

# **Creatively Pursuing the Promise of Generic Drugs**

# **Annual Report 2010**

For the year ended March 31, 2010



# Number-One in Japan's Generics Industry by Putting Patients First

"Patients first" is the primary corporate philosophy of Sawai Pharmaceutical Co., Ltd., and, since 1965, that philosophy has guided us as a respected leader in the generics industry in Japan.

The Japanese government has put forth the goal of raising the market share of generic drugs, by volume, from 17.2% in March 2008 to 30% by March 2013—the close of our FY2012.

To meet this challenge, Sawai is continuing to pioneer major innovation within the generic drug industry, while streamlining to raise our corporate value.

We perform our respective duties with a sense of mission and pride, while contributing to sustainable growth as the embodiment of Sawai's corporate philosophy.

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#### 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.





		Thousands of U.S. dollars		
Years ended March 31	2010	2009	2008	2010
Net sales	¥ 50,070	¥ 44,284	¥ 37,631	\$ 538,155
Operating income	8,519	4,668	4,048	91,563
Net income	4,982	2,439	1,739	53,547
Net assets	46,258	41,706	40,205	497,184
Total assets	81,236	72,320	66,295	873,130
Research and development (R&D) expenses	3,593	3,409	3,222	38,618
Capital expenditures	5,370	2,841	6,568	57,717
Depreciation and amortization	3,025	2,709	2,575	32,513
		%		
Ratio of R&D expenses to sales	7.2	7.7	8.6	
Return on equity	11.8	6.2	4.6	
Shareholders' equity to total assets	54.5	55.4	58.3	
Shareholders equity to total assets	54.5	55.1	30.3	
Amounts per common share:		Yen		U.S. dollars
Net income—basic	317.32	¥ 155.32	¥ 110.73	\$ 3.41
Net income—diluted	316.86	_	_	3.41
Cash dividends applicable to period	70.00	55.00	55.00	0.75
Net assets	2,817.65	2,551.06	2,460.17	30.28

Note: 1. The U.S. dollar amounts represent translation of Japanese yen amounts for convenience only and are at the approximate rate of ¥93.04 = \$1.00; the rate prevailing on March 31, 2010.

<sup>2.</sup> Diluted net income per common share are not disclosed for 2008 and 2009 because although there were outstanding potential shares, such shares did not have a dilutive effect.

<sup>3.</sup> Minority shareholders' interests are included in net assets due to the application of the Japanese Corporate Law.

<sup>4.</sup> For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Measurement of Inventories ("ASBJ Statement No.9" issued on July 5, 2006).

<sup>5.</sup> For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Lease Transactions ("ASBJ Statement No.13" issued on March 30, 2007), and the Guidance on Accounting Standard for Lease Transactions ("ASBJ Guidance No.16" issued on March 30, 2007).

# Growing to Fill the Healthcare

**Needs of Society** 

Economic activity in Japan remained stagnant in fiscal 2009, the year ended March 31, 2010, although there were signs of recovery in some sectors as the government's economic stimulus measures began to take effect. In the ethical drugs industry, the generic drugs market has been expanding gradually, mainly due to NHI pharmacies, since the implementation in April 2008 of measures to promote the use of generic drugs, including revision of the prescription form and the provision of additional medical service fees for the dispensing of generic drugs. Responding to the changes, Japanese and foreign companies from a number of industries have entered the generics market.

In these circumstances, the Sawai Group implemented three key policies during the first year of the medium-term business plan "M1 TRUST," in keeping with our philosophy "Patients first." They were: "Reinforcement of marketing to DPC hospitals," "End-to-end cost control," and "Reinforcement of collaboration with wholesale distributors." Important accomplishments in fiscal 2009 included introduction of the industry's top new product lineup and the establishment of a robust supply system. As a result of these efforts, we achieved record high net sales and net income.

The future trend within the ethical drugs industry in Japan is expected to favor further dissemination of generics, due to the government's promotion measures, which include higher medical service fees for dispensing generic drugs.

Japan's generics industry stands on the threshold of an era of unprecedented mega competition brought on by market entry by Japanese and foreign originator drug manufacturers and companies from other industries, as well as by industry realignment through mergers and acquisitions. Sawai, as a specialty generics company, aims to prevail in the face of the anticipated intense competition by aspiring to top-level performance in quality, stable supply and information provision, while also developing unmatched brand



Hiroyuki Sawai, Chairman

Mitsuo Sawai, President

value predicated on customer trust. To that end, in the second year of the medium-term business plan M1 TRUST we will steadily implement the measures set forth in the plan in group-wide efforts to achieve our business objectives.

In the years to come we will press ahead with activities to ensure that our business operations contribute to patient satisfaction and welfare and increase corporate value for our shareholders and other stakeholders.

Hiroyuki Sawai, Chairman

Mitsuo Sawai, President



Mitsuo Sawai, President

# Q: First, please discuss the fiscal 2009 business results and progress with the medium-term business plan M1 TRUST.

In fiscal 2009, we achieved substantial sales and profit growth. Net sales increased 13.1% to  $\pm$ 50,070 million; operating income rose 82.5% to  $\pm$ 8,519 million and net income increased 104.3% to  $\pm$ 4,982 million. We posted record-high profits and achieved the numerical targets established for the first year of the medium-term business plan.

I believe that this favorable business performance is the result of our group-wide efforts to achieve the management policies for fiscal 2009 in the medium-term business plan: "Steady and dependable release of major products," "Improvement in marketing activities through reinforcement of marketing capabilities," and "The rigorous practice of low-cost management."

We have the industry's number-one product line in Japan. We released 34 products in May 2009 and another 29 in November. Sales of these high value-added new products have steadily increased in the first year, especially sales of orally disintegrating (OD) tablets. Major new products such as Halthrow OD tablets, a drug that improves urinary disturbances, and Amlodipine OD tablets, a hypertension and angina medication, contributed to business performance as anticipated. Also, as a result of vigorous marketing activities, adoption rates by medical institutions for products released since 2004 have increased steadily, especially medications for lifestyle diseases. As for profits, we were able to boost profits through groupwide cost cutting activities that held down increases in the cost of sales and selling, general and administrative expenses.

#### **Overview of Financial Results**

	FY2008 Full Year Result		FY2009 Full Year Result		Year on Year (Growth)	
	Millions of yen	Sales (%)	Millions of yen	Sales (%)	Millions of yen	(%)
Net Sales	44,284	100.0	50,070	100.0	5,786	13.1
Operating Income	4,668	10.5	8,519	17.0	3,851	82.5
Ordinary Income	4,479	10.1	8,407	16.8	3,928	87.7
Net Income	2,439	5.5	4,982	10.0	2,543	104.3

#### Q: Please discuss high-priority initiatives and the forecast for business results

#### for fiscal 2010.

First of all, in the management policies for fiscal 2010, the second year of the medium-term business plan, we seek to improve marketing activities through reinforcement of marketing capabilities. We will drive the rate that hospitals adopt our products and work to expand adoptions of oncology generics by reinforcing collaboration between dedicated hospital MRs and area MRs to further open up the hospital market. And, in our interactions with NHI pharmacies, we will seek to increase sales of high-priority products such as medications for lifestyle diseases.

Next, we will strive to both build trust in Sawai as a source of stable supply and lower our manufacturing costs. We will continue our industry-leading stable supply system and win customer trust in the Sawai Brand by reinforcing our ability for stable supply, even if faced with a sharp increase in demand, by maintaining high product quality, by implementing rigorous safety management and by improving GMP management. In addition, we will redouble our cost containment efforts to further reduce raw materials costs and fixed costs.

#### **Business Policy of 2010**

#### Basic policy of medium-term business plan (09-11)

- I. Sales growth far exceeding market growth rate
- II. Further strengthening of management structure by thorough cost control and effective strategic investment
- III. Establish robust SAWAI brand

#### Business plan and its progress in FY2010

- 1. Improve "Quality of sales promotion" by strengthening the marketing function
  - Sales growth in hospital market and in the area of oncology GE drugs
  - Further cultivation in NHI pharmacy market and sales increase of focused drugs (life style related disease drugs, etc.)
- 2. Build up "SAWAI's Trust of its stable supply" and reduce costs of production
  - Strengthening the "stable supply capability" responding to sudden increase of demand
  - · Reducing the cost of raw materials and fixed expenses
- 3. Enhance development of value-added GE drugs meeting market needs
- 4. Establish infrastructure enabling Net Sales of ¥100 billion

A third policy is to develop high value-added generic drugs that reflect an understanding of market needs. In fiscal 2010, we will once again drive business results by assembling the best lineup of new products in the industry. As of May 2010, we have already launched 17 new dosage forms in 14 active ingredients. All of these new products are patient-friendly drugs, such as cetirizine hydrochloride OD tablets, an

#### FY2010 Earnings Forecasts

	FY2009 Full Year Result		FY2010 Medterm Business Plan		FY2010 Full Year (Forecast)			
	Millions of yen	Shares (%)	Millions of yen	Shares (%)	Differences	Millions of yen	Shares (%)	Differences
Net Sales	50,070	100.0%	62,000	100.0%	23.8%	62,000	100.0%	23.8%
Cost of Sales	26,275	52.5%	34,500	55.6%	31.3%	34,500	55.6%	31.3%
Gross Profit	23,795	47.5%	27,500	44.4%	15.6%	27,500	44.4%	15.6%
SG&A Expenses	15,276	30.5%	18,800	30.3%	23.1%	17,500	28.3%	14.6%
Operating Income	8,519	17.0%	8,700	14.0%	2.1%	10,000	16.1%	17.4%
Net Income	4,982	10.0%	4,500	7.3%	-9.7%	5,800	9.4%	16.4%

allergic disorder therapeutic agent that can be taken without water, and Latanoprost eye drops, a glaucoma and ocular hypertension therapeutic agent with reduced irritation at the time of administration.

The final policy is to develop the systems necessary to achieve our long-term objective of consolidated net sales of ¥100 billion by fiscal 2014. We will strengthen the business structure at the Group level to achieve this objective. Specifically, we will develop production capacity for six billion tablets and build a sales force of 425 MRs by fiscal 2011.

