Annual Report **2008**

For the year ended March 31, 2008

Patients first

Leading the move to generic drugs in Japan

“Patients first” is the primary corporate mission of Sawai. Since 1965, Sawai has become a respected leader in the generic drug industry in Japan. Our products are dispensed by about 78% of hospitals, 37% of dispensaries and 81% of general practitioners nationwide. At five production factories in Japan and two consolidated subsidiaries, employees perform their respective duties with a sense of mission and pride while contributing to sustainable growth as expressed by our corporate philosophy and code of conduct.

SAWAI MISSION

Working for the healthy lives of people through our heartful products.

Corporate Philosophy
established in April 2007

SAWAI CHALLENGE

Pursuing creativity and growing with society via innovation and harmony.

SAWAI DESIRE

Being a socially indispensable presence through contributing to our stakeholders.

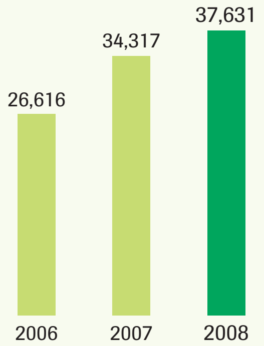
Contents

Financial Highlights

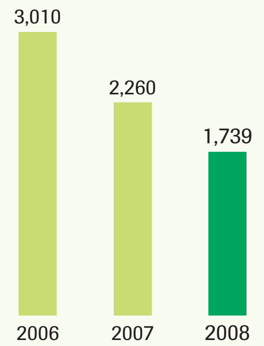
Years ended March 31	Millions of yen 2008	2007	2006	Thousands of U.S. dollars 2008
Net sales	**¥ 37,631**	¥ 34,317	¥ 26,616	**$ 375,559**
Operating income	**4,048**	4,693	4,299	**40,399**
Net income	**1,739**	2,260	3,010	**17,355**
Net assets	**40,205**	39,321	27,543	**401,247**
Total assets	**66,295**	67,827	51,997	**661,627**
Research and development (R&D) expenses	**3,222**	3,085	2,241	**32,156**
Capital expenditures	**4,336**	6,887	5,359	**43,273**
Depreciation and amortization	**2,575**	1,964	1,640	**25,699**
	%			
Ratio of R&D expenses to sales	**8.6**	9.0	8.4	
Return on equity	**4.6**	6.9	11.5	
Shareholders' equity to total assets	**58.3**	55.8	53.0	
Amounts per common share:	Yen			U.S. dollars
Net income—basic	**¥ 110.73**	¥ 157.67	¥ 217.08	**$ 1.11**
Net income—diluted	**—**	—	—	**—**
Cash dividends applicable to period	**55.00**	55.00	50.00	**0.55**
Net assets	**2,460.17**	2,408.42	2,014.11	**24.55**

Note: 1. The U.S. dollar amounts represent translations of Japanese yen for convenience only at the rate of ¥100.20 = $1.00, the rate prevailing on March 31, 2008.
2. Diluted net income per common share is not disclosed in 2008, 2007 and 2006 because there were no outstanding convertible securities.
3. Net assets as of 2008 and 2007 included minority shareholders' interest due to the application of the Japanese Corporate Law.

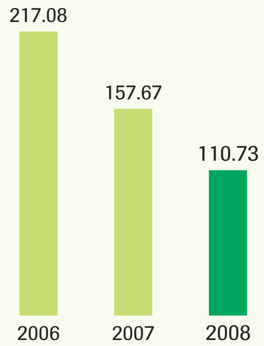
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Net Income
Per Share (basic) (yen)



A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's businesses, competitive pressures, changes in related laws and regulations, status of product development programs, and changes in exchange rates.

To Our Shareholders

Sawai Pharmaceutical will pursue our mission of “Patients first” mindful of our responsibilities as the leading manufacturer of generic drugs in Japan.

Fiscal 2007, the year ended March 31, 2008, saw momentous decisions affecting Japan’s generic drugs industry. In the ethical drugs industry, the national government strengthened a system to promote and disseminate generic drugs (“generics”) with the establishment of a 30% target share for generic drugs in the Basic Policies on Economic and Fiscal Reform 2007, issued by the government in June 2007. As a result, in April 2008 the prescription form was once again revised. These developments mean that fiscal 2008 will be a genuine watershed year that can be properly called the dawning of the generics era in Japan.

At this critical juncture for the industry, on July 1, 2008 Sawai will celebrate the 60th anniversary of its founding. The Company regards fiscal 2008 as a turning point for growth, and in June 2008, embarked on a course of further development under a new management structure; Hiroyuki Sawai, who served as president and representative director for twenty years, became chairman and representative director, and Senior Managing Director Mitsuo Sawai became president and representative director.

Under the new management, the Company will move forward with the promotion of generics and business development.

At the same time, Sawai has undertaken to innovate the business structure by implementing a company-wide reorganization with the aim of increasing reliability, reinforcing cost competitiveness, enhancing marketing functions, reinforcing management control, and emphasizing efficiency and speed. We will seek new growth on the basis of a solid business structure adapted to changes in the market environment, even as we adhere to our long-established corporate culture.

Sawai intends to continue to pursue the mission “Patients First” and increase corporate value by meeting public requirements for generic drugs, including quality, stable supply and information provision, while maintaining awareness of our responsibility to lead the industry as the top generic drug brand in Japan.

We ask your continued support for our endeavors in the coming years.

Hiroyuki Sawai, Chairman

H, Sawai

Mitsuo Sawai, President

M. Sawai

We will reinforce management to ensure our position as the trusted top brand in the new generic drugs era.

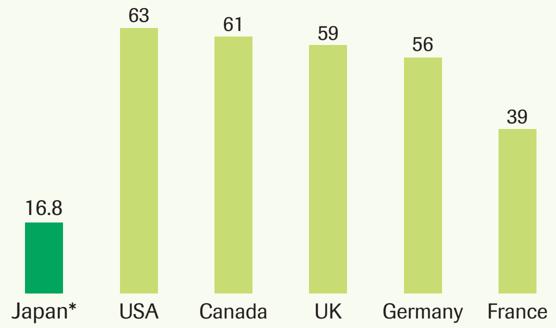
Coming to an era when generic drugs will be the de facto choice

Although the dissemination of generic drugs has been a social priority in Japan for some time, the rate of dissemination of generics among all ethical drugs has remained low. Examination of the share of generics (on a volume basis) in major countries around the world reveals ratios above 50% in the U.S., Canada, the U.K., Germany and other countries. In the U.S. and Canada in particular, it is said that 80% to 90% of the volume of originator drugs whose patent periods have expired is replaced by generics within a year. However, in Japan the share of generics in 2006 at long last reached 17%.

In this market environment, as the company with the top brand in generics, Sawai has set forth the mission "Patients first." It expresses the mindset behind our activities to give people access with confidence and peace of mind to inexpensive, high-quality generics—as we implement quality assurance, assure stable supply, disseminate information to medical practitioners and the healthcare industry and engage in public information and education campaigns.

Today Japan is making a major change of course from an era in which new drugs play the central role to one in which generics will be the de facto choice. The backdrop to this transformation is the national government's move to target a 30% share for generics on a volume basis by 2012, for which it has undertaken a nationwide effort to promote the use of generics. In particular, as a result of the latest revision of the prescription form and the revision to the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities in Dispensing, introduced in April 2008, the dissemination of generics is expected to accelerate due to factors such as the obligation of NHI pharmacies and pharmacists to explain to patients the option of selecting a generic drug and bonus dispensing fees for NHI pharmacies that have generic dispensing rates of 30% or higher. In addition, the market environment is beginning to favor generics: for instance, this year the number of hospitals that have introduced the Diagnosis Procedure Combination (DPC) system, which offers high incentives for the use (or prescription) of generics, will nearly double to 718. As a result, 2008 can be considered the dawning of the generics era in Japan, and we can look forward to the full-scale expansion of the market for generics.

Percent Share of Generic Drugs in Major Countries
(volume)



Source: IMS Health, MIDAS, New Market Segmentation, RX only, MAT Dec. 2006 IMS Strategic Management Review 2006 "PERSPECTIVE ON THE GLOBAL PHARMACEUTICAL MARKET" Copyright IMS 2007
Japan*: Japan Generic Medicines Association FY2005

Set to prevail in an industry shakeout

While the full-scale dissemination of generics will be good for patients, society and, ultimately Sawai, at the same time, we must recognize that our social responsibility as a manufacturer also increases. It is imperative that we increase public trust in Sawai as a corporation—for instance, by making sure we have met the challenge to further enhance quality assurance and post-market safety measures that is contained in the revision of the Pharmaceutical Law, which went into force in 2005. The Ministry of Health, Labour and Welfare has mandated three items concerning supply standards for generics in 2006: 1) meeting all of the standards applicable to originator drugs in the NHI price listing, 2) developing and maintaining a system for stable supply nationwide and 3) enhancing information provision. Quality, stable supply and information provision on the part of manufacturers are also stipulated in the government's Action Program for Promoting Comfort Use of Generics.

