12,980	999	108.3
% of net sales	**9.3**	**9.1**		
Operating income	8,107	9,670	1,563	119.3
% of net sales	**6.3**	**6.8**		
Ordinary income	8,210	9,500	1,290	115.7
% of net sales	**6.3**	**6.6**		
Net income	3,916	4,850	934	123.8
Net income per share (¥)	255.67	304.19	48.52	119.0
Annual dividend (¥)	45.00	50.00	—	—

- Figures in the table are rounded down

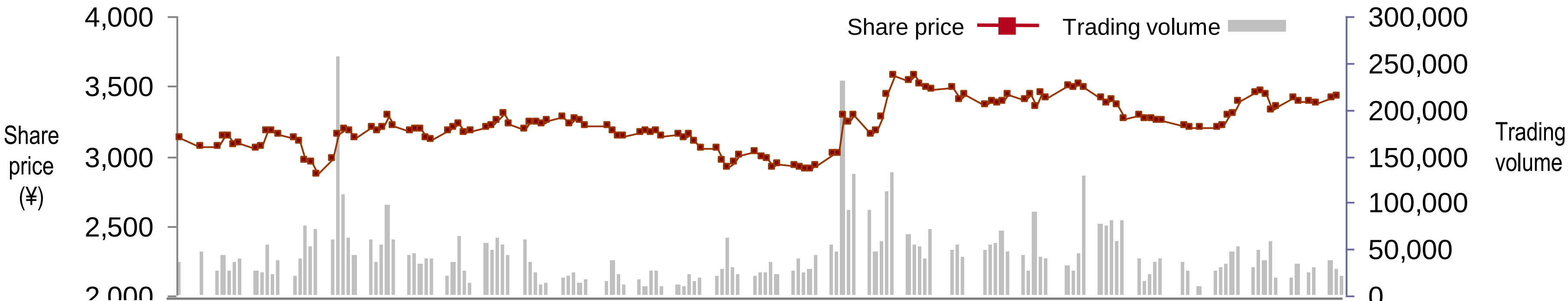
Operating Outlook

- **Dispensing pharmacy business**
- **Drug and cosmetic store business**
- **Transcend2000**

Topics of May through November 2011

	Developments in FY4/12 1–2Q
May	30 FY4/11 results announced Net sales: ¥129,387 million (+3.1% YoY), ordinary income: ¥8,210 million (+29.0% YoY)
Jun.	9 FY4/11 results briefing 14 Energy saving project launched
Jul.	28 General Meeting of Shareholders – dividend of ¥45 per share approved for FY4/11; follows ¥30 for FY4/09 and ¥40 for FY4/10; forecasting ¥50 for FY4/12
Aug.	30 FY4/12 1Q results announced Net sales: ¥33,940 million (+10.2% YoY), ordinary income: ¥2,273 million (+43.9% YoY)
Oct.	1 Medical Development Co., Ltd. established 28 Long-term senior debt awarded BBB+ rating by JCR 31 Ratio of foreign shareholders reaches 27.78% as of end-2Q, up 2.4ppt YoY
Nov.	30 FY4/12 2Q results announced

Changes in AIN PHARMACIEZ' share price and trading volume



	May 2011	Jun. 2011	Jul. 2011	Aug. 2011	Sep. 2011	Oct. 2011	Nov. 2011
Cumulative trading volume	987,800	1,099,900	454,300	854,900	1,363,700	986,800	645,400
Share price (High)	¥3,155 (May 31)	¥3,300 (Jun. 30)	¥3,285 (Jul. 11)	¥3,155 (Aug. 1)	¥3,575 (Sep. 9)	¥3,520 (Oct. 13)	¥3,475 (Nov. 16)

May-Nov 2011 share price high: ¥3,575 (Sep. 9), share price low: ¥2,874 (May 27)

Analysis of 1-2Q Results

Net sales exceeded plan by 1.2%, reflecting new store openings and expansion through M&A in line with plan, as well as sustained growth in the average prescription price. SG&A expenses were 3.1% lower than plan owing to overhead cost reductions and more efficient use of personnel in the drug and cosmetic store business. As a result, ordinary income exceeded plan by double digits (21.5%).

1-2Q performance versus plan

(¥ million)	FY4/12 1-2Q plan	FY4/12 1-2Q results	Vs plan (%)	FY4/12 full-year plan	Vs full-year plan (%)
Net sales	**68,000**	**68,833**	**101.2**	**143,000**	**48.1**
Gross profit	**10,400**	**10,905**	**104.9**	**22,650**	**48.1**
% of net sales	**15.3**	**15.8**		**15.8**	
SG&A expenses	**6,320**	**6,123**	**96.9**	**12,980**	**47.2**
% of net sales	**9.3**	**8.9**		**9.1**	
Operating income	**4,080**	**4,781**	**117.2**	**9,670**	**49.4**
% of net sales	**6.0**	**6.9**		**6.8**	
Ordinary income	**4,010**	**4,871**	**121.5**	**9,500**	**51.3**
% of net sales	**5.9**	**7.1**		**6.6**	
Net income	**1,970**	**2,364**	**120.0**	**4,850**	**48.7**
% of net sales	**2.9**	**3.4**		**3.4**	
Net income per share (¥)	**123.56**	**148.34**	**120.1**	**304.19**	**48.8**

Figures in the table are rounded down

Analysis

Net sales

Net sales comfortably exceeded plan due to new store openings and M&As in the dispensing pharmacy business, as well as growth in the average prescription price at existing stores.

Gross profit

Gross profit improved owing to a decline in the labor cost ratio due to efficiency improvements in the dispensing pharmacy business, and dispensing fees generated from the generic drug dispensing incentive scheme.