We forecast net sales of ¥62.0 billion, operating income of ¥10.0 billion and net income of ¥5.8 billion in fiscal 2010 through the implementation of these policies. I believe that we must achieve these figures without fail in order to reach the numerical targets for fiscal 2011 in the medium-term business plan.

#### Q: What future trends do you foresee in the generics market?

In April 2010, the NHI raised medical service fees paid to NHI pharmacies for dispensing generic drugs. The calculation basis changed from the number of prescriptions to the quantity of drugs prescribed, the number of additional points was substantially increased, and regulations were revised to make it easier for patients to choose generic drugs. As a result, the proportion of generic drugs among drugs used is expected to further increase. However, major Japanese and foreign pharmaceutical manufacturers and companies from other industries are entering the generics market in a big way, realignment of the generic drugs industry through means including mergers, acquisitions and business alliances is advancing at an accelerating pace, and competition is likely to increasingly intensify.

As a specialty generic drug manufacturer, Sawai has tremendous advantages that new market entrants lack, including sufficient production capacity and the capacity for highly stable supply made possible by forward-looking investment, a highly developed distribution system based on collaboration with wholesale distributors, a high share of generic drug transactions in the highly promising pharmacy market and an extensive line of new, high value-added products. By taking advantage of these strengths, we will establish a position as the top brand among generic drug manufacturers, further increase customer trust in the brand and make it the impetus for success in market competition.

#### Q: Finally, please discuss profit distribution to the shareholders.

The Company considers profit distribution to shareholders one of our most important management priorities. Our policy concerning profit distribution is to maintain sufficient internal reserves to prepare for future business development and continue to pay stable dividends, taking into consideration business performance each year, the dividend payout ratio and other factors.

This year, in view of our favorable business performance and to reward our shareholders for their support, we increased the year-end dividend from ¥25 per share to ¥40 and the annual dividend from ¥55 to ¥70. Although we aim for a dividend payout ratio of 30%, we will secure sufficient internal reserves with a view to investment that will lead to new growth, such as R&D and capital expenditures that will increase future corporate value.

Mitsuo Sawai, President

M. Lawa

We are enhancing our presence as a generic drug manufacturer and raising trust to the highest level through internal branding and the focused business strategy of the current Medium-term Business Plan under the combined title M1 TRUST.

#### **Concept of Medium-term Business Plan M1 TRUST**

#### "Minna de 1-ban" and Building Trust

T Top Brand Robust Sawai brand
R Reliability Improved reliability

U Unity United power together with our counterparties

S Stable Supply Stable supply

Top Share Overwhelming share in Japanese market

#### **Basic Policy**

#### Basic Policy 1

Net Sales Growth Far Exceeding Market Growth Rate
Achieve net sales of ¥74.0 billion in fiscal 2011
Avg. annual growth of 18.7% for Sawai vs. estimated 11.0% for generics market

Basic Policy 2

Strengthened Management Structure
Through Cost Control and Effective Strategic Investment
End-to-end cost control and strategic investment aimed at concrete results

Basic Policy 3

Establish Robust Sawai Brand

Making the leap from high brand recognition to the "Brand of choice"

#### **Target of M1 TRUST**

By FY2011, the final year of the medium-term plan, we expect to achieve net sales of ¥74.0 billion, operating income of ¥11.5 billion, and net income of ¥6.0 billion. These results will secure us a sure foothold on the way to becoming a ¥100-billion company.

#### Achieving Net Sales of ¥100 Billion within 5 years

To become the most trusted GE company with a strong presence throughout pharmaceutical business and through internal branding (M1) activities.



#### Market and Business Growth

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

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

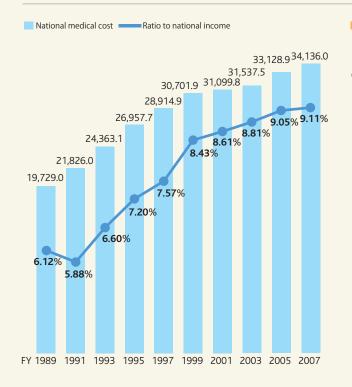
In order to reduce patient co-payments and increase the efficiency of medical insurance fiscal policy, the Japanese government has set the target of increasing the volume share of generic drugs to at least 30% of all ethical drugs by fiscal 2012. Following the latest revision of the prescription form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

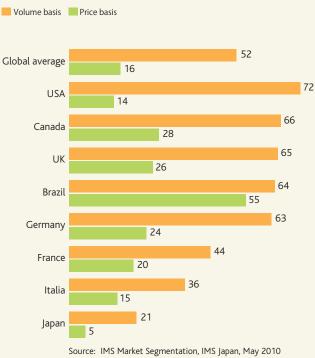
In addition, a market environment conducive to generics is developing rapidly. For instance, the number of hospitals that have introduced the Diagnosis Procedure Combination (DPC) system, which offers attractive incentives for the dispensing of generics, exceeded 1,200 in fiscal 2009. For this reason, full-scale expansion of the market for generic drugs is expected to begin.

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

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

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





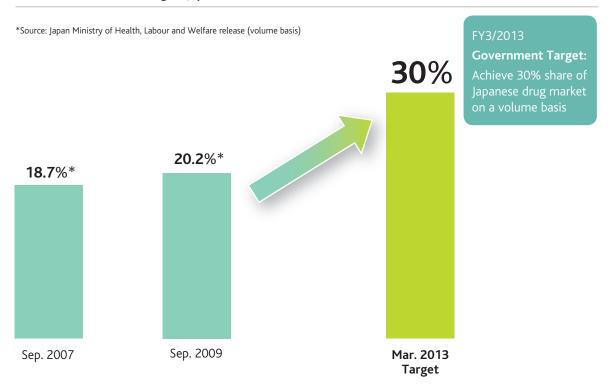
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Notes: Global average=Average of 29 nations in which the investigation was carried out.

#### Measures for Promoting Generic Drug Use in Japan

Fiscal 2002	Changes in medical service fees and dispensing fees, including an additional fee for preparation of generic drugs, a fee for generic drug information provision and a fee for prescriptions that include generic drugs
Fiscal 2003	Introduction of the DPC flat-fee payment system
Fiscal 2006	Revision of the prescription form to include physician signature authorizing substitution of generic drugs
Fiscal 2008	Full-scale implementation of generic drug dissemination promotion measures, including revision to regulations governing medical care responsibilities, additional medical service fees for the dispensing of generic drugs, further revision of the prescription form (physician signature required to prohibit substitution of generic drugs) and abolition of the fee for prescriptions that include generic drugs
Fiscal 2010	Implementation of additional measures to increase the share of generic drugs, including introduction of quantity-based staged incentives, change in the calculation basis from the number of prescriptions to the quantity of drugs prescribed and an increase in the number of additional points

#### Market Share of Generic Drugs in Japan



#### Research and Development

# Sawai leads the Japanese generics industry in R&D investment to develop high value-added new products.

among generics manufacturers in Japan.

Sawai conducts in-house research to further improve quality and create high value-added products. With regard to raw materials, we minutely analyze purity, properties and other factors and carefully select from sources around the world only materials that correspond to rigorous internal standards.

In October 2009, we opened the Pharmaceutical Technology Center, which has contributed further innovation in drug formulation and enhanced our framework for increasing product value by using the latest formulation technologies and production technologies to add modifications and refinements not only to newly developed products, but also to existing products as well. The center will further accelerate drug formulation research with the aim of achieving "Ever-superior quality": Sawai Group's commitment to continuous improvement, including active ingredient purity, tablet formulation devices and information services. To accomplish these R&D goals, the Company actively invests in R&D. Our R&D expenses of ¥3,593 million are the highest

The size of the market for products whose patents are expected to expire in fiscal 2010 and fiscal 2011 is approximately ¥540 billion, and competition is likely to further intensify. However, Sawai plans to retain its position in the industry as the company with the top portfolio of new products by introducing 101 dosage forms in 53 active ingredients during the three-year period from fiscal 2009 to fiscal 2011.

In accordance with our "Patients
first" corporate philosophy, Sawai
is applying advanced technological
capabilities to develop pharmaceuticals chosen by healthcare

As the indus
dissemination
development
formulations
drugs is high

As the industry leader, we will continue to engage in the development and dissemination of high value-added generic drugs through new product development, the refinement of existing products and the development of formulations in the field of anticancer drugs, where the desire for generic drugs is high owing to high drug prices.



#### New Products Listed in May 2010

Trade Name	Active Ingredient	Dosage Form	Strength
MILNACIPRAN HYDROCHLORIDE	Milnacipran Hydrochloride	Tablets	12.5mg
RISPERIDONE OD	Risperidone	Oral Disintegrating Tablets	3mg
LATANOPROST	Latanoprost	Ophthalmic Solutions	50μg/1mL
AIROCOOL	Isosorbide Mononitrate	Tablets	10mg
CEVOZYL	Alacepril	Tablets	12.5mg, 50mg
DILTIAZEM HYDROCHLORIDE	Diltiazem Hydrochloride	Tablets	60mg
INHIROCK	Cilazapril	Tablets	0.25mg
TECHNIS	Ifenprodil Tartrate	Tablets	10mg
SAWATENE	L-Carbocisteine	Tablets	500mg
CRINDAMYCIN PHOSPHATE	Clindamycin Phosphoric Acid Ester	Gel	10mg/1g
D-ALFA	Alfacalcidol	Soft Capsules	3µg
MIZORIBINE	Mizoribine	Tablets	25mg, 50mg
CETIRIZINE HYDROCHLORIDE OD	Cetirizine Hydrochloride	Oral Disintegrating Tablets	5mg, 10mg
EPINAZION	Epinastine Hydrochloride	Dry Syrup	10mg/1g