Sawai recognizes the risk that any manufacturer that cannot meet these social requirements may be shaken out of the industry or become a victim of industry realignment. Also, we are certain that market expansion will attract full-scale market entry by medium-sized new drug manufacturers and foreign companies, which is sure to intensify competition.

Based on this recognition, Sawai is proactively reinforcing management capacity to cope with change in the market environment and firmly establishing Sawai as the top name in the industry. With regard to human resources, for instance, recent investment has enhanced our systems in three areas: 1) the recruitment, retention, and augmentation of Medical Representatives (MRs) in anticipation of market expansion, 2) a staff increase for the Medical Information Department to augment information and reinforce our response to inquires and 3) the enhancement and reinforcement of the Reliability Assurance Department in order to further increase quality. Furthermore, we will make continuous capital investment to augment production capacity and plan to realize by the end of fiscal 2008 a production structure that can cope with sales of more than ¥70.0 billion.

Aiming for net sales of ¥45.0 billion and operating income of ¥5,000 million

Growing recognition of Sawai as the top generic drugs brand has followed TV and newspaper advertising in combination with vigorous net sales activities. It was driven, too by the enhancement of our management structure as I have previously described. In fiscal 2007, we increased net sales by 9.7% year on year to ¥37.6 billion. Operating income fell by 13.7% owing to personnel increases in

Measures for Promoting Generic Drug Usage
(April 2008)

A. New "Prescription Form"
- Change of prescription form basically promote to use of generic drugs

B. Revision of the medical care regulations
- NHI physicians: Make effort to consider the use of GE
- NHI pharmacies: Make effort to stock GE, etc.
- NHI pharmacists: Explain on GE to the patients appropriately when GE substitution is permitted by doctors and make effort to dispense GE

C. Strengthen incentives for GE dispensary
- Pharmacies which GE prescriptions share is more than 30% are awarded with an additional fee

D. Generics promotion poster sponsored by MHLW

Requirements for Generic Drug Manufacturers in Action Program for Promoting Comfortable Use of Generics

1. Stable supply
- Development of a delivery system
- Reduction of time to delivery
- Sufficient inventory

2. Quality assurance
- Implementation of quality testing and publication of results
- Examination of relevant literature, etc.

3. Information provision by manufacturers
- Enhancement of information in drug package inserts
- Provision of information to medical practitioners, etc.

4. Preparation of an environment to promote use
- Distribution of generic drugs Q&A literature
- Newspaper advertising

preparation for market expansion and rising R&D expenses as we increased the number of products under development. Nevertheless, we were able to earn operating income of ¥4,048 million.

In fiscal 2008, the final year of the medium-term business plan, we aim to achieve net sales of ¥45.0 billion as announced in the plan by implementing a strategy targeting DPC hospitals and NHI dispensing pharmacies, accelerating R&D, and focusing on new product development and sales expansion. However, we now forecast operating income of ¥5,000 million, ¥2,200 million below the target of the medium-term business plan, due to continuation of business system development and up-front investment.

The market environment is undergoing a transformation that will bring rapid market expansion accompanied by intensification of competition. In these circumstances, to increase corporate value and shareholder value in the medium to long term, it is prudent to more aggressively invest in the future to earn the trust of customers and society and increase our competitive strength. We request your support and understanding in the coming years.

Mitsuo Sawai, President

Consolidated Earnings
(¥ Billion)

Medium-term Business Plan for 2007–2009

Basic Policy **“Patients First”**

1. Reinforce “Top Brand” in GE
2. Target DPC hospitals
3. Strengthen manufacturing system
4. Beef up R&D to develop high-quality GE drugs

Management Issues

1. Improved Reliability

- Response to “Action Program for Promoting Comfort Use of Generic Drugs”
- Compliance with Higher level of quality by our own standards

2. Enhance Cost Competitiveness

- “Selection & Focusing”, in R&D
- Streamlining of manufacturing costs
- Cost reduction by rationalization measures enforcement

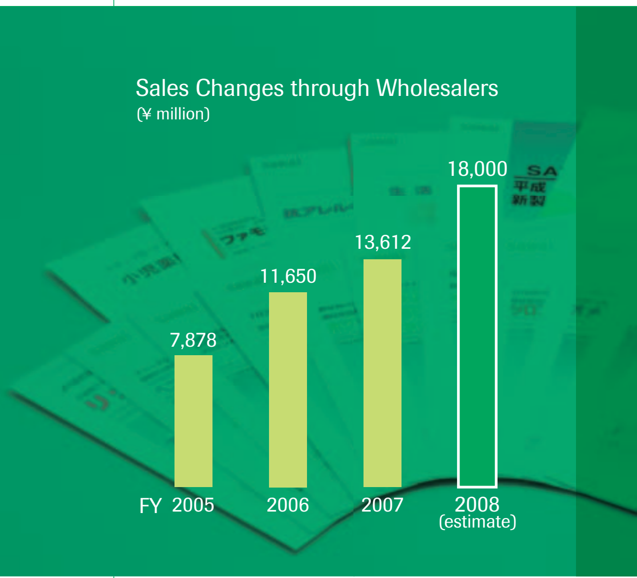
3. Enhance the Function of Marketing

4. Strengthening MIS (Management Information System)

5. Speed in Decision Makings and Actions

Market Strategy

Sawai will win business from "DPC" hospitals and NHI pharmacies by increasing our Medical Representatives and collaborating more closely with wholesalers.



Sawai is currently targeting NHI pharmacies and DPC (Diagnosis Procedure Combination) hospitals, market sectors in which future expansion of generic drug use can be expected. Sales to NHI pharmacies and DPC hospitals in fiscal 2007 increased sharply by 17.7% and 19.3%, respectively. In fiscal 2008, we seek further dramatic sales increases of 40% from the NHI (National Health Insurance) pharmacy market sector and 60% from the DPC hospital sector.

In April 2008, an incentive was introduced involving bonus payments for NHI pharmacies whose generic dispensing rates are 30% or higher, and the use of generics at NHI pharmacies is expected to increase along with an increase in patient requests for the use of generics. In the NHI pharmacy market sector, it is important to win from the NHI pharmacies that begin to use generics for the first time trust in the Sawai brand as the top brand with respect to quality, information provision, and stable supply. To obtain this trust, we will qualitatively and quantitatively enhance the provision of information that reflects understanding of the needs of healthcare professionals, such as patient explanation DVDs for pharmacists, and maintain a stable supply structure by means of a nationwide delivery network that utilizes not only regional sales agencies, but also nationwide wholesalers.

As centers of regional medical cooperation, DPC hospitals hold the key to regional generic drug dissemination, and their number is steadily increasing. In fiscal 2008, 358 hospitals are expected to newly participate in the DPC system. To mount vigorous sales activities and win customers in this expanding market sector, we will provide high-level academic information and make proposals for medication cost reductions to hospital managers and medical offices by means of presentation meetings and periodic visits involving collaboration between Medical Representatives (MRs) in the hospital sections and area MRs.

The key to opening up new markets in both the NHI pharmacy and DPC hospital sectors is collaboration with wholesalers who have a track record of delivery to these institutions. Sawai enjoys an excellent reputation among wholesalers for quality, information provision, stable supply and brand, and we are steadily increasing sales through wholesalers. In the coming years, we intend to increase market share by promoting further collaboration with wholesalers, placing importance on past accomplishments and trust.

Market Strategy

DPC Hospital Market	NHI Pharmacies
Plan in FY2008 New Customers: 120 hospitals Transaction Amount: 60% increase	**Plan in FY2008** New Customers: 2,200 pharmacies Transaction Amount: 40% increase

Strengthen Cooperation with Wholesalers

Collaboration between hospital sector MRs and area MRs	Improve SP tools and quality/quantity of product information

Presentations, periodic visits to hospital managements/offices

Increase MR Numbers and Strengthen Back-up Support

New Product Strategy

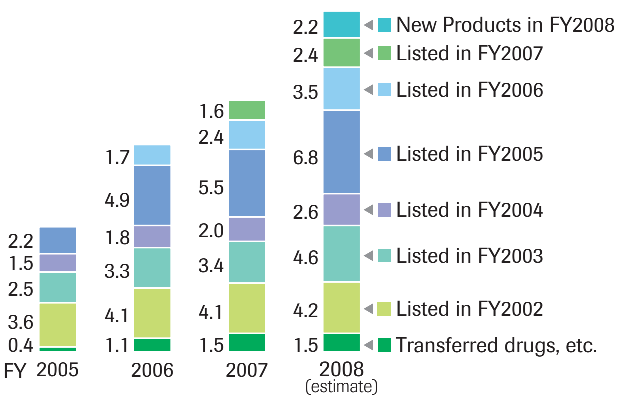
Sawai will focus on new product development and sales expansion by being an industry leader in R&D investment.

It is imperative that generic drug manufacturers launch generics as soon as possible after the patents on originator drugs expire. Also, continuous introduction of new products is essential for the reinforcement of competitive strength. To accomplish this, investment in experimental research is essential. About five years is required from the start of research until launch, and we are focusing on technological improvements to create high-value-added, high-quality, generic drugs unique to Sawai, while avoiding various patents on originator drugs. Sawai is continuously making aggressive investments and has the highest experimental research expenses among generics manufacturers in Japan. Actual R&D expenditures in fiscal 2007 were ¥3,222 million (an increase of 8.5% year on year), and planned expenses for fiscal 2008 are ¥4,020 million (an increase of 8.9%). We will further reinforce R&D investment in the coming years.