Operating income

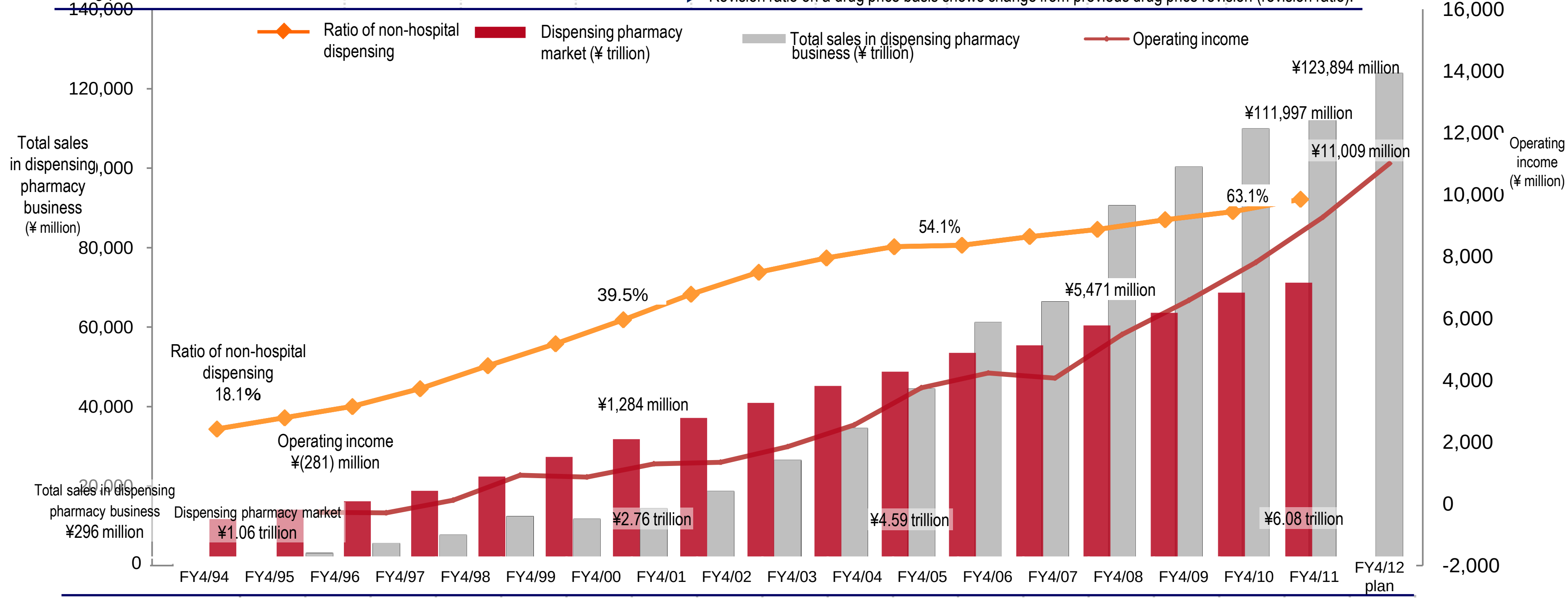
Operating income was sharply higher than plan due to gross margin improvement and SG&A cost controls (more efficient use of personnel, sales promotion expenses) in the drug and cosmetic store business.

Net sales and profit targets were achieved through business expansion (new store openings and M&As), an increase in dispensing fees due to the promotion of generic drugs, and profit recovery in the drug and cosmetic store business.

Dispensing Pharmacy Business Performance

	1996	1997	1998	2000	2002	2004	2006	2008	2010
Revision ratio on Dispensing fees	+1.3%	+1.15%	+0.7%	+0.8%	-1.3%	±0%	-0.6%	+0.17%	+0.52%
Revision ratio on Drug prices	-6.8%	-4.4%	-9.7%	-7.0%	-6.3%	-4.2%	-6.7%	-5.2%	-6.5% (Including special drug price reduction measures)

▶ Revision ratio on a drug price basis shows change from previous drug price revision (revision ratio).



	FY4/94	FY4/95	FY4/96	FY4/97	FY4/98	FY4/99	FY4/00	FY4/01	FY4/02	FY4/03	FY4/04	FY4/05	FY4/06	FY4/07	FY4/08	FY4/09	FY4/10	FY4/11	FY4/12 plan
No. of stores	2	13	29	34	39	48	58	75	92	148	148	193	218	247	356	360	397	448	491

Process

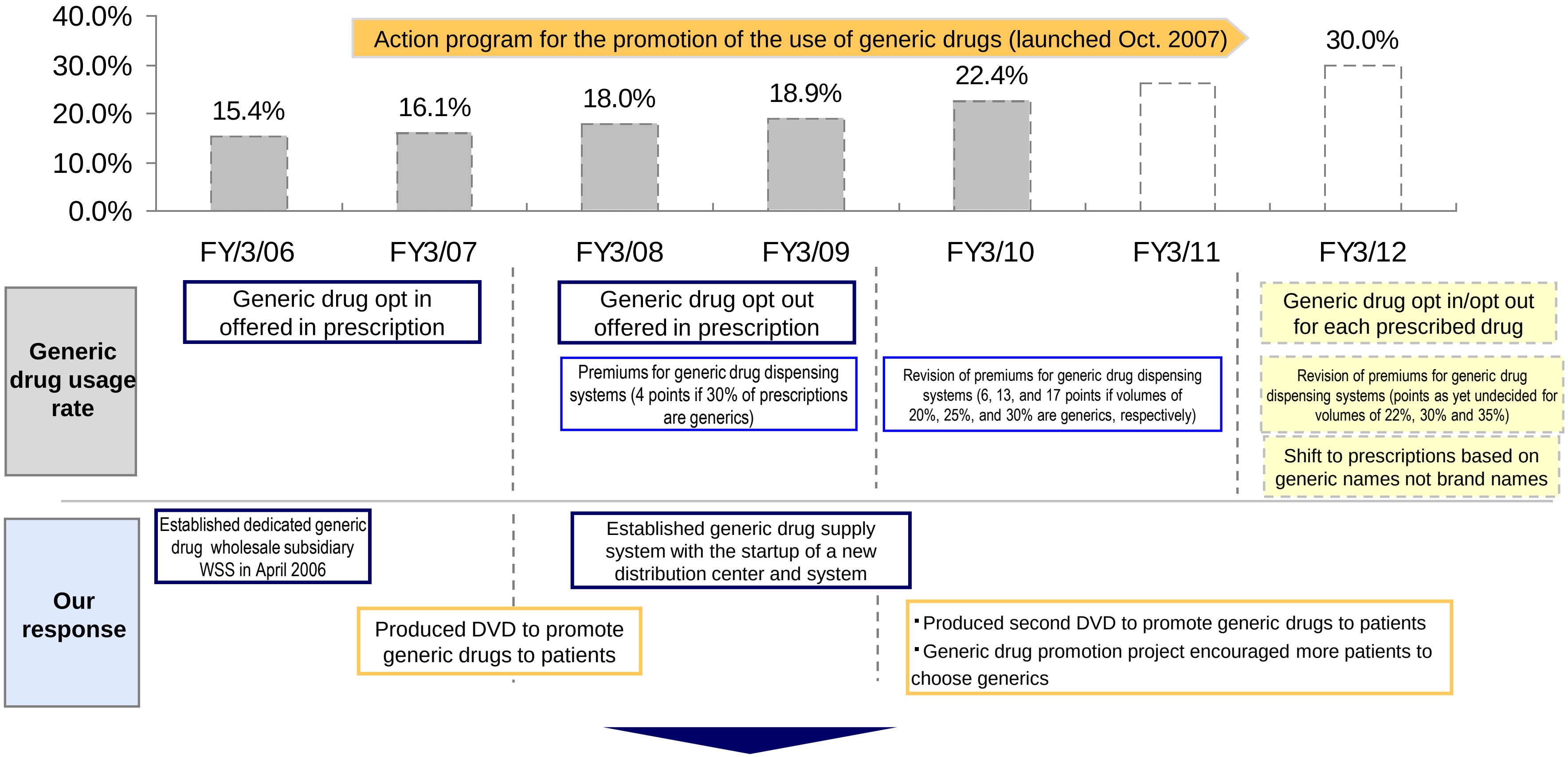
- Dai-ichi Pharmacy opened in Asahikawa City
- Branded as Ain Pharmacy
- Clinical testing business sold off
- Company name changed to AIN PHARMACIEZ
- Imagawa Yakuhin (56)
- AIN TOKAI (22) (currently, AIN MEDIO)
- AIN MEDICAL SYSTEMS (18)
- MEDICAL HARTLAND (17)
- Rejoice (16)
- Rejoice Pharmacy (14)
- Asahi Pharmacy (86)
- DAICHIKU (18)
- SUNWOOD (5)
- 6 M&As (33)
- 4 M&As (9) Negotiations still ongoing