#### Major Products Listed in FY2009

riajor rroducts Elsted III r 12005			
Trade Name	Active Ingredient	Dosage Form	Strength
HALTHROW OD	Tamsulosin Hydrochloride	Oral Disintegrating Tablets	0.1mg, 0.2mg
LASOPRAN OD	Lansoprazole	Oral Disintegrating Tablets	15mg, 30mg
AMLODIPINE OD	Amlodipine Besilate	Tablets	2.5mg, 5mg
REBAMIPIDE	Rebamipide	Tablets	100mg
ALPROSTADIL	Alprostadil	Injections	5μg/1mL, 10μg/2mL, 5μg/1mL, 10μg/2mL
LEVOFLOXACIN	Levofloxacin Hydrate	Tablets	100mg
LEVOFLOXACIN	Levoltoxaciii Hydrate	Fine Granules	100mg/1g
CILNIDIPINE	Cilnidipine	Tablets	5mg, 10mg
BICALUTAMIDE	Bicalutamide	Tablets	80mg
PRANLUKAST	Pranlukast Hydrate	Capsules	112.5mg
FLUVASTATIN	Fluvastatin Sodium	Tablets	10mg, 20mg, 30mg
IRINOTECAN HYDROCHLORIDE	Irinotecan Hydrochloride	Injections	40mg/2ml, 100mg/5ml
ACARBOSE	Acarbose	Tablets	100mg, 50mg
SARPOGRELATE HYDROCHLORIDE	Sarpogrelate Hydrochloride	Tablets	100mg, 50mg
LENDEM D	Brotizolam	Tablets	0.25mg
EPIRUBICIN	Epirubicin Hydrochloride	Injections	10mg/5mL/1vial, 50mg/25mL/1vial
CEFCAPENE PIVOXILE HYDROCHLORIDE	Cefcapene Pivoxil Hydrochloride Hydrate	Tablets	75mg, 100mg
TOSUFLOXACIN TOSILATE	Tosufloxacin Tosilate	Tablets	150mg, 75mg
MEROPENEM	Meropenem Trihydrate	Injections	250mg/1vial, 500mg/1vial
ISOPROPYL UNOPROSTONE	Isopropyl Unoprostone	Ophthalmic Solutions	1.2mg/1mL
TEMOCAPRIL HYDROCHLORIDE	Temocapril Hydrochloride	Tablets	1mg, 2mg, 4mg







HALTHROW OD tablets

LASOPRAN OD tablets

AMLODIPINE OD tablets

#### Sales by Therapeutic Category (%)

# Cardiovascular drugs Gastro-intestinal drugs Other metabolic drugs Antibiotics Blood/body fluid pharmaceutical products Central nervous system Chemotherapeutic drugs Antiallergic drugs Antiallergic drugs Vitamins 2.9% Others 13.8%

#### Representative Sawai Pharmaceutical Value-added Products

Easy-to-administer, enhanced drugs					
Capsules in tablet form	Large, hard-to-swallow capsules made into tablet form				
Miniaturized tablets	Miniaturization of large, hard-to-swallow tablets				
Improved taste	Sugar and film coatings to mask bitter taste				
Enhancements that facilita	ate prescription and dispensing for healthcare providers				
Easy to split	Tablets with cut lines that make them easy to split				
Improved safety	Improved safety against humidity, temperature, sunlight and other conditions				
Safety improvements links	ed to reducing medical errors				
Better containers	New, high-safety containers that protect against breakage				
Pre-filled syringes	Switch to syringes with solution filled in advance				
Clear displays	Clear descriptions of drug names, standards and effects included in packaging				

#### **Production Facilities**

#### With stable supply as the watchword, Sawai is upgrading its production system.

With stable supply as our watchword, Sawai has actively engaged in forward-looking investment to upgrade production capacity and achieved the highest level in the generic drugs industry. We have earned the trust of wholesale distributors and medical institutions, alike, thanks to a solid track record in stable supply made possible by this production capability.

Production expansion at the Sanda Factory in Hyogo Prefecture, the Company's state-of-the-art main production facility and the Kyushu Factory of subsidiary Medisa Shinyaku has resulted in annual production capacity of 4.8 billion tablets in fiscal 2009, approximately three times the capacity in fiscal 2004. We are also expanding our line of injection products for DPC hospitals and augmenting production capacity for these products. We started operation of a prefilled syringe injection manufacturing line at the Kanto Factory and expanded the injection production line at the Kyushu Factory.

Future plans call for further reinforcement of our supply system's stability in preparation for achieving the long-term objective of consolidated net sales of ¥100 billion. To that end, we will expand the production system, improve production efficiency and establish infrastructure to produce 6.0 billion tablets by fiscal 2011.

The Company aims to release 100 new product items by the end of fiscal 2011. As the product line expands and measures to promote the dissemination of generic drugs progress, demand is expected to increase apace. We believe that in these circumstances the highest-priority for a generic drug manufacturer should be to ensure high quality and stable supply by establishing a high-variety, low-volume production system, a characteristic requirement of the generic drugs business, and preparing and implementing an appropriate production plan. Accordingly, we will work to further boost production efficiency at our factories and establish production and supply systems aligned with market needs.

We recognize that the establishment of a stable supply of generic drugs is a social responsibility of a generics manufacturer.

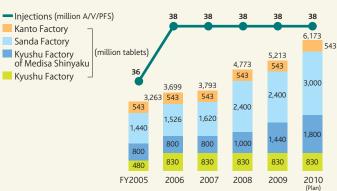
As the industry leader, we are leading the way in undertaking reinforcement of production and



#### Major Factories of Sawai Pharmaceutical







#### **Production Facilities**



#### Marketing and Sales Operations

Sawai is working to further improve marketing activities through the reinforcement of marketing capabilities.

Sawai is vigorously targeting DPC hospitals and NHI pharmacies in its sales activities, where expanded use of generic drugs is expected. Net sales to hospitals increased by more than 20% year on year in fiscal 2009, with adoptions at DPC hospitals increasing by a strikingly high rate of 48%.

To implement even more vigorous selling activities directed at this expanding market, the Company is increasing the number of dedicated hospital MRs, whose primary responsibility is selling to DPC hospitals. We provide advanced academic information through briefings and periodic visits to hospital managers and medical offices, and the hospital MRs and area MRs collaborate to offer pharmaceuticals cost reduction proposals. Japan's generic drug dissemination rate of approximately 20% is lower than that of other countries, and further generic drug detail activities by MRs are required.

Efforts to further develop the NHI pharmacy market are progressing steadily, and net sales in this market increased 25.5% year on year in fiscal 2009. As a result of an April 2010 revision to the drug formulation compensation system at NHI pharmacies, the share of generic drugs in this market is likely to increase.

To cope with anticipated further expansion of demand for generic drugs, Sawai will reinforce marketing activities in various sales channels by increasing the sales force and improving the quality of MP activities.

The Company is well regarded by wholesale distributors within the NHI pharmacy and DPC hospital channels for quality, information, stable supply and the Sawai brand recognition, and we are steadily increasing sales through distributors. We intend to increase our market share by continuing to pursue collaboration with distributors in both channels and skillfully utilizing the channels of distributors located nearby the customers that are capable of providing meticulous customer service.



#### Sales by Market Channel (Millions of yen)

# Sales Composition by Medical Institution Types (Non-Consolidated/%)





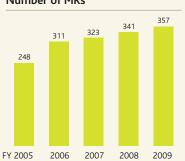
#### **Head Office**



#### Entrance Hall



#### Number of MRs



## The M1 Project

To further build the Sawai brand and win customer trust, we are implementing the M1 Project, an internal branding activity to raise the awareness of each employee and reinforce the corporate structure and collective power of the Group.

Trust is the cornerstone of the Sawai brand, and we believe that trust is something that is built by each individual employee. In accordance with this belief, we launched the M1 Project in October 2006. The M1 Project is an activity in which every Group employee participates under the watchword "No. 1 All Together." We have completed Phases 1 through 4 of the project and are now implementing Phase 5.

#### Progress under the M1 Project

Phase 1 (fiscal 2006):	Unification of awareness and values — Launch of the M1 Committee, drawing up of the corporate philosophy and launch of the M1 Project Team and task forces
Phase 2 (fiscal 2007):	Instilling of the M1 Project — Activities to inculcate the corporate philosophy, continuation of M1 Project Team and task force activities, start of M1 Club activities (full-participation small group activities)
Phase 3 (fiscal 2008):	Demonstration of management leadership — Launch of management improvement study groups, evolution into activities to deliver business results in unison with management
Phase 4 (fiscal 2009):	Fostering of mutual understanding and trust — Consideration of a vision for Sawai five years from now by a study group, increased emphasis on information sharing by means of offsite meetings of department managers
Phase 5 (fiscal 2010):	Reinforcement of the competitive foundation — Formulation of a medium- to long-tem growth strategy, reinforcement of cost competitiveness, information sharing and personnel development

## **Publicity Activities**

As a leader in the generic drugs industry, Sawai engages in wide-ranging publicity to increase recognition of generics and promote their dissemination.

Sawai's activities to promote understanding and dissemination of generic drugs began in 1997, a time when recognition and understanding of generics was still low among the general public and healthcare professionals. We placed the first advertisement by a generics manufacturer in a medical journal and also began running newspaper advertisements targeting the general public. In 2004 we began airing TV commercials to educate the general public about generic drugs.

Today, we engage in advertising activities to build the Sawai brand as the generics manufacturer chosen by healthcare professionals as well as advertising targeting the general public to increase understanding of generic drugs. Through these vigorous publicity activities, we strive to promote the dissemination of generics and to establish a robust brand and unshakable customer trust.

#### **Advertising to Healthcare Professionals**







#### **Advertising in Newspapers**

#### • Asahi Shimbun and Nihon Keizai Shimbun

This advertising employs a motif of climbing a staircase and the message "Our mission is to always deliver 'Ever-superior quality'" to express the Sawai corporate posture.



#### Advertising in Magazines for the General Public

Nikkei Business April 13, 2009 issue (left) Karada ni ii Koto June 16, 2009 issue (right)

We inserted advertorials with content suited to the characteristics of each magazine. We publicized the management strategy and product strategy in *Nikkei Business*, a business publication, and informed readers about the use of generic drugs in *Karada ni ii Koto*, a lifestyle information magazine.