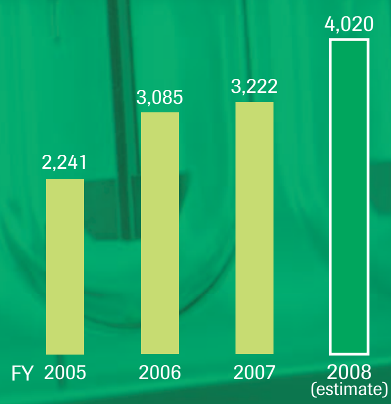
The total market for originator drugs in fiscal 2008 is expected to reach a record-high figure exceeding ¥400 billion, and competition between originator drug manufacturers and generic drug manufacturers is likely to further intensify.

Following NHI price listing of 37 new products in fiscal 2007, Sawai plans to launch about 40 new items in fiscal 2008, including amlodipine preparations, and we will mount a vigorous sales expansion effort. To secure a position of market share leadership among generic drug manufacturers, for fiscal 2008, we have established a target of ¥2,200 million in sales of new products and are implementing a policy of emphasizing enhancement of the marketing function.

Yearly Sales Trends for Listed Drugs
(¥ billion, consolidated basis)



R&D Expenditures
(¥ million, consolidated basis)



Production System Augmentation

Sawai will augment its production system with “Stable supply for patients” as our watchword.

Generic drug manufacturers must ensure the stable supply of products, so that physicians and pharmacists can use them with confidence. Sawai has made “Stable supply for patients” our watchword, and we have made aggressive up-front investments to augment production capacity in order to cope with demand increases and solidify the foundation for business expansion.

Expansion of the Kyushu Factory of subsidiary Medisa Shinyaku, completed in May 2008, and expansion of the Sanda Factory, planned for completion in the spring of 2009, will bring annual production capacity to 4.8 billion tablets, about 2.5 times the capacity in fiscal 2005.

With regard to injectable solutions, in April 2007 we newly established at the Kanto Factory a prefilled syringe solution manufacturing line with production capacity of 10 million units to enhance the line of products for DPC hospitals and augment production capacity. In fiscal 2008, we plan to expand the injectable solutions manufacturing line at the Sawai Kyushu Factory.

Although production capacity at the end of fiscal 2007 was sufficient to meet annual sales volume of about ¥50 billion, in anticipation of future sales volume expansion we plan to have in place at the end of fiscal 2008 sufficient capacity to meet annual sales of about ¥70 billion. We will continue to actively reinforce production systems at the above four factories and the Osaka Factory, and endeavor to further enhance our stable supply structure.


Kyushu Factory

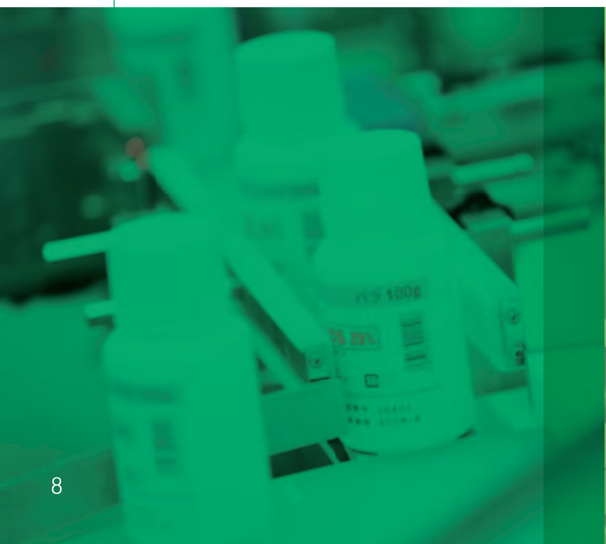

Kanto Factory


Sanda Factory


Kyushu Factory of Medisa Shinyaku

Enhancement of Production Capacity

Site name	Site area (m²)	Production capability (As of March 2008)	Major investment (Investment amounts)
Kyushu Factory	70,351	Tablets and capsules: 704 million tablets Injections: 3.24 million vials and ampules Others: 223.68 tons	—
Sanda Factory Osaka Factory	14,686 1,293	Tablets and capsules: 1,620 million tablets	3rd stage construction in Sanda Factory, complete in Spring, 2009 (¥3.6 billion)
Kanto Factory	32,527	Tablets and capsules: 543 million tablets Injections: 2 million ampules and pfs Others: 20 tons	New syringe production line completed in April 2007 (¥3.0 billion)
Kyushu Factory of Medisa Shinyaku	34,105	Tablets and capsules: 800 million tablets Others: 36 tons	6th stage construction complete in May 2008 (¥3.2 billion)



The Company positions corporate governance as one of its most important management tasks as it seeks to maximize corporate value and shareholder interests.

Basic Approach to Corporate Governance

Sawai is developing a sound, highly transparent management structure based on recognition that corporate governance is the management foundation upon which all corporate social responsibility activities are based. To increase corporate value through profitable growth and maximize shareholder interests from a long-term perspective, the Company is developing a management system that allows for appropriate and timely decision-making and business execution in response to changes in the external environment.

Status of Implementation of Corporate Governance

The Company has comparatively few corporate officers: eleven directors and five corporate auditors (including three external corporate auditors). In view of factors including corporate scale and management approach, for some time, the Company has employed the corporate auditor system.

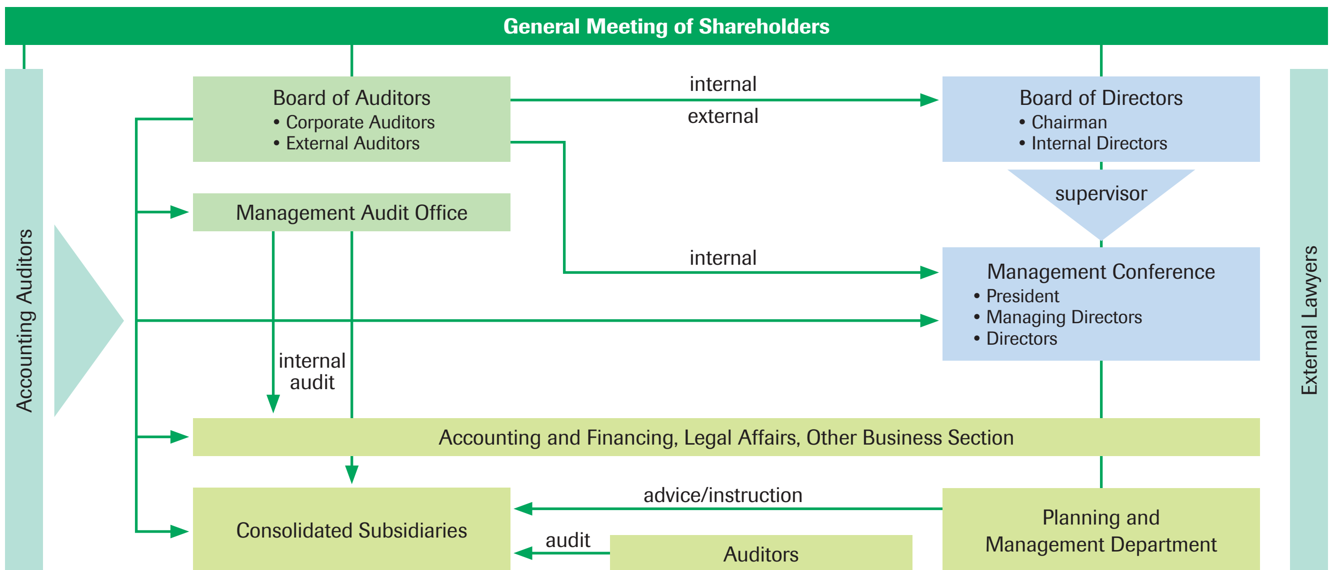
The Company strives to manifest organizational flexibility through vitalization of the Board of Directors, the Management Conference and the Conference of Head Office General Managers. The Company fosters the sharing of ethical norms and information sharing at the executive management level as required of a pharmaceutical company, upon which people's lives depend. The Company also aims to inculcate this at business sites through group-wide audits performed by the Management Audit Office (whose name changed from the Internal Inspection Department in April 2008).

The three external corporate auditors have no trading relationships with the Sawai Group. The Group's consolidated subsidiaries are subject to advice and instructions on day-to-day business execution from the Planning and Administration Department and undergo audits performed by the Company's Management Audit Office. Medisa Shinyaku Inc. undergoes accounting audits performed by the Company's Independent Auditors and Kaken Shoyaku Co., Ltd. undergoes accounting audits required for consolidated auditing.

In the area of risk management, to ensure a structure for rapid, accurate information gathering and processing, all information channels, including those for inside information, are concentrated under the director in charge of the Corporate Division (formed in April 2008 upon the integration of the Management Planning Division and the Administration Division), who is a member of the Board of Directors.

Four members of the Management Audit Office are in charge of internal audits. This department conducts audits of other organizations within the Company and of consolidated subsidiaries in close cooperation with the Board of Corporate Auditors.