▶ Ratio of non-hospital dispensing is based on data from the Japan Pharmaceutical Association; dispensing market value is based on data for dispensing cost trends issued by the Ministry of Health, Labour and Welfare ▶ Store numbers shown in brackets

Uptake of Generic Drugs

The government is aiming to boost the usage rate on a volume base of generic drugs to over 30% by March 2013. Generic drug usage volume has increased rapidly since the government sharply increased premiums for generic drug dispensing systems in April 2010 dispensing fee revisions.

Generic drug use (volume basis): Ministry of Health, Labour and Welfare data



We expect the generic drug usage rate to expand further due to (1) upcoming changes in dispensing volume criteria used to calculate premiums for generic drug dispensing systems depending on prescription volumes in the April 2012 medical treatment fee revisions, and (2) a shift to prescriptions based on generic names, not brand names.

Promoting Generic Drugs

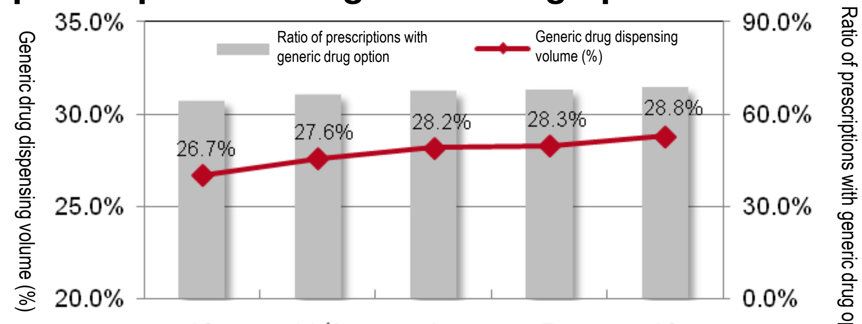
As of end-October 2011, generic drugs accounted for 28.8% of total drug prescription volume at our pharmacies due to promotion efforts and stepped up training for pharmacists. We expect government policy to lead to an increase in prescriptions with a generic option and we plan to drive a further shift to generics.

■ Dispensing fees (existing stores)

	Main items	Points	YoY change (%)
Per prescription (¥)	Basic dispensing fees	24/ 40	100.5
	Premiums for generic drug dispensing systems	6/ 13/ 17	155.6
	Oral drug dispensing fee	Maximum: 89	105.5
	Unit-dose packaging drug fee	Maximum: 270	109.6
	Drug history management / instruction fee	30	100.4
	Drug information provision fee (for patient medication notebook)	15	113.1
	Specific drugs management / instruction (high-risk drugs)	4	199.0
	Total technical fees	-	102.1

▶ Consolidated basis

■ Generic drug dispensing volume / **ratio of prescriptions with generic drug option**