#### **TV Commercials**

We mainly aired two TV commercials: Formulation Innovation, a spot that expressed the corporate posture of developing formulations that meet the needs of patients and healthcare professionals, and Pharmaceuticals Factory, a spot shot at the Kyushu Factory that showcased Sawai Pharmaceutical's uncompromising commitment to quality.



#### **Co-sponsored Symposia**

To contribute to patients and society, several times a year we hold generics education seminars for the general public.

Audience size is approximately 500 people.



#### Corporate Governance and Compliance

Sawai is developing a sound and highly transparent management structure based on the recognition that corporate governance is the management platform for the fulfillment of corporate social responsibility.

#### **Basic Policy on Corporate Governance**

One of the Company's most important management priorities is to develop a management system that can ensure prompt, appropriate decision-making and business execution in response to changes in the external environment and practice highly fair and transparent management in order to realize the basic management policy of enhancing corporate value through profitable growth and maximizing shareholder interests from a long-term perspective.

#### **Description of Management Organization**

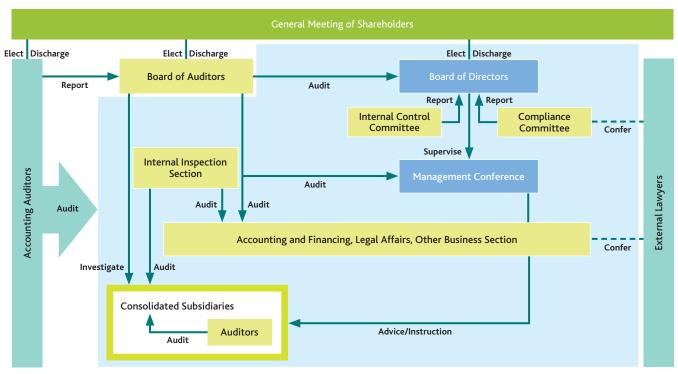
The Company has a comparatively small management organization consisting of twelve directors and five corporate auditors (including three external corporate auditors). In view of its size and management style, Sawai has for some time employed the corporate auditor system. Since the corporate auditors have the necessary legal authority with respect to the supervision of directors, such as the right to demand injunction against actions that fall outside the scope of the Company's purposes, and have the obligation to attend meetings of the Board of Directors and

express necessary opinions, the Company believes that they function similarly to external directors. The Company also believes that the supervisory function of the outside corporate auditors with respect to the Board of Directors is effective. In addition, the Company selects external corporate auditors from among candidates knowledgeable about the law, taxation, accounting, and other disciplines who have insights into corporate management.

The three external corporate auditors satisfy the conditions necessary for supervision of the Company's executives and Board of Directors objectively and independently without bias toward the interest of specific interested parties and have no business connections with the Sawai Group.

The Company strives to demonstrate management flexibility through vitalization of the Board of Directors, the Management Conference, and the Conference of Head Office General Managers and promotes ethical standards and information sharing appropriate to a pharmaceutical company that affects people's lives. The Board of Directors convened for a total of fourteen regular monthly meetings and extraordinary meetings in the year under review.

#### Corporate Governance Structure



The Company has a small management organization that allows for a close exchange of views and reciprocal checks on a regular basis. The Company's Articles of Incorporation provide for a maximum of fifteen directors. In addition, the Company seeks to ensure rigorous auditing and supervision company-wide through means including business site audits conducted by the Internal Inspection Section.

To ensure the appropriateness and efficiency of business operations throughout the Group, the Company ensures adherence to the corporate philosophy and management policies at Group companies and provides direction and guidance on matters related to the day-to-day execution of business. The Group's consolidated subsidiaries undergo accounting audits required for consolidated auditing performed the Company's independent auditors as well as internal audits performed by the Company's Board of Auditors and Internal Inspection Section.

# Internal Controls and Compliance Basic Policy on Internal Control Systems

To prevent the occurrence of corporate scandals and to realize appropriateness, efficiency and transparency in management and business operations, the Company has established a basic policy concerning the development of internal control systems (partially amended in June 2009).

With regard to the establishment of standards of conduct, the Company engages in activities to ensure appropriate awareness of the Sawai brand on the part of each employee in accordance with three activities policies: 1) the conduct of activities to inculcate the corporate philosophy among all Group employees, 2) the conduct of group-wide activities and training by the General Affairs Department together with an M1 Project committee to ensure that the corporate philosophy and code of conduct are firmly instilled, and 3) rigorous assurance of compliance with the corporate philosophy and code of conduct in business operations and of legal compliance on the part of all executives and employees.

With regard to the establishment of corporate governance systems, the Company firmly adheres to the corporate governance systems it has developed and announced to the public and constantly strives to enhance those systems.

Concerning the monitoring and verification system, the

Company is reinforcing the Internal Inspection Section to perform
internal control audits and undergoes rigorous audits performed by
the corporate auditors and independent auditors. When a corpo-

rate auditor requests an assistant, a member of the Internal Inspection Section is assigned to provide assistance.

To forestall improper conduct by the Board of Directors, we have set up a reporting mechanism for employees to report directly to the Audit Office (currently to a corporate auditor) as stated in the regulations concerning the corporate ethics help line.

#### **Compliance System**

In the development and establishment of the business execution system, the Company has addressed the issues of compliance and risk management. The Compliance Committee convenes regular and special meetings to deliberate on compliance-related matters and engages in compliance education and awareness activities for executives and employees. The Compliance Committee is made up of the directors, standing statutory auditors, and members of the Corporate Administration Division departments and maintains a secretariat in the Compliance Section. With regard to risk management systems, the Reliability Assurance Division is the organization responsible for product quality and safety. It performs rigorous quality and safety supervision based on GQP (Good Quality Practice) and GVP (Good Vigilance Practice) standards. In accordance with the Risk Management Rules, the General Affairs Department supervises the monitoring of risks pertaining to business operations as a whole and accident and disaster prevention measures, and the director of the Corporate Administration Division is the chief risk management officer.

With regard to information management, the Company takes all possible measures to control material facts and confidential information learned in the course of business in accordance with the Insider Trading Control Rules and Information Security Management Rules. The Company also strives to ensure the timely and appropriate disclosure of IR information and other important information to be disseminated outside the Company.

The Company ensures the appropriate operation of the corporate ethics help line and rigorously implements measures to prevent and deal with sexual harassment and moral harassment.

With regard to the exclusion of anti-social forces, the Company rigorously ensures open and aboveboard business operation and bans dishonest business dealings. The Company cooperates with the police and other concerned public authorities on matters involving anti-social forces or groups that pose a threat to public order or safety.

#### **Operational Risks**

The following matters, among others, may have a material impact on the decisions of investors concerning the Company's overall business condition, financial situation, management performance, and future prospects.

# Regulation Under the Pharmaceutical Affairs Law and Other Laws

The Sawai Group is subject to regulation under the Pharmaceutical Affairs Law and other relevant laws and regulations, and permission, registration, designation, licensing, and notification in the prefectures in which the Group has business offices are required by law. A violation of the law with respect to drug manufacturing and marketing approval could result in the suspension of business or revocation of approval by the authorities and have an adverse impact on the Company's business results.

# Changes to the Drug Price System and Medical Care System

The marketing of ethical drugs, the Sawai Group's mainstay products, requires listing in the drug price standards established by the government. Studies of the market prices of drugs are conducted, and the prices of nearly all items are reduced in drug price revisions conducted once every two years. Reviews of the medical insurance system are also conducted for the purpose of curbing expanding healthcare costs. Future implementation of major changes to the drug price system or policies to reduce healthcare costs could have an adverse impact on the Group's business results.

#### **Litigation Concerning Intellectual Property Rights**

The Sawai Group conducts rigorous examinations of intellectual property rights, focusing on substance, use, process, and formulation patents and engages in product development that reflects consideration of the Unfair Competition Prevention Law. Nevertheless, in many cases multiple process or formulation patents remain in force with respect to the original drugs on which the generic drugs sold by the Sawai Group are modeled, and at times lawsuits are filed based on these patents. Such legal action could have an adverse impact on the Group's financial position or business results.

#### The Impact of Competition

To avoid unprofitable business and the unavoidable discontinuation of products resulting from frequent price reductions, the Sawai Group strives to sell its products at prices that ensure fair profits. Nevertheless, many generic drug manufacturers are entering the market, and intense competition causes price deterioration. Furthermore, original drug manufacturers are devising measures to secure market share even following the expiration of patents. These trends could prevent achievement of the Company's planned sales, which could have an adverse impact on the Group's business results.

#### **Product Discontinuation and Recall**

Since the active ingredients in the generic drugs sold by the Sawai Group have a proven record of effectiveness and safety in use confirmed over fixed periods of time and have been reexamined, in principle, the risk of occurrence of unknown, severe side effects is extremely low. Nevertheless, the occurrence of unforeseen new side effects or accidents such as contamination from impurities would make product discontinuation and recall unavoidable, which could have an adverse impact on business results.

#### Production Disruption or Delays Due to Disasters, etc.

The Sawai Group disperses its production sites in Fukuoka, Hyogo, Osaka, Chiba, and Ibaraki Prefectures. Nevertheless, the shutdown of operation at a manufacturing site due to the occurrence of a natural disaster, technical problem, or regulatory problem could result in the disruption of supply of certain products, which could have an adverse impact on business results.

Also, the Group is dependent on specific sources of supply for important raw materials. A supply interruption resulting from a disaster or any other reason could have an adverse impact on business results.