Corporate Governance Structure



State of Development of Internal Control Systems

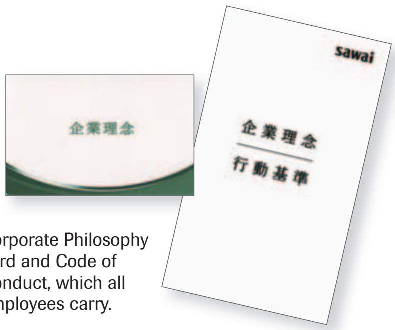
The Company has established a basic policy concerning the development of internal control systems (revised in April 2008) to prevent the occurrence of corporate scandals and to realize optimization, efficiency and transparency in management and business operations. Specific matters the Company has decided are as follows: 1) the establishment of a standard of conduct (penetration and inculcation of the corporate philosophy and code of conduct), 2) the establishment of a corporate governance structure (in particular, the enhancement of auditing and verification systems), 3) the development and establishment of a business execution system (the development of compliance and risk management systems), 4) information management, 5) the elimination of antisocial forces and 6) subsidiary management.

With regard to systems for business execution, the Company convenes periodic and ad hoc meetings of the Compliance Committee, whose members are the directors, standing statutory auditors and members of the Corporate Division departments and whose office is the Compliance Office (newly established within the Legal Affairs Department in April 2008). The Committee deliberates compliance-related matters, engages in compliance education and information dissemination activities and promotes group-wide compliance awareness and the acquisition of legal knowledge.

The Reliability Assurance Division (established in April 2008) is the organization responsible for all products' quality and safety. The Department is developing a system for rigorous supervision based on GQP and GVP standards. With regard to the supervision of the state of risk in overall business operations and accident and disaster prevention measures, the Company is developing a response system in conformance with the Risk Management Rules.

Internal Branding

The Company has engaged in internal branding activities (employee brand formation activities) since fiscal 2006. The purpose of these activities is to ensure that each employee, being a member of a leading company in the generic pharmaceuticals business, recognizes the significance of the Sawai brand and acts accordingly. Specifically, the purpose is to explore the meaning of the Corporate Mission "Patients first" and formulate the Corporate Philosophy and the Sawai Code of Conduct. We aim to transform employee awareness and behavior and increase cohesion through diffusion of the Corporate Philosophy and the Sawai Code of Conduct throughout the organization. At the same time, we have launched a group-wide initiative for enduring internal reform, which involves the implementation of concrete measures and action plans to solve latent issues with respect to business processes, the organizational structure and the organizational culture.



Corporate Philosophy card and Code of Conduct, which all employees carry.

Communication with Shareholders and Investors

The Company will continue to hold biannual financial result briefings (for the interim and year-end closing of accounts), which provide a means for timely, highly transparent information disclosure to analysts and institutional investors and an opportunity for direct dialog with executive management. The Company strives to ensure timely disclosure on the Company's website the Summary Statement of Financial Results and supplemental information, the Securities Report and press releases. The Company also proactively disseminates information to investors through upgrading of the IR website and the issuance of the Annual Report and other printed materials. At the same time, we endeavor to secure and retain long-term shareholders through the issuance of a biannual shareholder bulletin to individual investors in Japan.

Introduction of Takeover Defense Measures

A spate of mergers and acquisitions in Japan in recent years has attracted public attention. To prevent large-scale share purchases by inappropriate persons, interference with the conduct of business and impairment of corporate value, the Company has prepared the Policy Concerning Large-Scale Purchases of Shares (Takeover Defense Measures) (hereinafter the "Plan").

The Plan requires the provision of information by any person who attempts a large-scale purchase of the Company's shares, representing 20% or more of the total voting rights, and provides a framework for triggering countermeasures such as the issuance of stock acquisition rights in cases where a purchaser has been judged to be inappropriate. At a meeting of the Company's Board of Directors held on May 12, 2008, it was resolved to submit the Plan for approval by the General Meeting of Shareholders. The Plan was approved at the 60th Ordinary General Meeting of Shareholders held on June 24.

Five-Year Summary

Years ended March 31	Millions of yen				
	2008	2007	2006	2005	2004
Net sales	**¥ 37,631**	¥ 34,317	¥ 26,616	¥ 23,277	¥ 22,548
Cost of sales	**20,130**	17,357	13,265	12,317	11,313
Gross profit	**17,501**	16,960	13,351	10,960	11,235
Selling, general and administrative expenses	**13,453**	12,267	9,052	9,016	7,338
Operating income	**4,048**	4,693	4,299	1,944	3,897
Income before Income Taxes	**3,129**	4,166	5,043	(379)	3,759
Net income	**1,739**	2,260	3,010	(349)	2,282
Total assets	**66,295**	67,827	51,997	42,009	38,936
Inventories	**13,500**	13,768	9,609	7,019	7,082
Total current liabilities	**17,152**	18,525	18,352	13,461	10,171
Total long-term liabilities	**8,938**	9,981	4,811	3,579	2,915
Shareholders' equity	**—**	—	27,543	24,969	25,850
Net assets	**40,205**	39,321	—	—	—
Net cash provided by (used in) operating activities	**9,549**	(4,370)	1,884	2,120	2,152
Net cash provided used in investing activities	**(6,562)**	(10,551)	(2,313)	(1,803)	(3,507)
Net cash provided by financing activities	**(4,958)**	15,449	2,022	451	2,927
Cash and cash equivalents at end of year	**5,389**	7,360	6,832	5,239	4,471
Research and development (R&D) expenses	**3,222**	3,085	2,241	2,524	2,261
Capital expenditures	**4,336**	6,887	5,359	2,764	3,368
Depreciation and amortization	**2,575**	1,964	1,640	1,329	1,253
	%				
Ratio of R&D expenses to sales	**8.6**	9.0	8.4	10.8	10.0
Return on equity	**4.6**	6.9	11.5	(1.4)	10.2
Shareholders' equity to total assets	**58.3**	55.8	53.0	59.4	66.4
	Yen				
Amounts per common share:					
Net income—basic	**¥ 110.73**	¥ 157.67	¥ 217.08	¥ (27.80)	¥ 178.64
Net income—diluted	**—**	—	—	—	178.22
Cash dividends applicable to period	**55.00**	55.00	50.00	40.00	40.00
Net assets	**2,460.17**	2,408.42	2,014.11	1,826.76	1,894.00

Note: 1. Diluted net income per common share is not disclosed in 2008, 2007, 2006 and 2005 because there were no outstanding convertible securities.
2. Net assets as of 2008 and 2007 included minority shareholders' interest due to the application of the Japanese Corporate Law.

Management Discussion and Analysis

Business Environment

In fiscal 2007 (year ended March 31, 2008) business conditions in Japan turned increasingly sluggish. Prospects for the corporate sector, which has heretofore driven economic activity, have become uncertain owing to the impact of a number of factors, including instability in the world's financial markets due to deceleration of the U.S. economy and the subprime loan problem, foreign exchange market fluctuations, and rising prices, notably the soaring price of crude oil. At the same time, personal consumption has followed a course of advances and retreats.

In the ethical drugs industry, possible purchasing restraint on the part of medical institutions from January to March 2008, due to the revision to the drug price reimbursement system implemented in April 2008 was a source of concern. Nevertheless, market needs for generic drugs, centered on NHI pharmacies, have continued to increase owing to the implementation of healthcare system changes including measures to promote the use of generic drugs such as the remodification of the prescription form, the revision to the Regulations for NHI pharmacies' and NHI pharmacists' Responsibilities in Dispensing', and the addition of points to medical service fees for the dispensing of generic drugs resulting from medical fee revision.

Also, consideration of use of low-cost generic drugs in drug selection for inpatient treatment is expected to increase as the number of hospitals that have introduced the Diagnosis Procedure Combination (DPC) system increases. On the other side of the coin, however, competition between manufacturers of originator drugs and competitors has increasingly intensified.

In these circumstances, in accordance with the Medium-term Business Plan for 2007–2009, in fiscal 2007 Sawai Group undertook to establish the Sawai brand as the top generic drug brand in Japan with the aim of solidifying our position as Japan's preferred generic drugs manufacturer. We implemented a strategy targeting DPC hospitals and NHI pharmacies, augmented the production system to prepare for a sharp increase in demand, and focused effort on information provision, stable supply, and the establishment of internal control systems in order to further increase reliability.

Income and Expenses

Net sales in the year under review rose by 9.7% from the previous year to ¥37,631 million. Cost of sales increased by 16.0% to ¥20,130 million. Although gross profit increased by 3.2% to ¥17,501 million, the ratio of gross profit to sales fell by 2.9 percentage points to 46.5%. The decrease is attributable to an increase in the cost of sales ratio due to inventory reduction efforts aimed at achieving an appropriate inventory level amid first-half sales growth that fell short of the initial forecast.

Selling, general and administrative expenses increased by 9.6% year on year to ¥13,453 million, as a result of factors including personnel increases and the expansion and upgrading of business sites in preparation for increased demand, which offset a decrease of ¥586 million in advertising and promotion expenses. R&D expenses increased by 4.4% to ¥3,222 million, and the ratio of R&D expenses to sales slipped by 0.4 percentage points to 8.6%.