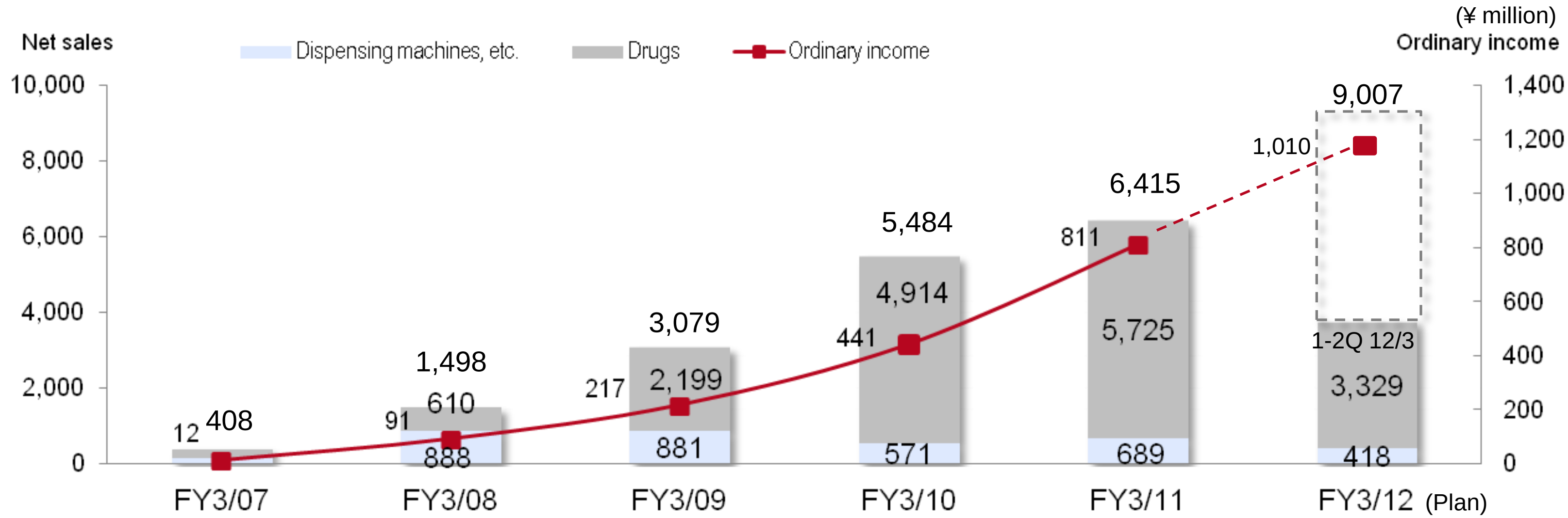
		Oct. 2010	Jan. 2011	Apr. 2011	Jul. 2011	Oct. 2011
Volume base (%)		26.7%	27.6%	28.2%	28.3%	28.8%
Number of stores	20% and less	72	67	65	62	55
	20-25%	63	52	50	46	43
	25-30%	104	95	85	84	77
	30% and more	166	196	212	218	243
Total no. of stores		405	410	412	410	418

▶ Consolidated basis

Around 60% of our prescriptions now offer a generic drug option, with generic drug dispensing volume steadily approaching the 30% target. We aim to reach this target as soon as possible by increasing ratios at stores where the level of generic drug dispensing volume is still below 20% of the total.

Net Sales at WSS

In 1-2Q, ordinary income at WSS rose 43.9% YoY and exceeded plan by 6.2%, however net sales fell short of plan. We plan to promote wider use of generic drugs within the Group and expand sales to external customers by continuing to increase the number of sales items on promotion.



SG&A expenses	16.1%	8.1%	6.6%	4.9%	5.6%	4.7%
Ordinary income margin	2.9%	6.1%	7.0%	8.0%	12.6%	11.2%

The ordinary income ratio continues to rise on the back of SG&A cost control and net sales growth.

Developing and Introducing Automated Systems

We work closely with manufacturers in the development of automated equipment to improve safety and accuracy and develop operating methods during the testing phase.

	Automated drug dispensing system		Automated prescription checking system	
	Automated tablet picking machine	Automated liquid drug dispensing machine	New digital patient drug history	Single-dose packaged drug check support system
				
	＜Robo-pick＞	＜Pharma Flex＞	＜Pharnes II-MX＞	＜Unit-dose packaged drug check support robot system＞
Developer	YUYAMA Co., Ltd.	Hitachi-Aloka Medical, Ltd.	SANYO Electric Co., Ltd.	Panasonic Healthcare Co., Ltd
Relationship	Cooperation in development	Cooperation in development	Joint development	Cooperation in development
Test period	Sep 2009–Jun 2010	Dec 2009–Jan 2011	Dec 2010–Oct 2011	Jul 2011–Nov 2011
Start of full-scale introduction	Jul 2010	Feb 2011	Nov 2011	Nov 2011
Total number of stores with the systems (as of end-FY4/12 2Q)	14	11	60	0
Comment	Expected to save personnel costs equivalent to a single pharmacist	Expected to save personnel costs equivalent to half a single pharmacist	Hybrid machine combining a receipt computer and digital drug history functions	Introduced from Nov 2011 at the Amakubo Store

Store Network

We opened 24 stores in 1-2Q, exceeding our target. We are making steady progress toward our goal of 50 new stores in FY4/12.