#### FINANCIAL SECTION

#### **Five-year Summary**

For the Years Ended March 31, 2010, 2009, 2008, 2007 and 2006

	Millions of yen				
Years ended March 31	2010	2009	2008	2007	2006
Net sales	¥ 50,070	¥ 44,284	¥ 37,631	¥ 34,317	¥ 26,616
Cost of sales	26,275	25,156	20,130	17,357	13,265
Gross profit	23,795	19,128	17,501	16,960	13,351
Selling, general and administrative expenses	15,276	14,460	13,453	12,267	9,052
Operating income	8,519	4,668	4,048	4,693	4,299
Income before income taxes and minority interests	8,372	4,320	3,129	4,166	5,043
Net income	4,982	2,439	1,739	2,260	3,010
Total assets	¥ 81,236	¥ 72,320	66,295	67,827	51,997
Inventories	18,081	13,588	13,500	13,768	9,609
Total current liabilities	25,441	20,911	17,152	18,525	18,352
Total long-term liabilities	9,537	9,703	8,938	9,981	4,811
Shareholders' equity	-	_	_	_	27,543
Net assets	46,258	41,706	40,205	39,321	_
Net cash provided by (used in) operating activities	¥ 7,907	¥ 3,169	9,549	(4,370)	1,884
Net cash provided by (used in) investing activities	(5,329)	(3,037)	(6,562)	(10,551)	(2,313)
Net cash provided by (used in) financing activities	348	1,027	(4,958)	15,449	2,022
Cash and cash equivalents at end of year	9,474	6,548	5,389	7,360	6,832
Research and development (R&D) expenses	3,593	3,409	3,222	3,085	2,241
Capital expenditures	5,370	2,841	6,567	9,877	3,260
Depreciation and amortization	3,025	2,709	2,575	1,964	1,640
			%	5	
Ratio of R&D expenses to sales	7.2	7.7	8.6	9.0	8.4
Return on equity	11.8	6.2	4.6	6.9	11.5
Shareholders' equity to total assets	54.5	55.4	58.3	55.8	53.0
		Yen			
Amounts per common share:					
Net income—basic	¥ 317.32	¥ 155.32	¥ 110.73	¥ 157.67	¥ 217.08
Net income—diluted	316.86	_	_	_	_
Cash dividends applicable to period	70.00	55.00	55.00	55.00	50.00
Net assets	2,817.65	2,551.06	2,460.17	2,408.42	2,014.11

Note: 1. Diluted net income per common share is not disclosed in 2009, 2008, 2007 and 2006 because there were no outstanding convertible securities.

2. Net assets as of 2010, 2009 and 2008 included minority shareholders' interest due to the application of the Japanese Corporate Law.

#### **BUSINESS ENVIRONMENT**

Fiscal 2009, the year ended March 31, 2010, brought continuation of the worldwide recession. Despite signs of recovery in demand fueled by the government's economic stimulus measures and other favorable developments, economic activity in Japan remained stagnant owing to the worsening of the employment and personal income situation.

In the ethical drugs industry, the generic drugs market, primarily NHI pharmacies, is gradually expanding. Measures to promote the use of generic drugs have been implemented in recent years, including the latest revision of the prescription form and the provision of additional medical service fees for the dispensing of generic drugs as part of a revision of the medical care compensation system in April 2008. Additional changes to the healthcare system were implemented In April 2010, including a review of the provision additional medical service fees for the dispensing of generic drugs, and further dissemination and penetration of generics is expected. At the same time, competition in the generics market has intensified following market entry on the part of Japanese and foreign companies from a number of industries.

In these circumstances, in keeping with the "Patients first" corporate philosophy, the Sawai Group continued to implement measures to ensure product quality, stable supply, and information provision. In addition, we implemented policies and measures set forth in the M1 TRUST medium-term business plan: "Reinforcement of marketing to DPC hospitals," "End-to-end cost control," and "Reinforcement of collaboration with wholesale distributors."

#### **INCOME AND EXPENSES**

As a result of these developments, consolidated net sales in fiscal 2009 increased by 13.1% year on year to ¥50,070 million.

In the results for sales growth by channel, sales growth in the wholesaler channel was particularly strong, increasing by 22.4%, and sales through regional sales agencies increased by 9.1%. The sales increase is attributable to expanded use of generic drugs at NHI pharmacies and hospitals.

Cost of sales rose 4.4% year on year to ¥26,275 million, while gross profit rose 24.4% to ¥23,795 million. Accordingly, the gross profit to sales ratio increased by 4.3 percentage points to 47.5%.

Selling, general and administrative expenses increased by 5.6% year on year to ¥15,276 million as a result of increases of ¥424 million in personnel expenses and ¥185 million in R&D expenses.

As a result, operating income increased by 82.5% over the previous year to ¥8,519 million. The operating profit to sales ratio rose by 6.5 percentage points year on year to 17.0%.

After the recording of a ¥35 million loss on disposal of buildings and structures for the year under review, net income increased by 104.3% year on year to ¥4,982 million. Net income per share rose ¥162.0 from the previous year to ¥317.32.

The return on equity rose by 5.6 percentage points from the previous year to 11.8%.

#### **R&D EXPENSES**

The Research and Development Division controls the Group's R&D system. In keeping with the Group's "Patients first" corporate philosophy, the Division engages in R&D activities focused on the development of pharmaceuticals that meet medical treatment needs, including the development of high value-added products requiring innovation in drug formulation.

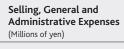
In fiscal 2009, the Group obtained approval for the manufacture and sale of 53 items. R&D expenses increased by 5.4% from the previous year to ¥3,593 million, while the ratio of R&D expenses to sales fell 0.5 percentage points to 7.2%.

#### FINANCIAL POSITION

Total assets at the end of the fiscal 2009 were ¥81,236 million, an increase of ¥8,916 million, or 12.3% increase, from the previous year.

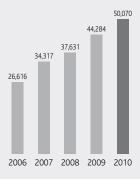
Current assets rose by  $$\pm 9,062$$  million to  $$\pm 48,016$$  million, primarily due to increases of  $$\pm 2,926$$  million in cash and cash equivalents,  $$\pm 1,250$$  million in trade notes and accounts receivable, and  $$\pm 4,493$$  million in inventories. Property, plant, and equipment decreased by  $$\pm 146$$  million

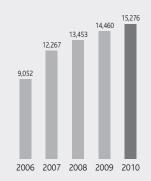


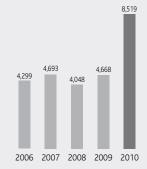


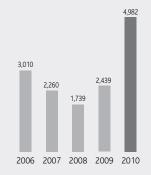
Operating Income (Millions of yen)

Net Income (Millions of yen)









to  $\pm 33,219$  million. The decrease is mainly attributable to depreciation and amortization of production facilities. Depreciation and amortization rose 11.7% from the previous year to  $\pm 3,025$  million.

Capital expenditures were ¥5,370 million, ¥2,529 higher than the previous year. The principal expenditures were for the upgrading and improvement of production facilities.

Total liabilities increased by ¥4,364 million, or 14.3%, from the end of the previous year to ¥34,978 million. Principal factors were an increase of \$3,512 million in trade notes and accounts payable, an increase of \$1,570 million in bank debt, a decrease of \$2,003 million in other accounts payable, and an increase of \$1,072 million in income taxes payable.

Interest bearing debt increased from the end of the previous period by  $\pm 1,222$  million, or 9.0%, to  $\pm 14,773$  million.

Net assets were  $\pm 46,258$  million, an increase of  $\pm 4,552$  million, or 10.9%, from the end of the previous year. The equity ratio decreased by 0.9 percentage points to 54.5%

#### **CASH FLOWS**

#### ■ Cash flows from operating activities

Cash provided by operating activities increased by  $\pm 4,738$  million from the previous year to  $\pm 7,907$  million. Principal items were  $\pm 8,372$  million in income before income taxes and minority Interests,  $\pm 3,025$  million in depreciation and amortization, an increase of  $\pm 4,493$  million in inventories, an increase of  $\pm 1,250$  million in trade notes and accounts payable, an increase of  $\pm 3,555$  million in trade notes and accounts payable, and  $\pm 2,503$  million in income taxes paid.

#### ■ Cash flows from investing activities

Cash used in investing activities increased by  $\pm 2,292$  million from the previous year to  $\pm 5,329$  million, consisting mainly of payments for purchase of property, plant and equipment.

#### ■ Cash flows from financing activities

Cash provided by financing activities decreased by ¥679 million from

the previous year to ¥348 million. The principal item was proceeds from long-term debt.

As a result, cash and cash equivalents at end of year increased by  $\pm 2,926$  million from the previous fiscal year to  $\pm 9,474$  million.

#### **DIVIDEND POLICY**

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

For the year under review, the Company stressed shareholder returns and paid an annual dividend of ¥70 per share of common stock, consisting of an interim dividend of ¥30 per share and a year-end dividend of ¥40.

#### **OUTLOOK FOR FISCAL 2010**

Although the Japanese economy is expected to follow a gradual recovery path due to factors including stimulus measures incorporated in the fiscal 2010 budget and improvement in business performance fueled by an increase in overseas demand, recovery in individual consumption is likely to take considerable time owing to uncertainty surrounding the employment situation and declining incomes. In the ethical drugs industry, although drug prices were lowered by an industry average of 6.3% in April of this year, further expansion of the generics market is expected thanks to reinforcement of measures to promote the use of generic drugs.

The Sawai Group will make further inroads in developing new markets and strive to augment business performance by implementing the measures set forth in the M1 TRUST medium-term business year in the second year of the plan.

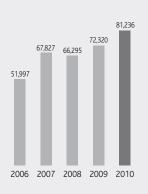
We forecast net sales of ¥62,000 million, operating income of ¥10,000 million, and net income of ¥5,800 million in fiscal 2010.