Operating income decreased by 13.7% year on year to ¥4,048 million, and the ratio of operating income to sales decreased by 2.9 percentage points to 10.8%.

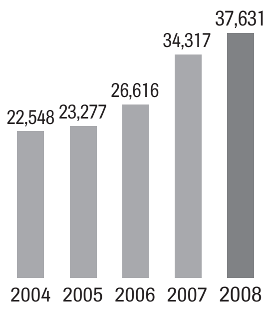
In the year under review, the Company recorded a ¥508 million loss on disposal of inventories of owing to the disposal of products whose names had changed for the purpose of preventing medical error and a ¥207 million reserve for sales rebates for the previous period attendant on a change in accounting policy.

As a result, net income for fiscal 2007 decreased by 23.1% from the previous year to ¥1,739 million. Net income per share (basic) decreased by ¥46.94 from the previous year to ¥110.73.

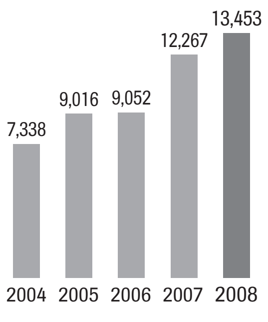
Financial Position

Total assets as of March 31, 2008 were ¥66,295 million, a decrease of ¥1,532 million, or 2.3%, from the end of the previous fiscal year.

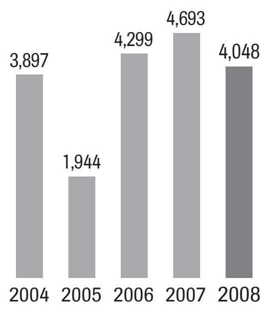
Net Sales
(Millions of yen)



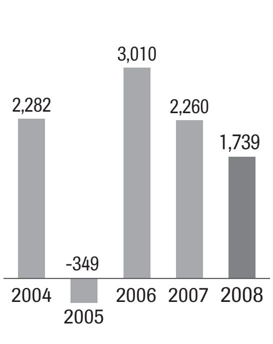
Selling, General and Administrative Expenses
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Current assets decreased by ¥3,402 million to ¥35,341 million. The change is principally attributable to a decrease of ¥1,971 million in cash and cash equivalents and a decrease of ¥1,271 million in trade notes and accounts receivable due to the securitization of trade receivables. Inventories decreased by ¥267 million from the end of the previous fiscal year to ¥13,500 million.

Property, plant and equipment increased by ¥1,994 from the previous fiscal year to ¥28,855 million. The increase is principally attributable to investment in production-related facilities, including expansion of the Medisa Shinyaku Kyushu Factory and machinery and equipment upgrades at the Sanda Factory. Accumulated depreciation was ¥20,298 million.

Capital expenditure decreased by ¥2,551 million year on year to ¥4,336 million.

The total of intangible assets and investments and other assets decreased by ¥123 million to ¥2,099 million.

Total liabilities decreased by ¥2,416 million, or 8.5%, from the end of the previous fiscal year to ¥26,090 million. The change is mainly attributable to a decrease in current liabilities, including bank loans and other accounts payable. Interest-bearing liabilities decreased by ¥4,018 million, or 25.7%, to ¥11,634 million.

Net assets increased by ¥884 million, or 2.2%, from the end of the previous fiscal year to ¥40,205 million. The equity ratio rose 2.5 percentage points to 58.3%.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥9,549 million, an increase of ¥13,920 million in cash provided from the previous fiscal year. Principal items were ¥3,129 million in income before income taxes and minority interests, ¥2,575 million in depreciation and amortization, a ¥2,420 million increase in trade notes and accounts payable, a ¥1,271 million decrease in trade notes and accounts receivable, and ¥1,616 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥6,562 million, a decrease of ¥3,989 million in cash used from the previous fiscal year. The principal item was payments for purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥4,958 million, an increase of ¥20,407 million in cash used from the previous fiscal year. The principal item was repayments of bank loans.

As a result, cash and cash equivalents at the end of year decreased by ¥1,971 million from the previous fiscal year to ¥5,389 million.

Dividend Policy

The Company considers the distribution of profits to shareholders an important management priority and has a basic policy of continuing to pay dividends in accordance with business performance while maintaining internal reserves necessary for future business development and reinforcement of the financial structure.

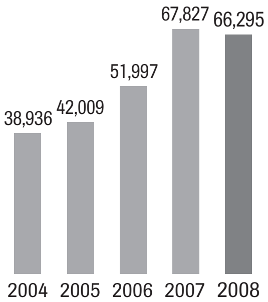
For the year under review, the Company placed importance on shareholder returns and paid an annual dividend of ¥55 per share, consisting of an interim dividend of ¥30 yen and a year-end dividend of ¥25 yen. The consolidated dividend ratio was 49.7%.

Outlook for Fiscal 2008

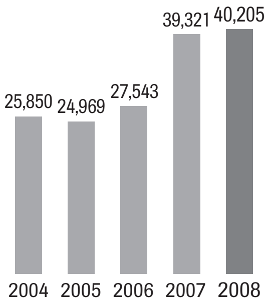
Although a drug price revision was implemented in April 2008, the Company will undertake to improve business performance by further engaging in new market development through vigorous sales activities while publicizing the excellence of our products with regard to quality, information, and stable supply. We will also continue to develop and upgrade production facilities in preparation for further dissemination of generic drugs.

We forecast net sales of ¥45,000 million and net income of ¥2,300 million for fiscal 2008, to be achieved by engaging in business operation in accordance with the above policy.

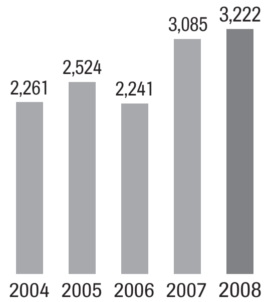
Total Assets
(Millions of yen)



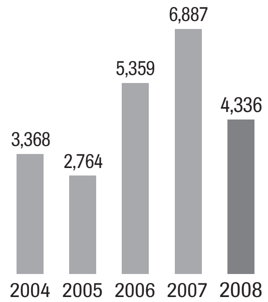
Net Assets
(Millions of yen)



Research and Development (R&D) Expenses (Millions of yen)



Capital Expenditures
(Millions of yen)



(Years ended March 31)

Financial Statements

CONSOLIDATED BALANCE SHEETS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 5,389**	¥ 7,360	**$ 53,783**
Trade notes and accounts receivable	**15,312**	16,584	**152,814**
Allowance for doubtful receivables	**(22)**	(47)	**(220)**
	20,679	23,897	**206,377**
Inventories (Note 3)	**13,500**	13,768	**134,731**
Deferred income taxes (Note 8)	**710**	555	**7,086**
Other current assets	**452**	524	**4,511**
Total current assets	**35,341**	38,744	**352,705**
Property, Plant and Equipment (Note 5)**:**			
Land	**4,862**	4,862	**48,523**
Buildings and structures	**24,805**	22,583	**247,555**
Machinery and equipment	**14,429**	12,807	**144,002**
Construction in progress	**1,564**	1,570	**15,609**
Other	**3,493**	3,243	**34,860**
	49,153	45,065	**490,549**
Accumulated depreciation	**(20,298)**	(18,204)	**(202,575)**
Net property, plant and equipment	**28,855**	26,861	**287,974**
Intangible Assets	**763**	742	**7,615**
Investments and Other Assets:			
Investment securities (Note 4)	**821**	971	**8,194**
Long-term loans	**216**	236	**2,156**
Long-term prepaid expenses	**90**	55	**898**
Other investments and long-term receivables	**262**	270	**2,614**
	1,389	1,532	**13,862**
Allowance for doubtful receivables	**(53)**	(52)	**(529)**
Net investments and other assets	**1,336**	1,480	**13,333**
	¥ 66,295	¥ 67,827	**$ 661,627**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Bank loans (Note 5)	**¥ 2,000**	¥ 4,000	**$ 19,960**
Current portion of long-term debt (Note 5)	**2,144**	3,117	**21,397**
Trade notes and accounts payable	**6,904**	4,460	**68,902**
Other accounts payable	**3,799**	4,935	**37,914**
Accrued bonuses to employees	**814**	708	**8,124**
Accrued bonuses to directors and corporate auditors	**45**	48	**449**
Income taxes payable	**821**	959	**8,194**
Reserve for sales returns (Note 2)	**154**	77	**1,537**
Reserve for sales rebates (Note 2)	**263**	—	**2,625**
Other current liabilities	**208**	221	**2,076**
Total current liabilities	**17,152**	18,525	**171,178**
Long-Term Liabilities:			
Long-term debt, due after one year (Note 5)	**7,490**	8,534	**74,750**
Employees' retirement benefits (Note 6)	**169**	186	**1,687**
Directors' and corporate auditors' retirement benefits	**387**	381	**3,862**
Deferred tax liabilities (Note 8)	**207**	254	**2,066**
Negative goodwill	**42**	50	**419**
Other long-term liabilities	**643**	576	**6,418**
Total long-term liabilities	**8,938**	9,981	**89,202**
Net Assets:			
Shareholders' Equity (Note 7)**:**			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding			
15,702,000 shares in 2008 and 2007	**11,502**	11,502	**114,790**
Capital surplus	**11,825**	11,825	**118,014**
Retained earnings	**15,069**	14,194	**150,389**
Treasury stock 282 shares in 2008 225 shares in 2007	**(1)**	(1)	**(10)**
Valuation and Translation Adjustments			
Net Unrealized Holding Gains on Securities	**234**	297	**2,335**
Minority Interests	**1,576**	1,504	**15,729**
Net assets	**40,205**	39,321	**401,247**
	¥ 66,295	¥ 67,827	**$ 661,627**