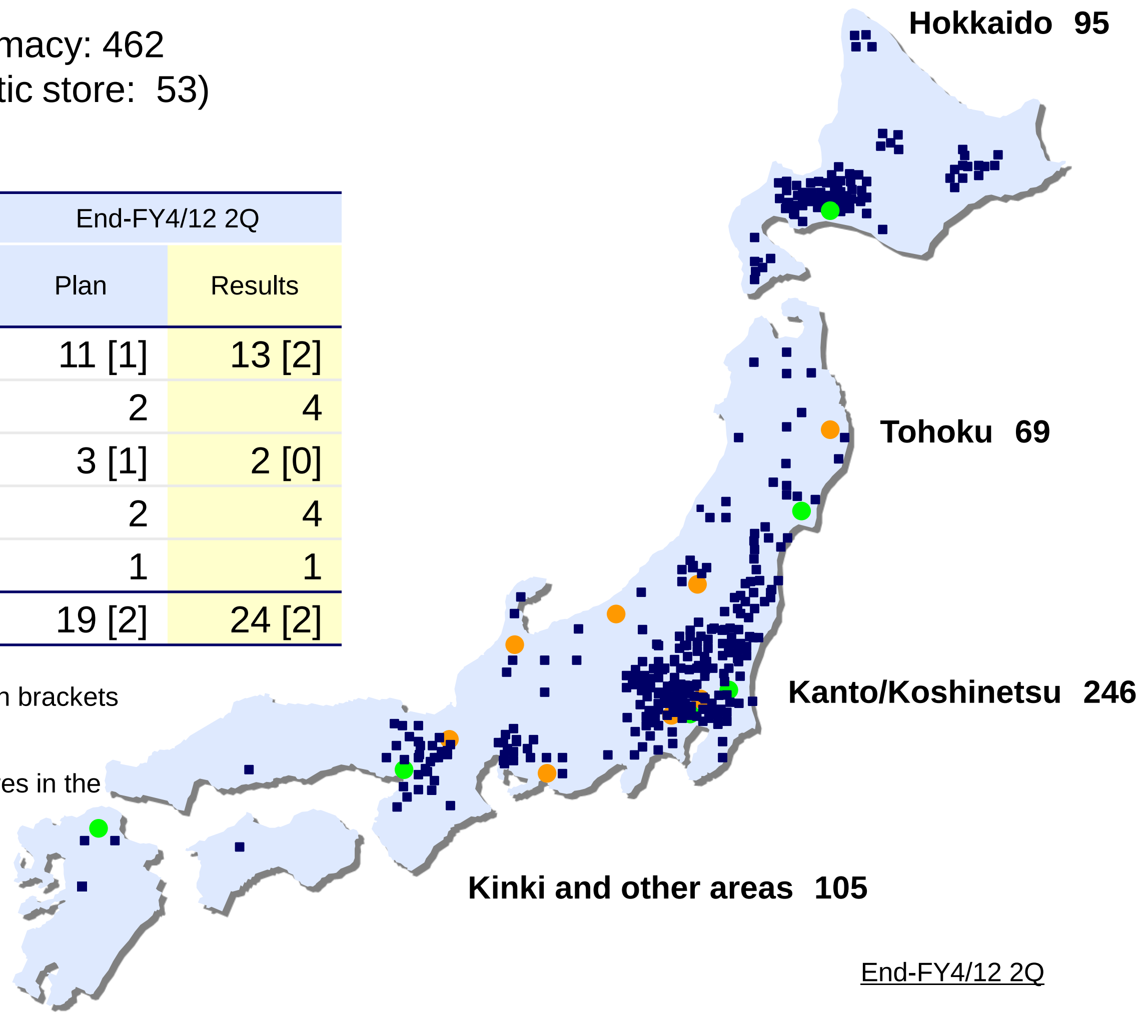
Total number of stores

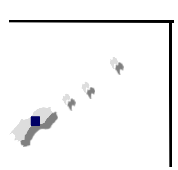
515 (Dispensing pharmacy: 462
Drug and cosmetic store: 53)

Store opening plans

Company name	FY4/12 Plan	End-FY4/12 2Q Plan	End-FY4/12 2Q Results
AIN PHARMACIEZ	31 [5]	11 [1]	13 [2]
AIN MEDICAL SYSTEMS	7	2	4
AIN MEDIO	6 [2]	3 [1]	2 [0]
DAICHIKU	2	2	4
Asahi Pharmacy	4	1	1
Total	50 [7]	19 [2]	24 [2]

- Number of drug and cosmetic stores shown in brackets
- 69 properties secured
- Total number of stores includes the three stores in the FC format





End-FY4/12 2Q

Medical treatment fee revisions (1)

The Ministry of Health, Labour and Welfare's Social Security Council has approved the basic policy for medical treatment fee revisions in April 2012. As part of efforts to promote generic drugs, the Central Social Insurance Medical Council (CSIMC) is looking at raising the dispensing volume criteria for generic drugs used to calculate premiums for generic drug dispensing systems.

Premiums for generic drug dispensing systems

The government plans to raise dispensing volume criteria used to calculate premiums for generic drug dispensing systems. The government is also considering removing natural and traditional medicines, which do not have generic alternatives, from the calculations.

Simulation

(End-Oct. 2011)	Number of stores	% of total (%)
Under 20%	55	13.2
Over 20%	43	10.3
Over 25%	77	18.4
Over 30%	243	58.1
Total	418	100.0

Consolidated basis

(After revisions)	Number of stores	% of total (%)	Difference
Under 22%	49	11.7	-6
Over 22%	78	18.7	+35
Over 30%	147	35.2	+70
Over 35%	144	34.4	-99
Total	418	100.0	–

Natural and traditional medicines removed from calculations

Actively promoting wider use of generic drugs would drive profit growth

Shift to generic names in prescriptions

The government is looking at encouraging a shift from brand names to generic names in prescriptions.

- This would make generic drug inventory management easier. We plan to promote wider use of generics and boost procurement from WSS.

Changes to prescription forms

The new prescription forms will replace a single signature approving the use of generics for all drugs in the prescription with an option to select generics for each drug prescribed.

- This will result in a wider choice of generics for patients, leading to an increase in generic drug usage.

Medical treatment fee revisions (2)

In an effort to reduce waste in home healthcare, where unused prescribed drugs are estimated to cost around ¥40bn, pharmacists will be encouraged to actively participate in home healthcare by offering drug management and guidance for patients at home. The CSIMC is currently looking at specific revisions in this area.

■ Home healthcare

To encourage small dispensing pharmacies to move into the home healthcare market, the government is looking at establishing new criteria for calculating fees for joint guidance provided by doctors and pharmacists and new evaluation benchmarks for facilities at dispensing pharmacies that provide this care.

■ Our approach to expansion in home healthcare

・We will conduct marketing visits at home healthcare facilities near our stores.

・Working with Group companies, we plan to approach doctors and medical service providers involved in home healthcare.

・We will also target companies operating elderly care homes in order to actively participate in drug management and guidance at newly established care homes.

We have stepped up our activities in this area after establishing a home healthcare section in July 2011. We began responding to demand for prescriptions from new facilities in December.

■ Drug history management / instruction fee, and drug information provision fee (patient medication notebook)

The Great East Japan Earthquake highlighted the benefits of patient medication notebooks. Against this backdrop, the government is considering combining the evaluation of patient medication notebook management with drug history management / instruction fees in its medical treatment fee system.

- We are aiming to encourage wider adoption of patient medication notebooks by stepping up efforts to raise awareness among patients and enhancing the management of medication history and notebooks.

Developing Medical Malls

As part of efforts to expand the business through new store openings, we have started developing medical malls with a focus on 122 potential development proposals identified nationwide.

Development project business approach

Hybrid facility development (large-scale dispensing pharmacies near hospitals + medical malls)

We aim to boost sales per store by creating facilities that combine dispensing pharmacies near hospitals with medical malls. We plan to secure ideal locations for these hybrid facilities by participating in projects to build or relocate hospitals. Depending on conditions at each location, we will design hybrid facilities and sign up medical service providers and doctors to work at the medical malls.

Medical mall developments

We plan to team up with leading real estate developers to open dispensing pharmacies in buildings in major cities and near stations. Our aim is create medical malls tailored to the local area by actively attracting medical clinics to the same building or neighborhood.