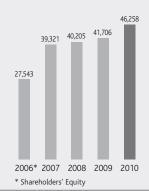


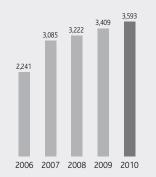


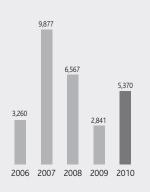
## Research and Development (R&D) Expenses (Millions of yen)

Capital Expenditures (Millions of yen)









#### FINANCIAL STATEMENTS

#### **Consolidated Balance Sheets**

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries March 31, 2010 and 2009

	Million	Millions of yen		
ASSETS	2010	2009	2010	
Current Assets:				
Cash and cash equivalents (Note 3)	¥ 9,474	¥ 6,548	\$ 101,827	
Trade notes and accounts receivable (Note 3)	18,540	17,290	199,269	
Allowance for doubtful receivables	(10)	(26)	(107)	
	28,004	23,812	300,989	
Inventories (Note 4)	18,081	13,588	194,336	
Deferred income taxes (Note 9)	1,787	1,322	19,207	
Other current assets	144	232	1,547	
Total current assets	48,016	38,954	516,079	
Property, Plant and Equipment :				
Land	5,140	5,140	55,245	
Buildings and structures	28,532	28,212	306,664	
Machinery and equipment	17,861	16,894	191,971	
Leased assets (Note 2)	38	34	409	
Construction in progress	570	31	6,126	
Other	4,422	3,825	47,528	
	56,563	54,136	607,943	
Accumulated depreciation	(24,778)	(22,314)	(266,316)	
Net property, plant and equipment	31,785	31,822	341,627	
Intangible Assets	478	598	5,138	
Investments and Other Assets:				
Investment securities (Notes 3, 5)	658	544	7,072	
Long-term receivables	55	99	591	
Deferred income taxes (Note 9)	_	32	_	
Long-term deposits	42	71	451	
Other investments and long-term receivables	248	229	2,666	
	1,003	975	10,780	
Allowance for doubtful receivables	(46)	(29)	(494)	
Net investments and other assets	957	946	10,286	
	¥ 81,236	¥ 72,320	\$ 873,130	

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

	Million	Thousands of U.S. dollars (Note 1)	
LIABILITIES AND NET ASSETS	2010	2009	2010
Current Liabilities:			
Bank debt (Notes 3, 6)	¥ 4,100	¥ 2,530	\$ 44,067
Current portion of long-term debt (Notes 3, 6)	2,503	2,550	26,902
Current portion of lease obligations (Note 2)	12	11	129
Trade notes and accounts payable (Note 3)	10,040	6,528	107,911
Other accounts payable (Note 3)	4,073	6,076	43,777
Accrued bonuses to employees	1,081	872	11,619
Accrued bonuses to directors and corporate auditors	83	48	892
Income taxes payable (Note 3)	2,659	1,587	28,579
Reserve for sales returns	102	128	1,096
Reserve for sales rebates	509	345	5,471
Other current liabilities	279	236	2,999
Total current liabilities	25,441	20,911	273,442
Lang Tama Liabilities			
Long-Term Liabilities:	0 172	0 /71	87,833
Long-term debt (Notes 3, 6)	8,172 11	8,471 20	118
Long-term lease obligations (Note 2) Employees' retirement benefits (Note 7)	92	116	989
Directors' and corporate auditors' retirement benefits	271	207	
•	186		2,913
Deferred tax liabilities (Note 9)		139	1,999
Negative goodwill	26	39	279
Other long-term liabilities	779	711	8,373
Total long-term liabilities	9,537	9,703	102,504
Net Assets (Note 8):			
Shareholders' Equity:			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding	11 503	11 502	122.624
15,702,000 shares in 2010 and 2009	11,502	11,502	123,624
Capital surplus	11,825	11,825	127,096
Retained earnings	20,763	16,644	223,162
Treasury stock 662 shares in 2010			
549 shares in 2009	(3)	(2)	(32)
Valuation and translation adjustments		, ,	
Net unrealized holding gains on securities	154	87	1,655
Subscription rights to shares	202	82	2,171
Minority Interests	1,815	1,568	19,508
Net assets	46,258	41,706	497,184
	¥ 81,236	¥ 72,320	\$ 873,130

#### **Consolidated Statements of Income**

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2010 and 2009

	Millions	Millions of yen	
	2010	2009	2010
Net Sales	¥ 50,070	¥ 44,284	\$ 538,155
Cost of Sales	26,275	25,156	282,405
Gross Profit	23,795	19,128	255,750
Selling, General and Administrative Expenses	15,276	14,460	164,187
Operating Income	8,519	4,668	91,563
Other Income (Expenses):			
Interest and dividend income	14	17	150
Interest expense	(211)	(164)	(2,268)
Subsidy income	38	24	408
Compensation income	59	25	634
Expenses for loan commitment agreements	(32)	(98)	(344)
Subsidy expense	(12)	_	(129)
Gain on sale of fixed assets	_	1	_
Loss on disposal of buildings and structures	(35)	(77)	(376)
Loss on sale of fixed assets, net	_	(4)	_
Loss on devaluation of investments in securities	_	(78)	_
Reversal of allowance for doubtful receivables	17	9	183
Amortization of negative goodwill	13	12	140
Provision of allowance for doubtful accounts of golf club membership	_	(2)	_
Other, net	2	(13)	22
	(147)	(348)	(1,580)
Income Before Income Taxes And Minority Interests	8,372	4,320	89,983
Provision for Income Taxes:			
Current	3,571	2,211	38,381
Deferred	(432)	(611)	(4,643)
Minority Interests	251	281	2,698
Net Income	¥ 4,982	¥ 2,439	\$ 53,547
Per Share of Common Stock:	Ye		U.S. dollars (Note 1)
Net income – basic	¥ 317.32	¥ 155.32	\$ 3.41
Net income – diluted	316.86	_	3.41
Dividends	70.00	55.00	0.75

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 March 31, 2010 and 2009

Mil	lions	Ot.	VAL

		Shareholders' equity		Valuation and translation adjustments		Subscription				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total valuation and translation adjustments	rights to shares	Minority interests	Total net assets
Balance at March 31, 2008	¥11,502	¥11,825	¥15,069	¥(1)	¥38,395	¥ 234	¥ 234	_	¥1,576	¥40,205
Cash dividends										
Cash dividends			(864)		(864)					(864)
Net income			2,439		2,439					2,439
Net increase in treasury stock				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(147)	(147)	82	(8)	(73)
Total changes of items during the period	_	_	1,575	(1)	1,574	(147)	(147)	82	(8)	1,501
Balance at March 31, 2009	¥11,502	¥11,825	¥16,644	¥(2)	¥39,969	¥ 87	¥ 87	¥82	¥1,568	¥41,706
Cash dividends										
Cash dividends			(863)		(863)					(863)
Net income			4,982		4,982					4,982
Net increase in treasury stock				(1)	(1)					(1)
Net changes of items other than shareholders' equity						67	67	120	247	434
Total changes of items during the period	_	_	4,119	(1)	4,118	67	67	120	247	4,552
Balance at March 31, 2010 (Note 7)	¥11,502	¥11,825	¥20,763	¥(3)	¥44,087	¥ 154	¥ 154	¥202	¥1,815	¥46,258

#### Thousands of U.S. dollars (Note 1)

		Shareholders' equity			Valuation and translation adjustments		<ul><li>Subscription</li></ul>			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total valuation and translation adjustments	rights to	Minority interests	Total net assets
Balance at March 31, 2009	\$123,624	\$127,096	\$178,891	\$(21)	\$429,590	\$ 935	\$ 935	\$ 881	\$16,853	\$448,259
Changes of items during the year										
Cash dividends			(9,276)		(9,276)					(9,276)
Net income for the year			53,547		53,547					53,547
Acquisition of treasury stock				(11)	(11)					(11)
Net changes of items other than shareholders' equity						720	720	1,290	2,655	4,665
Total increase/decrease during the year	_	_	44,271	(11)	44,260	720	720	1,290	2,655	48,925
Balance at March 31, 2010 (Note 7)	\$123,624	\$127,096	\$223,162	\$(32)	\$473,850	\$1,655	\$1,655	\$2,171	\$19,508	\$497,184

Note: These are items concerning the appropriation of earnings are resolved at the general shareholders meeting held on June 2010 and 2009.