CONSOLIDATED STATEMENTS OF INCOME

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net Sales	**¥ 37,631**	¥ 34,317	¥ 26,616	**$ 375,559**
Cost of Sales	**20,130**	17,357	13,265	**200,898**
Gross Profit	**17,501**	16,960	13,351	**174,661**
Selling, General and Administrative Expenses	**13,453**	12,267	9,052	**134,262**
Operating Income	**4,048**	4,693	4,299	**40,399**
Other Income (Expenses):				
Interest and dividend income	**17**	17	10	**170**
Interest expense	**(192)**	(116)	(68)	**(1,916)**
Gain on real estate in trust beneficial interest	**—**	—	48	**—**
Gain on sale of real estate in trust beneficial interest	**—**	—	57	**—**
Loss on disposal of inventories	**(508)**	(236)	(218)	**(5,070)**
Commission for commitment line setup	**—**	—	(77)	**—**
Gain on receipt of fixed assets (Note 11)	**—**	—	675	**—**
Gain on reversal of provision for employees' retirement benefits	**—**	—	297	**—**
Gain on transfer of product's approval	**—**	—	100	**—**
Gain on transfer of products' distributorship	**—**	109	—	**—**
Loss on transfer of shareholders' interest (Note 12)	**—**	—	(63)	**—**
Loss due to impairment (Note 13)	**—**	(297)	(27)	**—**
Loss on disposal of buildings and structures	**(25)**	(62)	(36)	**(250)**
Gain on sale of fixed assets, net	**(3)**	0	(1)	**(30)**
Amortization of share issue expense	**—**	(55)	—	**—**
Repayment of cancellation of insurance for directors	**—**	85	—	**—**
Reserve for sales rebates for the previous period	**(207)**	—	—	**(2,066)**
Loss on devaluation of investments in securities	**(50)**	—	—	**(499)**
Reversal of allowance for doubtful receivables	**21**	0	16	**210**
Amortization of negative goodwill	**12**	5	—	**120**
Other, net	**16**	23	32	**160**
	(919)	(527)	744	**(9,171)**
Income Before Income Taxes And Minority Interests	**3,129**	4,166	5,043	**31,228**
Provision for Income Taxes:				
Current	**1,380**	1,737	(1,830)	**13,773**
Deferred	**(164)**	(29)	(203)	**(1,637)**
Minority Interests	**174**	198	—	**1,737**
Net Income	**¥ 1,739**	¥ 2,260	¥ 3,010	**$ 17,355**

	Yen			U.S. dollars (Note 1)
Per Share of Common Stock:				
Net income—basic	**¥ 110.73**	¥ 157.67	¥ 217.08	**$ 1.11**
Net income—diluted	**—**	—	—	**—**
Dividends	**55.00**	55.00	50.00	**0.55**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen								
	Shareholders' equity					Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2005	**¥ 7,022**	**¥7,346**	**¥10,434**	**¥(0)**	**¥24,802**	**¥167**	**¥167**	**–**	**¥24,969**
Changes of items during the year									
Cash dividends (Note)			**(341)**		**(341)**				**(341)**
Cash dividends			**(205)**		**(205)**				**(205)**
Bonuses to directors and corporate auditors (Note)			**(30)**		**(30)**				**(30)**
Net income for the year			**3,010**		**3,010**				**3,010**
Net changes of items other than shareholders' equity						**140**	**140**	**1,291**	**1,431**
Total increase/decrease during the year	**–**	**–**	**2,434**	**–**	**2,434**	**140**	**140**	**1,291**	**3,865**
Balance at March 31, 2006	**¥ 7,022**	**¥ 7,346**	**¥12,868**	**¥(0)**	**¥27,236**	**¥307**	**¥307**	**¥1,291**	**¥28,834**
Changes of items during the year									
Public stock offering	**4,043**	**4,042**			**8,085**				**8,085**
Allocation of new shares to a third party	**437**	**437**			**874**				**874**
Cash dividends (Note)			**(478)**		**(478)**				**(478)**
Cash dividends			**(410)**		**(410)**				**(410)**
Bonuses to directors and corporate auditors (Note)			**(46)**		**(46)**				**(46)**
Net income for the year			**2,260**		**2,260**				**2,260**
Acquisition of treasury stock				**(1)**	**(1)**				**(1)**
Net changes of items other than shareholders' equity						**(10)**	**(10)**	**213**	**203**
Total increase/decrease during the year	**4,480**	**4,479**	**1,326**	**(1)**	**10,284**	**(10)**	**(10)**	**213**	**10,487**
Balance at March 31, 2007	**¥11,502**	**¥11,825**	**¥14,194**	**¥(1)**	**¥37,520**	**¥297**	**¥297**	**¥1,504**	**¥39,321**
Changes of items during the year									
Cash dividends			**(864)**		**(864)**				**(864)**
Net income for the year			**1,739**		**1,739**				**1,739**
Acquisition of treasury stock				**(0)**	**(0)**				**(0)**
Net changes of items other than shareholders' equity						**(63)**	**(63)**	**72**	**9**
Total increase/decrease during the year	**–**	**–**	**875**	**(0)**	**875**	**(63)**	**(63)**	**72**	**884**
Balance at March 31, 2008 (Note 7)	**¥11,502**	**¥11,825**	**¥15,069**	**¥(1)**	**¥38,395**	**¥234**	**¥234**	**¥1,576**	**¥40,205**

	Thousands of U.S. dollars (Note 1)								
	Shareholders' equity					Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	**$114,790**	**$118,014**	**$141,657**	**$(10)**	**$374,451**	**$2,964**	**$2,964**	**$15,010**	**$392,425**
Changes of items during the year									
Cash dividends			**(8,623)**		**(8,623)**				**(8,623)**
Net income for the year			**17,355**		**17,355**				**17,355**
Acquisition of treasury stock				**(0)**	**(0)**				**(0)**
Net changes of items other than shareholders' equity						**(629)**	**(629)**	**719**	**90**
Total increase/decrease during the year	**–**	**–**	**8,732**	**(0)**	**8,732**	**(629)**	**(629)**	**719**	**8,822**
Balance at March 31, 2008 (Note 7)	**$114,790**	**$118,014**	**$150,389**	**$(10)**	**$383,183**	**$2,335**	**$2,335**	**$15,729**	**$401,247**

Note: These are items concerning the appropriation of earnings are resolved at the general shareholders meeting held on June 2006 and 2005.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	**¥3,129**	¥4,166	¥5,043	**$31,228**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**2,575**	1,964	1,640	**25,699**
Loss due to impairment	**–**	297	27	**–**
Amortization of negative goodwill	**(12)**	(5)	–	**(120)**
Reserve for sales rebates for the previous period	**207**	–	–	**2,066**
Increase in reserve for sales rebates	**57**	–	–	**569**
Increase (decrease) in allowance for doubtful receivables	**(24)**	47	(6)	**(240)**
Increase in accrued bonuses to employees	**106**	134	101	**1,058**
Increase (decrease) in accrued bonuses to directors and corporate auditors	**(3)**	48	–	**(30)**
Increase in reserve for loss on sales returns	**77**	24	13	**768**
Increase (decrease) in employees' retirement benefits	**(17)**	0	(595)	**(170)**
Increase in retirement benefits to directors and corporate auditors	**6**	19	11	**60**
Interest and dividend income	**(17)**	(17)	(10)	**(170)**
Interest expense	**192**	116	68	**1,916**
Gain on transfer of products' distributorship	**–**	(109)	–	**–**
Loss on devaluation of investments in securities	**50**	–	–	**499**
Loss on disposal of buildings and structures	**25**	62	36	**250**
Decrease (increase) in trade notes and accounts receivable	**1,271**	(4,156)	(1,867)	**12,685**
Decrease (increase) in inventories	**267**	(3,931)	(2,589)	**2,665**
Increase (decrease) in trade notes and accounts payable	**2,420**	(501)	1,039	**24,152**
Increase (decrease) in long-term prepaid expenses	**(35)**	55	4	**(349)**
Increase (decrease) in other accounts payable	**838**	442	(509)	**8,363**
Payment of bonuses to directors and corporate auditors	**–**	(46)	(30)	**–**
Gain on fixed assets received	**–**	–	(675)	**–**
Loss on transfer of shareholders' interest	**–**	–	63	**–**
Other	**226**	(81)	222	**2,255**
Sub total	**11,338**	(1,472)	1,986	**113,154**
Interest and dividends received	**17**	17	9	**170**
Interest paid	**(189)**	(117)	(62)	**(1,886)**
Income taxes paid	**(1,617)**	(2,798)	(49)	**(16,138)**
Net cash provided by (used in) operating activities	**9,549**	(4,370)	1,884	**95,300**
Cash Flows from Investing Activities:				
Payments for purchase of securities	**(2)**	(159)	(74)	**(20)**
Proceeds from sale of securities	**7**	61	379	**70**
Payments for purchase of property, plant and equipment	**(6,286)**	(9,719)	(2,515)	**(62,735)**
Payments for purchase of intangible assets	**(281)**	(158)	(754)	**(2,804)**
Proceeds from sale of real estate in trust beneficial interest	**–**	–	712	**–**
Proceeds from transfer of product's approval	**–**	–	100	**–**
Payments for long-term loan	**–**	–	(180)	**–**
Proceeds from collection of long-term loan	**20**	20	6	**200**
Payments for purchase of subsidiary's securities with change in scope of the consolidation	**–**	(255)	–	**–**
Payment for additional acquisition of subsidiary's securities	**(21)**	(343)	–	**(210)**
Other	**1**	2	13	**10**
Net cash used in investing activities	**(6,562)**	(10,551)	(2,313)	**(65,489)**
Cash Flows from Financing Activities:				
Net increase in bank loans	**(2,000)**	1,700	(1,170)	**(19,960)**
Proceeds from long-term debt	**1,150**	8,000	4,500	**11,477**
Repayment of long-term debt	**(3,168)**	(2,314)	(1,989)	**(31,617)**
Proceeds from issuance of stock	**–**	8,959	–	**–**
Payments for purchase of treasury stock	**0**	(1)	–	**0**
Proceeds from payment of minority shareholders	**–**	–	1,227	**–**
Cash dividends paid	**(864)**	(887)	(546)	**(8,623)**
Cash dividends paid to minority shareholders	**(78)**	(8)	–	**(778)**
Other	**2**	–	–	**20**
Net cash provided by financing activities	**(4,958)**	15,449	2,022	**(49,481)**
Net increase in cash and cash equivalents	**(1,971)**	528	1,593	**(19,670)**
Cash and cash equivalents at beginning of year	**7,360**	6,832	5,239	**73,453**
Cash and cash equivalents at end of year	**¥5,389**	¥7,360	¥6,832	**$53,783**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Basis of Financial Statements