Sales targets

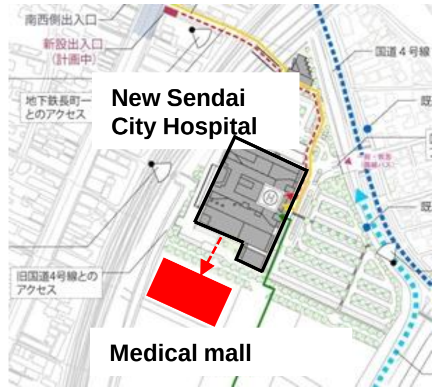
	FY4/12		FY4/13		FY4/14	
(¥ million)	Number of projects	Net sales/ year	Number of projects	Net sales/ year	Number of projects	Net sales/ year
Sales targets	4	2,000	24	17,000	22	11,000

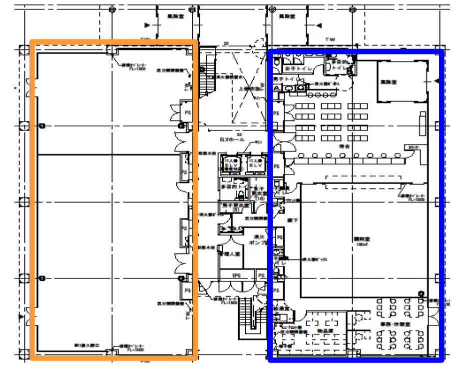
Of the 122 potential development proposals identified, we have started work on around half of the medical mall and hospital relocation and rebuilding projects. We plan to open 50 of these facilities by FY4/14, generating a projected ¥30bn in annual sales.

Case study (1): Nagamachi Project, Sendai

We are investing in a new medical mall close to Sendai City Hospital, which is being relocated. The mall is due to be completed and opened in April 2012. Four clinics have already agreed to open sites in the mall and negotiations are underway with a screening center and other medical service providers about moving into the mall.

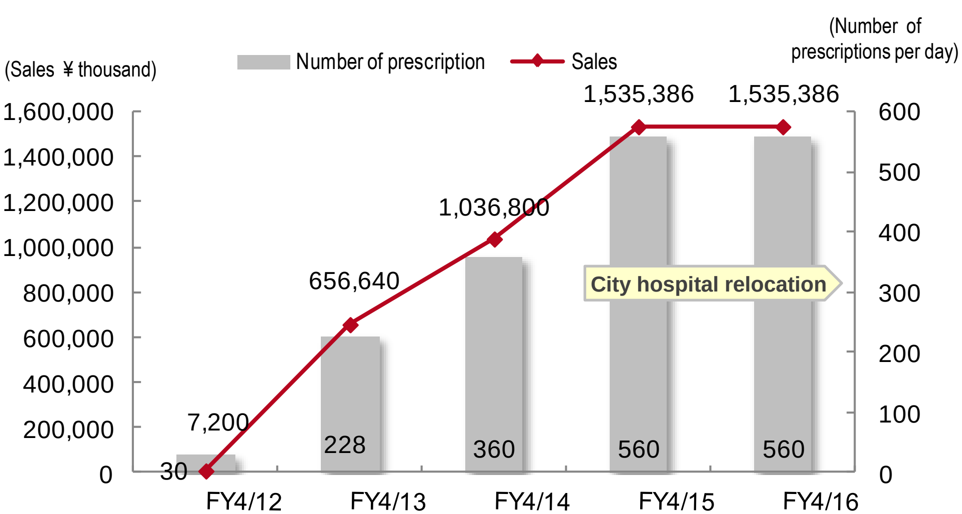
(Exterior view)





(Medical service provider) 1F (Our dispensing pharmacy)

Net sales targets



Overview of medical mall

Location		Sendai City, Miyagi Prefecture
Building		Four floors
Dispensing pharmacy area		1F 396㎡ (120 *tsubo**)
Total investment amount		¥580 million
Tenants	1F	Our dispensing pharmacy (due to open Apr 2012)
		Neurosurgical clinic (due to open Sep 2012)
	2F	Psychosomatic medical clinic (due to open Apr 2012)
		Surgical treatment clinic (due to open Jul 2012)
		Gastrointestinal clinic (due to open Jul 2012)
		Rheumatoid arthritis clinic (negotiations ongoing)
	3F	Screening center (negotiations ongoing)
		Diabetes clinic (negotiations ongoing)
		Cardiovascular clinic (negotiations ongoing)
	4F	Licensed childcare center (due to open Apr 2012)

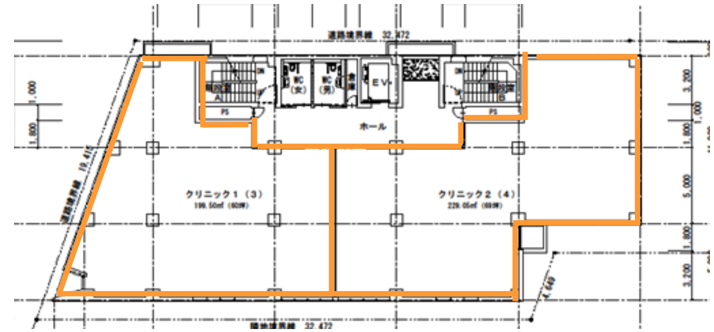
* One tsubo is equal to approx. 3.305㎡(square meters).

Case study (2): Shibetsu Project, Hokkaido

We are planning to convert an existing dispensing pharmacy into a medical building. We received a request from Shibetsu City to create a facility providing medical services not available at the city hospital, thereby helping to create more comprehensive medical services in cooperation with the hospital. Two medical service providers have already agreed to set up clinics in the building, which is due to be completed and opened in June 2012.