#### **Consolidated Statements of Cash Flows**

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2010 and 2009

Cash Flows from Operating Activities:		Million:	Thousands of U.S. dollars (Note 1)	
Income before income taxes and minority interests		2010	2009	2010
Income before income taxes and minority interests	Cash Flows from Operating Activities:			
Adjustments to reconcile income before income taxes to net cash provided by operating activities:  Depreciation and amoritzation  Amoritzation of negative goodwill  Increase in secrue do nuses to directors and corporate auditors  Bartinezaes in accrued bonuses to directors and corporate auditors  Becrease in employees retirement benefits  Cefe (26)  Cefe (279)  Decrease in employees retirement benefits  Ceval (4)  Ceta (181)  Ceta auditors  Interest and dividend income  Interest and dividend income  Interest and dividend income  Interest expense  Loss on devaluation of investments in securities  Increase in inventories  Loss on disposal of buildings and structures  Increase in inventories  Increase in				
net cash provided by operating activities:  Depreciation and amortization  Amortization of negative goodwill  Amortization of negative goodwill  Increase (ferease) in lownource for doubtful receivables  Decrease in accrued bonuses to employees  Decrease in enserve for loss on sales returns  Decrease in enserve for loss on sales returns  Decrease in enserve for loss on sales returns  Decrease in employees' retirement benefits  Decrease in employees' retirement benefits  Decrease in employees' retirement benefits  Decrease in engloyees' retirement benefits  Decrease in dividend income  Increase (ferease) in retirement benefits to directors and corporate auditors  Interest and dividend income  Interest expense  Loss on devaluation of investments in securities  Decrease in trade notes and accounts receivable  Increase in inventories  Increase in inventories  Increase in inventories  Increase (decrease) in trade notes and accounts payable  Decreases in Interest expense  Decreases in Interest ex	· · · · · · · · · · · · · · · · · · ·			
Amortization of negative goodwill (13) (140) Increase in reserve for sales rebates (165 81 1,773 Increase in reserve for sales rebates (165 81 1,773 Increase in accrued bonuses to employees 209 58 2,246 Increase in accrued bonuses to directors and corporate auditors 35 3 376 Decrease in reserve for loss on sales returns (26) (26) (26) (279) Decrease in reserve for loss on sales returns (26) (26) (26) (279) Decrease in reserve for loss on sales returns (26) (26) (279) Decrease in reserve for loss on sales returns (26) (279) Decrease in reserve for loss on sales returns (279) Decrease in employees' retirement benefits (278) Increase (decrease) in retirement benefits to directors and corporate auditors (141) (17) (150) Interest and dividend income (141) (17) (150) Interest and dividend income (141) (17) (150) Interest expense (281) (181)		¥ 8,372	¥ 4,320	\$ 89,983
Amortization of negative goodwill (13) (140) Increase in reserve for sales rebates (165 81 1,773 Increase in reserve for sales rebates (165 81 1,773 Increase in accrued bonuses to employees 209 58 2,246 Increase in accrued bonuses to directors and corporate auditors 35 3 376 Decrease in reserve for loss on sales returns (26) (26) (26) (279) Decrease in reserve for loss on sales returns (26) (26) (26) (279) Decrease in reserve for loss on sales returns (26) (26) (279) Decrease in reserve for loss on sales returns (26) (279) Decrease in reserve for loss on sales returns (279) Decrease in employees' retirement benefits (278) Increase (decrease) in retirement benefits to directors and corporate auditors (141) (17) (150) Interest and dividend income (141) (17) (150) Interest and dividend income (141) (17) (150) Interest expense (281) (181)	Depreciation and amortization	3,025	2,709	32,513
Increase (decrease) in allowance for doubtful receivables   3   221   32     Increase in accrued bonuses to employees   209   58   2,246     Increase in accrued bonuses to directors and corporate auditors   35   3   376     Decrease in reserve for loss on sales returns   (26)   (26)   (279)     Decrease in employees' retirement benefits   (24)   (53)   (258)     Increase (decrease) in retirement benefits to directors and   64   (181)   688     corporate auditors   (14)   (17)   (150)     Interest and dividend income   (14)   (17)   (150)     Interest expense   211   164   2,268     Loss on devaluation of investments in securities		(13)	(12)	(140)
Increase in accrued bonuses to employees   209   58   2,246   Increase in accrued bonuses to directors and corporate auditors   35   3   376   Decrease in reserve for loss on sales returns   (26)   (26)   (279)   Decrease in employees' retirement benefits   (24)   (53)   (258)   Increase (decrease) in retirement benefits   (24)   (53)   (258)   Increase (decrease) in retirement benefits to directors and   (24)   (181)   (180		165		1,773
Increase in accrued bonuses to directors and corporate auditors   Cab   Cab   Cab   Cac	Increase (decrease) in allowance for doubtful receivables	3	(21)	32
Decrease in reserve for loss on sales returns   (26) (26) (279)	Increase in accrued bonuses to employees	209	58	2,246
Decrease in employees' retirement benefits to directors and corporate auditors and corporate auditors interest and dividend income (14) (17) (150) Interest expense (15) (15) (15) (15) Interest expense (15) (15) (15) (15) Interest expense (15) (15) (15) (15) (15) (15) (15) (15)	Increase in accrued bonuses to directors and corporate auditors	35	3	376
Increase (decrease) in retirement benefits to directors and corporate auditors   (14) (17) (150)     Interest and dividend income   (14) (17) (150)     Interest expense   211   164 (2,268     Loss on disposal of buildings and structures   31   77   333     Increase in trade notes and accounts receivable   (1,250) (1,978) (13,435)     Increase in inventories   (4,493) (88) (48,291)     Increase (decrease) in trade notes and accounts payable   3,555 (449)   38,209     Decrease in long-term prepaid expenses   28   20   301     Increase (decrease) in trade notes and accounts payable   428   (362)   4,600     Other   299   454   3,214     Sub total   10,605   4,777   113,983     Interest and dividends received   14   17   150     Interest paid   (209) (169) (2,246)     Income taxes paid   (2,503) (1,456) (26,902)     Net cash provided by operating activities   7,907   3,169   84,985    Cash Flows from Investing Activities:  Payments for purchase of securities   - (5)   - (5)     Proceeds from sale of securities   - (5)   - (5,604)     Payments for purchase of intengible assets   (156) (120) (1,677)     Payments for purchase of investment securities   - (50)   - (70)   - (70)     Payments for purchase of investment securities   - (50)   - (70)   - (70)     Payments for purchase of investment securities   - (50)   - (70)   - (70)   - (70)     Payments for purchase of investment securities   - (50)   - (70)	Decrease in reserve for loss on sales returns	(26)	(26)	(279)
corporate auditors Interest and dividend income Interest and dividend income Interest expense Interest expense Loss on devaluation of investments in securities Loss on devaluation of investments in securities Loss on disposal of buildings and structures Increase in trade notes and accounts receivable Increase in inventories Increase in inventories Increase in inventories Increase (decrease) in trade notes and accounts payable Decrease in long-term prepaid expenses Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Other Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable Decrease in long-term decounts payable Decrease in long-term debts Decrease in long-term deb	Decrease in employees' retirement benefits	(24)	(53)	(258)
Interest expense		64	(181)	688
Loss on devaluation of investments in securities	Interest and dividend income	(14)	(17)	(150)
Loss on disposal of buildings and structures   1,1250   1,1978   13,435     Increase in trade notes and accounts receivable   1,250   1,1978   13,435     Increase in inventories   (4,493   (88   (48,291)     Increase (decrease) in trade notes and accounts payable   3,555   (449   38,209     Decrease in long-term prepaid expenses   28   20   301     Increase (decrease) in other accounts payable   428   (362   4,600     Chter   299   454   3,214     Sub total   10,605   4,777   113,983     Interest and dividends received   14   17   150     Interest paid   (209   (169 ) (2,246 )     Income taxes paid   (2,503   (1,456 ) (26,902 )     Net cash provided by operating activities   7,907   3,169   84,985     Cash Flows from Investing Activities:   -	Interest expense	211	164	2,268
Increase in trade notes and accounts receivable   (1,250)   (1,978)   (13,435)   (10,000)   (10,0	Loss on devaluation of investments in securities	_	78	_
Increase in inventories   (4,493)   (88)   (48,291)   Increase (decrease) in trade notes and accounts payable   3,555   (449)   38,209   26   26   27   29   28   20   301   27   299   28   28   20   301   27   299   28   28   20   301   28   28   299   28   28   20   301   28   28   299   28   28   20   301   28   28   299   28   28   20   301   28   28   299   28   28   20   301   28   28   299   28   28   20   301   28   28   299   28   28   28   20   28   28   20   301   28   28   28   20   301   28   28   28   20   301   3	Loss on disposal of buildings and structures	31	77	333
Increase (decrease) in trade notes and accounts payable   28   20   301     Increase (decrease) in other accounts payable   428   (362)   4,600     Other   299   454   3,214     Sub total   10,605   4,777   113,983     Interest and dividends received   14   17   150     Interest paid   (209)   (169)   (2,246)     Increase (accounts payable   (2,503)   (1,456)   (26,902)     Net cash provided by operating activities   7,907   3,169   84,985     Cash Flows from Investing Activities:   - (5)   - Payments for purchase of securities   - (5)   - Payments for purchase of securities   - (50)   - Payments for purchase of property, plant and equipment   (5,214)   (2,721)   (56,040)     Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   - Payments for purchase of investment securities   - (50)   -	Increase in trade notes and accounts receivable	(1,250)	(1,978)	(13,435)
Decrease in long-term prepaid expenses Increase (decrease) in other accounts payable         428         (362)         4,600         4,600         299         454         3,214	Increase in inventories	(4,493)	(88)	(48,291)
Increase (decrease) in other accounts payable	Increase (decrease) in trade notes and accounts payable	3,555	(449)	38,209
Other         299         454         3,214           Sub total         10,605         4,777         113,983           Interest and dividends received         14         17         150           Interest paid         (209)         (169)         (2,246)           Income taxes paid         (2,503)         (1,456)         (26,902)           Net cash provided by operating activities         7,907         3,169         84,985           Cash Flows from Investing Activities:         -         (5)         -           Payments for purchase of securities         -         4         -           Payments for purchase of property, plant and equipment         (5,214)         (2,721)         (56,040)           Payments for purchase of intangible assets         (156)         (120)         (1,677)           Payments for purchase of investment securities         -         (50)         -           Payments for purchase of investment securities         -         (70)         -           Payments for purchase of investment securities         -         (70)         -           Proceeds from collection of long-term debts         44         188         473           Payment for additional acquisition of subsidiary's securities         (3)         (264)         <	Decrease in long-term prepaid expenses	28	20	301
Sub total         10,605         4,777         113,983           Interest and dividends received         14         17         150           Interest paid         (209)         (169)         (2,246)           Income taxes paid         (2,503)         (1,456)         (26,902)           Net cash provided by operating activities         7,907         3,169         84,985           Cash Flows from Investing Activities:         -         (5)         -           Payments for purchase of securities         -         4         -           Payments for purchase of property, plant and equipment         (5,214)         (2,721)         (56,040)           Payments for purchase of intengible assets         (156)         (120)         (1,677)           Payments for purchase of investment securities         -         (50)         -           Payments for purchase of investment securities         -         (50)         -           Payments for purchase of investment securities         -         (50)         -           Payments for purchase of investment securities         -         (70)         -           Payments for purchase of investment securities         (3)         (264)         (32)           Other         0         1         0         <	Increase (decrease) in other accounts payable	428	(362)	4,600
Interest and dividends received	Other	299	454	3,214
Interest paid   (209)   (169)   (2,246)   Income taxes paid   (2,503)   (1,456)   (26,902)   Net cash provided by operating activities   7,907   3,169   84,985   (26,902)   Net cash provided by operating activities   7,907   3,169   84,985   (26,902)   Net cash provided by operating activities   7,907   3,169   84,985   (26,902)   (2,246)   (	Sub total	10,605	4,777	113,983
Income taxes paid   (2,503) (1,456) (26,902)     Net cash provided by operating activities   7,907   3,169   84,985     Cash Flows from Investing Activities:	Interest and dividends received	14	17	150
Net cash provided by operating activities  Cash Flows from Investing Activities:  Payments for purchase of securities  Payments for purchase of securities  Payments for purchase of property, plant and equipment  Payments for purchase of intengible assets  Payments for purchase of investment securities  Payments for purchase of investment securities  Payments of purchase of investment securities  Payments of long-term debts  Payments of long-term debts  Payment for additional acquisition of subsidiary's securities  Other  Net cash used in investing activities  Net increase in bank debt  Proceeds from long-term debts  Repayment of	Interest paid	(209)	(169)	(2,246)
Cash Flows from Investing Activities:Payments for purchase of securities—(5)—Proceeds from sale of securities—4—Payments for purchase of property, plant and equipment(5,214)(2,721)(56,040)Payments for purchase of intangible assets(156)(120)(1,677)Payments for purchase of investment securities—(50)—Payments of long-term debts—(70)—Proceeds from collection of long-term debts44188473Payment for additional acquisition of subsidiary's securities(3)(264)(32)Other010Net cash used in investing activities(5,329)(3,037)(52,276)Cash Flows from Financing Activities:(5,329)(3,037)(52,276)Net increase in bank debt1,57053016,874Proceeds from long-term debts2,5003,55026,870Repayment of long-term debts(2,847)(2,163)(30,600)Payments for purchase of treasury stock(0)(1)(0)Cash dividends paid(864)(864)(9,286)Cash dividends paid to minority shareholders—(17)—Other(11)(8)(118)Net cash provided by financing activities3481,0273,740Net increase in cash and cash equivalents2,9261,15931,449Cash and cash equivalents at beginning of year6,5485,38970,378	Income taxes paid	(2,503)	(1,456)	(26,902)
Payments for purchase of securities Proceeds from sale of securities Payments for purchase of property, plant and equipment Payments for purchase of intangible assets (156) (120) (1,677) Payments for purchase of intengible assets (156) (120) (1,677) Payments for purchase of investment securities Payments for purchase of investment securities Payments of long-term debts Payments of long-term debts Payment for additional acquisition of subsidiary's securities Other		7,907	3,169	84,985
Proceeds from sale of securities         —         4         —           Payments for purchase of property, plant and equipment         (5,214)         (2,721)         (56,040)           Payments for purchase of intengible assets         (156)         (120)         (1,677)           Payments for purchase of investment securities         —         (50)         —           Payments of long-term debts         —         (70)         —           Proceeds from collection of long-term debts         44         188         473           Payment for additional acquisition of subsidiary's securities         (3)         (264)         (32)           Other         0         1         0           Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:         1,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Repayment of long-term debts         (6,844)         (9,286)         (2,847)         (2,163)         (30,600) <t< td=""><td></td><td></td><td></td><td></td></t<>				
Payments for purchase of property, plant and equipment Payments for purchase of intangible assets (156) (120) (1,677) Payments for purchase of intangible assets (156) (120) (1,677) Payments for purchase of investment securities — (50) — Payments of long-term debts — (70) — Proceeds from collection of long-term debts 44 188 473 Payment for additional acquisition of subsidiary's securities 0 1 0 Net cash used in investing activities (5,329) (3,037) (52,276)  Cash Flows from Financing Activities:  Net increase in bank debt 1,570 F30 16,874 Proceeds from long-term debts 2,500 Repayment of long-term debts (2,847) (2,163) (30,600) Payments for purchase of treasury stock (0) (1) (0) Cash dividends paid (864) (864) (864) (9,286) Cash dividends paid to minority shareholders — (11) (8) (118) Net cash provided by financing activities 348 1,027 3,740 Net increase in cash and cash equivalents 2,926 1,159 31,449 Cash and cash equivalents at beginning of year		_		_
Payments for purchase of intangible assets       (156)       (120)       (1,677)         Payments for purchase of investment securities       —       (50)       —         Payments of long-term debts       —       (70)       —         Proceeds from collection of long-term debts       44       188       473         Payment for additional acquisition of subsidiary's securities       (3)       (264)       (32)         Other       0       1       0         Net cash used in investing activities       (5,329)       (3,037)       (52,276)         Cash Flows from Financing Activities:       (5,329)       (3,037)       (52,276)         Cash Flows from Financing Activities:       1,570       530       16,874         Proceeds from long-term debts       2,500       3,550       26,870         Repayment of long-term debts       (2,847)       (2,163)       (30,600)         Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,0				
Payments for purchase of investment securities Payments of long-term debts Proceeds from collection of long-term debts Payment for additional acquisition of subsidiary's securities Other			, ,	* * * * * * * * * * * * * * * * * * * *
Payments of long-term debts         —         (70)         —           Proceeds from collection of long-term debts         44         188         473           Payment for additional acquisition of subsidiary's securities         (3)         (264)         (32)           Other         0         1         0           Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:           Net increase in bank debt         1,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Payments for purchase of treasury stock         (0)         (1)         (0)           Cash dividends paid         (864)         (864)         (9,286)           Cash dividends paid to minority shareholders         —         (17)         —           Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of y	9 1	(156)		(1,677)
Proceeds from collection of long-term debts         44         188         473           Payment for additional acquisition of subsidiary's securities         (3)         (264)         (32)           Other         0         1         0           Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:         (5,329)         (3,037)         (52,276)           Net increase in bank debt         1,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Payments for purchase of treasury stock         (0)         (1)         (0)           Cash dividends paid         (864)         (864)         (9,286)           Cash dividends paid to minority shareholders         —         (17)         —           Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of year         6,548         5,389		_		_
Payment for additional acquisition of subsidiary's securities         (3)         (264)         (32)           Other         0         1         0           Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:         T,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Payments for purchase of treasury stock         (0)         (1)         (0)           Cash dividends paid         (864)         (864)         (9,286)           Cash dividends paid to minority shareholders         —         (17)         —           Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of year         6,548         5,389         70,378			, ,	-
Other         0         1         0           Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:           Net increase in bank debt         1,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Payments for purchase of treasury stock         (0)         (1)         (0)           Cash dividends paid         (864)         (864)         (9,286)           Cash dividends paid to minority shareholders         —         (17)         —           Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of year         6,548         5,389         70,378				
Net cash used in investing activities         (5,329)         (3,037)         (52,276)           Cash Flows from Financing Activities:         1,570         530         16,874           Net increase in bank debt         1,570         530         16,874           Proceeds from long-term debts         2,500         3,550         26,870           Repayment of long-term debts         (2,847)         (2,163)         (30,600)           Payments for purchase of treasury stock         (0)         (1)         (0)           Cash dividends paid         (864)         (864)         (9,286)           Cash dividends paid to minority shareholders         —         (17)         —           Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of year         6,548         5,389         70,378			(264)	
Cash Flows from Financing Activities:         Net increase in bank debt       1,570       530       16,874         Proceeds from long-term debts       2,500       3,550       26,870         Repayment of long-term debts       (2,847)       (2,163)       (30,600)         Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378		-	(2.027)	
Net increase in bank debt       1,570       530       16,874         Proceeds from long-term debts       2,500       3,550       26,870         Repayment of long-term debts       (2,847)       (2,163)       (30,600)         Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378	The state of the s	(5,529)	(5,057)	(32,276)
Proceeds from long-term debts       2,500       3,550       26,870         Repayment of long-term debts       (2,847)       (2,163)       (30,600)         Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378		1 570	530	16 874
Repayment of long-term debts       (2,847)       (2,163)       (30,600)         Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378				
Payments for purchase of treasury stock       (0)       (1)       (0)         Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378				
Cash dividends paid       (864)       (864)       (9,286)         Cash dividends paid to minority shareholders       —       (17)       —         Other       (11)       (8)       (118)         Net cash provided by financing activities       348       1,027       3,740         Net increase in cash and cash equivalents       2,926       1,159       31,449         Cash and cash equivalents at beginning of year       6,548       5,389       70,378	· ·	* '		
Cash dividends paid to minority shareholders—(17)—Other(11)(8)(118)Net cash provided by financing activities3481,0273,740Net increase in cash and cash equivalents2,9261,15931,449Cash and cash equivalents at beginning of year6,5485,38970,378				
Other         (11)         (8)         (118)           Net cash provided by financing activities         348         1,027         3,740           Net increase in cash and cash equivalents         2,926         1,159         31,449           Cash and cash equivalents at beginning of year         6,548         5,389         70,378		(301)		(5,200)
Net cash provided by financing activities3481,0273,740Net increase in cash and cash equivalents2,9261,15931,449Cash and cash equivalents at beginning of year6,5485,38970,378		(11)		(118)
Net increase in cash and cash equivalents2,9261,15931,449Cash and cash equivalents at beginning of year6,5485,38970,378		. ,		
Cash and cash equivalents at beginning of year 6,548 5,389 70,378				
	Cash and cash equivalents at end of year	¥ 9,474	¥ 6,548	\$101,827