SAWAI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (the "Companies") maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Companies prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.20 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, MEDISA SHINYAKU INC. and KAKEN SHOYAKU CO., LTD., that meet the control requirements for consolidation. All significant intercompany transactions and accounts have been eliminated in the consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are evaluated using the fair value at the time the Company acquired control of respective subsidiaries.

MEDISA SHINYAKU INC. has allocated its new shares, which represent 35 percent of the total shares outstanding, to a third party since January 2006.

KAKEN SHOYAKU CO., LTD. became a subsidiary, with a large majority of its shares owned by the Company, in the latter half of the fiscal year ended March 31, 2007. Therefore, the accounts of this subsidiary were included in the scope of consolidation from the latter half of the fiscal year ended March 31, 2007.

The Company has no affiliates meeting the significant influence requirement for application of the equity method.

(b) Cash and cash equivalents

Cash and cash equivalents in the consolidated balance sheets include cash on hand, readily available deposits and deposits with a maturity of one year or less.

(c) Allowance for doubtful receivables

The allowance for doubtful receivables is provided in amounts sufficient to cover possible losses on collection. The allowance is determined by adding individually estimated uncollectable amounts to an amount computed based on the actual ratio of bad debts in the past.

(d) Marketable and investment securities

The Companies classify securities into the following categories: (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities").

The Companies have no trading securities, held-to-maturity debt securities or equity securities in unconsolidated subsidiaries and affiliates. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

Securities with no available fair market value are stated at moving average cost. If a decline in the fair value of an individual security to below cost is judged to be material and other than temporary, the carrying value of the individual security is written down.

(e) Inventories

Inventories are stated at moving average cost, except for supplies, which are stated at average cost.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is mainly calculated by the straight-line method over estimated useful life of the asset. The Company and its consolidated subsidiaries have changed their method of depreciation for all tangible fixed assets acquired on or after April 1, 2007 to reflect the revisions to the Japanese Corporate Tax Law. As a result of this change, gross profit was ¥21 million ($210 thousand) less, operating income and income before income taxes and minority interests were ¥24 million ($240 thousand) less for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded under the previous method.

Pursuant to an amendment to the Japanese Corporate Tax Law, after having fully depreciated tangible fixed assets acquired on or before 31 March 2007 up to 5% of the acquisition cost, based on the prior Japanese Corporate Tax Law, the Company and its consolidated subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price using a straight-line method over 5 years and expensed the amounts as "Depreciation and amortization." The straight-line depreciation starts from the next year, when the book value of tangible assets acquired on or before 31 March 2007 reaches 5% of the acquisition cost. As a result, for the year ended 31 March 2008, gross profit was ¥78 million ($778 thousand) less, operating income and income before income taxes and minority interests were each ¥89 million ($888 thousand) less than they would have been using the previous method.

Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to expenses when incurred.

(g) Impairment of fixed assets

For the year ended March 31, 2006, the Company and its consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standard Board of Japan on October 31, 2003).

As a result of adopting these new accounting standards, a loss on impairment of fixed assets in the amount of ¥297 million and ¥27 million were recognized in 2007 and 2006, respectively; income before income taxes decreased by the same amounts.

(h) Accrued bonuses

The Company and its consolidated subsidiaries accrue amounts for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(i) Stock issuance costs

Stock issuance costs are charged to income as incurred.

(j) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax. The provision for income taxes is based on income for financial statement purposes. The tax effects of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes.

(k) Retirement benefits

(i) Employees

The Company and its subsidiary MEDISA SHINYAKU INC. revised its tax qualified pension plan and implemented a new defined contribution plan.

KAKEN SHOYAKU CO., LTD. maintains a lump-sum indemnity plan which is a non-contributory defined benefit pension plan. Retirement benefits for employees are provided based on the company's provisions.

(ii) Directors and corporate auditors

The Companies' liability for directors and corporate auditors' retirement benefits is provided based on the Companies' internally decided criteria.

(l) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

(m) Research and development

Research and development expenses for the improvement of existing products and the development of new products, including basic research and fundamental development costs, are charged to income in the period incurred and amounted to ¥3,222 million ($32,156 thousand), ¥3,085 million and ¥2,241 million for the years ended March 31, 2008, 2007 and 2006, respectively.

(n) Software costs

The Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful life of five years.

(o) Finance leases

Finance leases which do not transfer ownership or which do not have bargain purchase option provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(p) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(q) Net income per share

Computations of net income per share of common stock are based on the weighted average number of shares of common stock outstanding during each year.

(r) Reserve for sales returns

For the year ended March 31, 2008, the Company changed the accounting standards for the reserve for sales returns, which is based on estimated projections in order to prepare for loss incurred from the return of products. It was previously provided in the maximum amount (at the prescribed rate) permitted by the Corporation Tax Law. Compared with previous standards, the reserve for sales returns increased in the amount of ¥87 million ($868 thousand), gross profit, operating income and income before income taxes and minority interests each decreased by ¥87 million ($868 thousand), respectively.

(s) Reserve for sales rebates

For the year ended March 31, 2008, the Company added up the reserve for sales rebates which multiplied accounts receivable by the estimated rebate rates at the end of the fiscal year in order to prepare for sales rebates in the future. With this change, net sales and operating income are ¥57 million ($569 thousand) less and income before income taxes and minority interests is ¥263 million ($2,625 thousand) less, respectively.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentation.

3. Inventories

Inventories at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished goods and merchandise	**¥ 6,647**	¥ 6,917	**$ 66,338**
Work-in-process	**2,743**	3,014	**27,375**
Raw materials and supplies	**4,110**	3,837	**41,018**
Total	**¥13,500**	¥13,768	**$134,731**

4. Securities

(a) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2008.

(1) Securities with book values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥234**	**¥660**	**¥426**	**$2 ,335**	**$6,587**	**$4,252**

(2) Securities with book values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥45**	**¥25**	**¥(20)**	**$449**	**$250**	**$(199)**

(b) Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥7 million ($70 thousand), and the related gains and losses amounted to ¥1 million ($10 thousand) and ¥0 million ($0 thousand), respectively.

(c) Book values of securities with no available fair values as of March 31, 2008 are as follows:
Unlisted equity securities: ¥136 million ($1,357thousand)

(d) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2007.
Securities with book values exceeding acquisition costs:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	**¥278**	**¥785**	**¥507**

(e) Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥61 million, and the related gains and losses amounted to ¥3 million and ¥1 million, respectively.

(f) Book values of securities with no available fair values as of March 31, 2007 are as follows:
Unlisted equity securities: ¥186 million

5. Short-term Bank Loans and Long-term Debt

Short-term bank loans consisted mainly of unsecured bank loans with weighted average interest rates of 1.059% per annum at March 31, 2008 and 0.849% per annum at March 31, 2007.