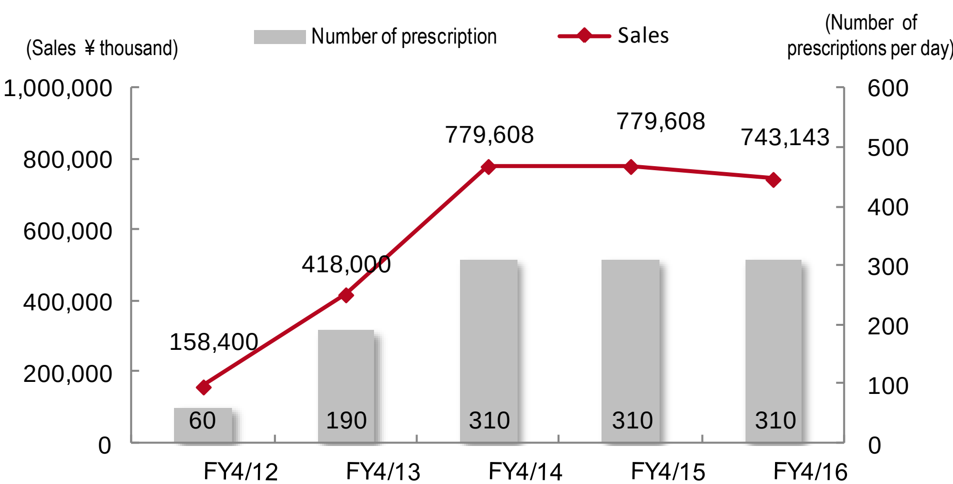
(Exterior view)

Medical mall



2F - 3F (Medical service provider)

Net sales targets



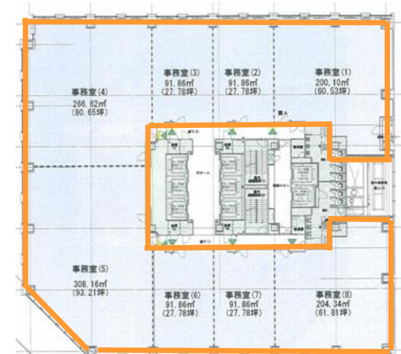
Overview of medical mall

Location		Shibetsu City, Hokkaido
Building		Three floors
Dispensing pharmacy area		1F 302㎡ (91 *tsubo*)
Total investment amount		¥360 million
Tenants	1F	Our dispensing pharmacy (due to open Jun 2012)
	2F	ENT clinic (due to open Jun 2012)
		Internal medicine clinic (due to open Jun 2012)
	3F	**Urological** clinic (negotiations ongoing)
		Psychosomatic medical clinic (negotiations ongoing)

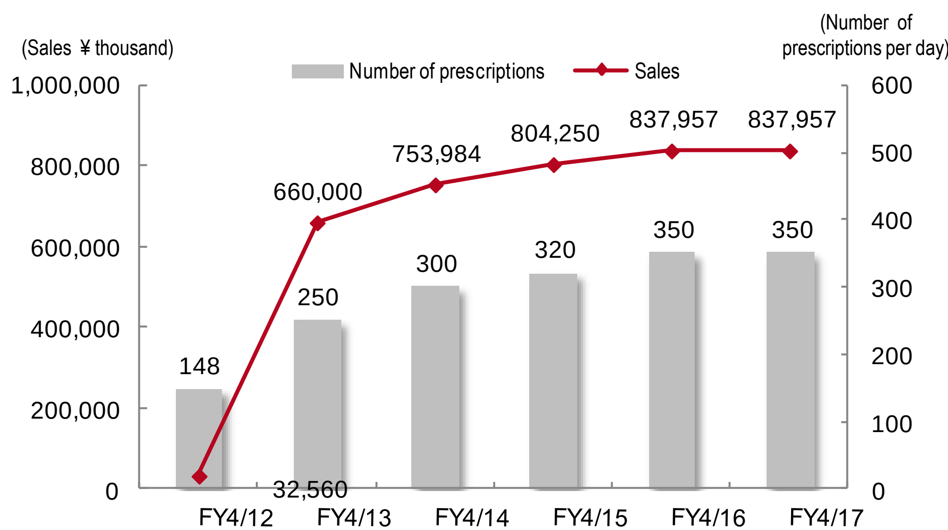
Case study (3): Sapporo Kita Building Project

We are investing in a new clinic zone in the Sapporo Kita Building, due to be completed in 2012. We have been involved in the project from the beginning and the first floor has already been earmarked for use as our dispensing pharmacy.


(Exterior view)


2F (Medical service provider)

Net sales targets



Overview of medical mall

Location		Sapporo City, Hokkaido
Building		Fourteen floors
Dispensing pharmacy area		1F 225㎡（68 *tsubo*）
Total investment amount		¥100 million
Tenants	1F	Our dispensing pharmacy (due to open Apr 2012)
	2F	Gastrointestinal clinic (negotiations ongoing)
		Cardiovascular clinic (negotiations ongoing)
		Diabetes clinic (negotiations ongoing)
		Rheumatoid arthritis clinic (negotiations ongoing)
		Psychosomatic medical clinic (negotiations ongoing)
		Shared screening clinic (negotiations ongoing)

Drug and cosmetic store business

Gross profits increased owing to efforts to boost sales of OTC drugs with high gross margins. In addition, segment income improved ¥160 million YoY owing to tighter control of store operating costs, which included more efficient use of personnel and cuts to advertising and sales promotion expenses.

■ Inventory reductions

Steps to reduce inventories led to a decline in the gross margin to 30.5% in FY4/11, but the margin recovered to 31.5% in FY4/12 1-2Q. Inventories returned to healthy levels, leading to a decline in inventory losses.

■ Gross profits increase

Gross profits rose, mainly reflecting steps to boost sales of OTC drugs with high gross margins.

(¥ million)

	FY4/11 1-2Q net sales	FY4/12 1-2Q net sales	YoY change	YoY change in gross profits
OTC drugs	951	1,012	106.4%	113.7%

Figures in the table are rounded down

■ Store operating costs reduced

(¥ million)

Cost item	Initiative	YoY change
Personnel costs	Store operating procedures changed to improve efficiency, allowing more efficient use of personnel	**-17**
Sales promotion costs	Point reward criteria changed, point card production costs reduced	**-54**
Advertising costs	Shifted from direct mail to mobile tools for member services	**-13**

Parallel efforts to generate gross profits and reduce SG&A expenses led to an improvement in profitability, helping the drugs and cosmetics store business move into profit. We are targeting further profit growth by opening more *ainz & tulpe* stores and controlling costs.

New stores (1)

We opened two new stores in 2Q. Both are generating strong sales. The Sannomiya Store was relocated to the Clefy Sannomiya retail building, which attracts many shoppers from our target demographic. The Miyanosawa Station Store is connected directly to the station and stocks a wide range of products tailored to local demand.