Long-term debt at March 31, 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Loans from banks and other public corporations, due 2008–2015, interest 0.54%–2.0%		
Secured	**¥ 471**	**$ 4,700**
Unsecured	**9,163**	**91,447**
	9,634	**96,147**
Current portion of long-term debt	**2,144**	**21,397**
Total	**¥7,490**	**$74,750**

Long-term debt at March 31, 2007 consisted of the following:

	Millions of yen
Loans from banks and other public corporations, due 2007–2014, interest 0.48%–2.0%	
Secured	¥ 727
Unsecured	10,924
	11,651
Current portion of long-term debt	3,117
Total	¥8,534

The aggregate annual maturities of long-term debt outstanding at March 31, 2008 are as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2009	**¥2,144**	**$21,397**
2010	**2,043**	**20,389**
2011	**1,639**	**16,357**
2012	**1,296**	**12,934**
2013	**1,325**	**13,224**
2014-2015	**1,187**	**11,846**
Total	**¥9,634**	**$96,147**

At March 31, 2008, assets pledged as collateral for secured long-term debt, including current portions, are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	**¥4,372**	**$43,633**

At March 31, 2007, assets pledged as collateral for secured long-term debt, including current portions, are as follows:

	Millions of yen
Property, plant and equipment, net of accumulated depreciation	¥4,760

6. Employees' Retirement Benefits

The Company and its subsidiary, MEDISA SHINYAKU INC., revised its tax qualified pension plan and implemented a new defined contribution plan on October 1, 2005. As a result of these changes, a settlement profit of ¥297 million was recognized as income for the year ended March 31, 2006 as follows:

	Millions of yen
Decrease in projected benefit obligation	¥(3,041)
Decrease in plan assets	2,569
Unrecognized actuarial loss	175
Decrease in reserve for employees' retirement benefits	¥ (297)

Assets in the amount of ¥2,569 million will be contributed to the defined contribution pension plan over 4 years. The unpaid amount of ¥42 million was recorded in other current liabilities and long-term liabilities in 2006.

The liability for employees' retirement benefits at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected retirement benefit obligation	**¥169**	¥186	**$1,687**
Liability for retirement benefits	**¥169**	¥186	**$1,687**

KAKEN SHOYAKU CO., LTD., the Company's subsidiary, maintains a lump-sum indemnity plan which is a non contributory defined benefit pension plan and uses the simplified method to determine benefit obligations.

Retirement benefit expenses for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service cost	**¥ 12**	¥ 15	¥258	**$ 120**
Interest cost	**–**	–	32	**–**
Expected return on plan assets	**–**	–	(29)	**–**
Amortization of actuarial differences	**–**	–	69	**–**
Payment of contribution to defined contribution pension plan	**348**	308	–	**3,473**
Retirement benefit expenses	**¥360**	¥323	¥330	**$3,593**

Retirement expenses of KAKEN SHOYAKU CO., LTD., which adopted the simplified method to determine benefit obligations are included in both service cost and amortization of transition obligation.

7. Shareholders' Equity

Under the Corporate Law of Japan (the "Law"), which was enacted in May 2006, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, included in capital surplus.

Accordingly, the Company has divided the amount received from the issuance of common stock, including the exercise of warrants, between common stock and additional paid-in capital by resolution of the Board of Directors.

Because the proceeds from the exercise of warrants included consideration for warrant rights, which should be included in capital surplus, the increase in capital surplus is larger than the increase in common stock.

The Law provides that an amount equal to 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or greater than 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. The Law also provides that, if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Law.

On June 24, 2008, the Company's shareholders approved the payment of year-end cash dividends of ¥25 ($0.25) per share, totaling ¥393 million ($3,922 thousand) to the Company's shareholders of record as of March 31, 2008.

8. Deferred Income Taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 40.87% for the years ended March 31, 2008, 2007 and 2006.

Significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Unrealized gains on land	**¥ 29**	¥ 29	**$ 289**
Retirement benefits for directors and corporate auditors	**158**	156	**1,577**
Unrealized gains on inventories	**130**	133	**1,297**
Accrued bonuses to employees	**326**	286	**3,253**
Reserve for sales rebates	**108**	—	**1,078**
Amount in excess of depreciation and amortization	**142**	154	**1,417**
Loss due to impairment of fixed assets	**205**	205	**2,046**
Loss on disposal of buildings and structures	**147**	147	**1,467**
Enterprise taxes	**81**	96	**808**
Less valuation allowance	**(520)**	(490)	**(5,190)**
Other	**161**	124	**1,609**
Total deferred tax assets	**967**	839	**9,651**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(136)**	(136)	**(1,357)**
Reserve for special depreciation	**(25)**	(61)	**(250)**
Net unrealized holding gains on securities	**(165)**	(203)	**(1,647)**
Unrealized gain on revaluation of land	**(138)**	(138)	**(1,377)**
Other	**(0)**	(0)	**(0)**
Total deferred tax liabilities	**(464)**	(538)	**(4,631)**
Net deferred tax assets	**¥503**	¥301	**$5,020**

There was no significant difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2008 and 2007.

9. Leases

(a) Finance leases as lessee

At March 31, 2008 and 2007, original lease obligations for machinery and equipment and other assets under non-capitalized finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Original lease obligations, including finance charges	**¥1,028**	¥1,069	**$10,259**

Lease obligations under non-capitalized finance leases, including finance charges, remaining at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Payments due within one year	**¥186**	¥217	**$1,856**
Payments due after one year	**229**	330	**2,286**
Total	**¥415**	¥547	**$4,142**

Leases payments under such leases for the years ended March 31, 2008, 2007 and 2006 are ¥232 million ($2,315 thousand), ¥209 million and ¥158 million, respectively.

(b) Operating leases as lessee

Lease obligations under operating leases remaining at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Payments due within one year	**¥22**	¥ 4	**$220**
Payments due after one year	**73**	7	**728**
Total	**¥95**	¥11	**$948**

10. Segment Information

The Companies operate primarily in the pharmaceutical supplies industry in Japan. Accordingly, there is no presentation of information by business segment.

11. Gains on Receipt of Fixed Assets

On October 1, 2006, the Company took over the Mobara factory from Nihon Schering K.K. ("Nihon Schering").

12. Equity in Earnings of Nonconsolidated Subsidiaries and Associated Companies

MEDISA SHINYAKU INC. has increased its allocation of new stocks to a third party.

13. Loss on Impairment of Fixed Assets

Due to the recent decline in land prices and the sluggish rental market, the carrying values of certain assets have been reduced to their recoverable amounts. Accordingly, impairment losses were recognized in the year ended March 31, 2008, 2007 and 2006 as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Land	**¥ –**	¥ 16	¥22	**$ –**
Buildings	**–**	267	5	**–**
Machinery	**–**	14	–	**–**
Total	**¥ –**	¥297	¥27	**$ –**

Assets are grouped in one segment, which is managed appropriately. The recoverable amounts of the assets are their net realizable values calculated from appraised values.

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of
SAWAI PHARMACEUTICAL CO., LTD.:

We have audited the accompanying consolidated balance sheets of SAWAI PHARMACEUTICAL CO., LTD. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAWAI PHARMACEUTICAL CO., LTD. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 2(r) to the consolidated financial statements, for the year ended March 31, 2008, the Company changed the accounting standards for the reserve for sales returns.
(2) As discussed in Note 2(s) to the consolidated financial statements, for the year ended March 31, 2008, the Company added up the reserve for sales rebates.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 24, 2008

KPMG AZSA & Co.

Board of Directors (As of June 24, 2008)

Chairman	Hiroyuki Sawai*
President	Mitsuo Sawai*
Managing Director	Takashi Iwasa, Ph.D.
Managing Director	Harumasa Toya
Managing Director	Keiichi Kimura
Managing Director	Shigeharu Yokohama, Ph.D.

(*Representative Director)

Director	Shinich Tokuyama
Director	Yoshiteru Takahashi, Ph.D.
Director	Yasuhiro Obana
Director	Minoru Kodama
Director	Kyozo Inari
Standing Statutory Auditor	Toshiaki Konishi
Statutory Auditor	Takekiyo Sawai
External Auditor	Arata Mano
External Auditor	Koji Ueda
External Auditor	Hidefumi Sugao

Corporate Data (As of March 31, 2008)

Sawai Pharmaceutical Co., Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥11,501million
Number of Shares Outstanding:	15,702,000
Number of Shareholders:	11,715
Number of Employees:	790
Stock Listing:	Tokyo Stock Exchange 1st Section
Independent Public Accountant:	KPMG AZUSA & Co.
Transfer Agent:	The Chuo Mitsui Trust & Banking Co., Ltd.
Branches:	Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka
Area Offices:	Tokyo-Higashi, Tokyo-Nishi, Yokohama, Kita-Kanto, Jo-Shinetsu, Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu, Okayama, Kumamoto
Factories:	Kyushu, Sanda, Osaka, Kanto
Consolidated Subsidiary:	Medisa Shinyaku Inc. Kaken Shoyaku Co.,Ltd.

Stock Price Information

	Stock Price	
	High	Low
From April 1, 2007 to March 31, 2008	¥ 5,240	¥ 2,940
First Quarter	5,160	4,210
Second Quarter	4,540	3,390
Third Quarter	4,800	2,940
Fourth Quarter	5,240	3,900

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