■ *ainz & tulpe* Clefy SANNOMIYA Store (Kobe City)

Store opened:	Oct. 21, 2011
Sales area:	383 ㎡
Number of product lines:	Approx. 13,000
Projected monthly sales:	¥19,000 thousand

(¥ thousand)	Nov. 2011 plan	Nov. 2011 results	Vs plan
Net sales	19,000	20,632	108.6%
Gross margin	24.5%	28.2%	—

■ *ainz & tulpe* Miyanosawa Station Store (Sapporo City)

Store opened:	Oct. 28, 2011
Sales area:	347 ㎡
Number of product lines:	Approx. 13,000
Projected monthly sales:	¥20,000 thousand

(¥ thousand)	Nov. 2011 plan	Nov. 2011 results	Vs plan
Net sales	15,000	21,014	140.1%
Gross margin	23.0%	30.8%	—

New stores (2)

We have already opened two more stores in 3-4Q. Sales at these stores are in line with plan. The Sapporo Paseo store is located in a retail area that links directly with Sapporo Station. Many neighboring tenants attract business from our target demographic. The Ario Sapporo Store is located immediately next to the shopping center's food and deli counter area and it sells a large number of daily necessities, so we expect it to attract customers with families.

■ *ainz & tulpe* Sapporo paseo Store (Sapporo City)

Store opened:	Nov. 12, 2011
Sales area:	396 ㎡
Number of product lines:	Approx. 13,000
Projected monthly sales:	¥40,000 thousand

(¥ thousand)	Nov. 2011 plan	Nov. 2011 results	Vs plan
Net sales	40,000	45,553	113.9%
Gross margin	27.1%	33.0%	–

▶ Business days:19

■ *ainz & tulpe* Ario Sapporo Store (Sapporo City)

Store opened:	Nov. 18, 2011
Sales area:	710 ㎡
Number of product lines:	Approx. 20,000
Projected monthly sales:	¥50,000 thousand

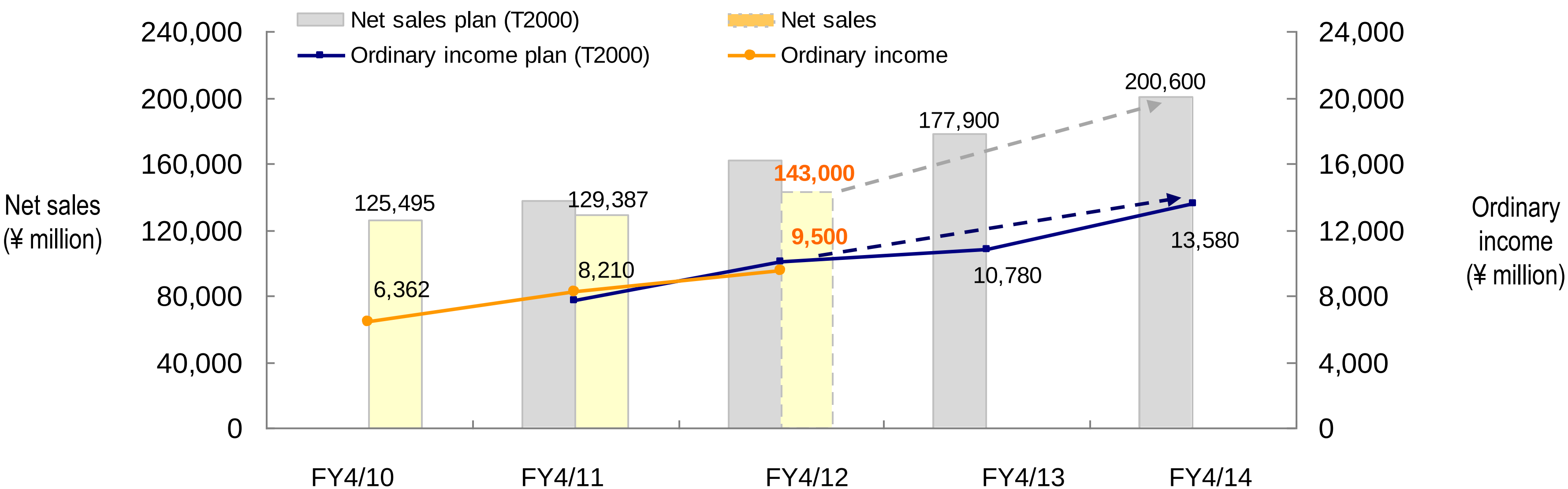
(¥ thousand)	Nov. 2011 plan	Nov. 2011 results	Vs plan
Net sales	25,000	40,077	160.3%
Gross margin	26.0%	29.4%	–

▶ Business days:13

Progress with Transcend 2000 (T-2000)

Net sales and ordinary income in FY4/12 1-2Q were both ahead of plan on the back of new store openings and strong sales at existing stores. We continue to work towards our net sales and ordinary income targets for FY4/14, the final year of the medium-term plan.

■ T-2000 net sales and ordinary income targets



(¥ million)	Results	T-2000	Results	T-2000	Plan	T-2000	T-2000
Net sales	**125,495**	137,750	**129,387**	162,100	**143,000**	177,900	200,600
Ordinary income	**6,362**	7,650	**8,210**	10,000	**9,500**	10,780	13,580

We are targeting net sales of ¥200bn and ordinary income of ¥13.5bn in FY4/14 by aggressively opening new stores and diversifying store development, including medical mall development projects.

Initiatives to Achieve T-2000 Targets

We are targeting net sales of ¥200 billion and ordinary income of ¥13.5 billion in FY4/14 by opening new stores, using M&A, and increasing the efficiency of store operations.

Initiatives in the dispensing pharmacy business

- New store openings exceeded our targets in FY4/12 1-2Q; we plan to actively use M&A to drive expansion, supplemented by our existing store opening program.
- Development of medical malls is progressing smoothly; we aim to open 50 such facilities by FY4/14.
- Increase safety and boost the efficiency of store operations by enhancing pharmacist training and introducing more automated equipment.

Initiatives in the drug and cosmetic store business

- Step up openings of highly profitable *ainz & tulpe* stores in urban markets
- Continue to reduce purchasing costs and maintain SG&A expenses at an appropriate level.

For more information about this presentation, please use the contact details below

AIN PHARMACIEZ INC.
Corporate Planning Office
TEL011-783-5681
FAX011-783-0224
http://www.ainj.co.jp/