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

#### Notes to Consolidated Financial Statements

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries For the years ended March 31, 2010 and 2009



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 required under 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 translation 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, 2010, which was approximately ¥93.04 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.



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., which 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 valued using the fair value at the time the Company acquired control of the respective subsidiaries.

MEDISA SHINYAKU INC. allocated a portion of its shares, representing 35 percent of the total shares outstanding of the subsidiary, to a third party in January 2006. The Company purchased 5 percent of the shares from the third party during the year ended March 31, 2009, resulting in the ratio of capital contribution of the third party decreasing to 30 percent, with the Company's holding increasing to 70 percent of the outstanding shares of the subsidiary at March 31, 2009

KAKEN SHOYAKU CO., LTD. became a subsidiary, with a 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 the application of equity method accounting required for such investments.

#### (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 three months 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 historic bad debts.

#### (D) INVESTMENT SECURITIES

The Company classifies securities into the following categories: (1) securities held for trading purposes ("trading securities"), (2) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies, and (4) all other securities that are not classified in any of the above categories ("available-for-sale securities").

The Company does not have any 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 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 the fair market value of an individual security declines to a level below historical cost and is judged to be material and other than temporary; the carrying value of the individual security is written down.

#### (E) INVENTORIES

Prior to April 1, 2008, inventories were stated at weighted moving average cost, except for supplies, which are stated at average cost.

For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Measurement of Inventories ("ASBJ Statement No.9" issued on July 5, 2006). The new accounting standard requires that inventories held for sale in the ordinary course of business be valued at the lower of cost or net realizable value.

As a result of this change, operating income decreased by ¥1,547 million and income before income taxes decreased by ¥1,076 million for the year ended March 31, 2009 compared with the corresponding amounts which would have been recorded under the previous method.

#### (F) PROPERTY, PLANT AND EQUIPMENT (EXCLUDING LEASES)

Property, plant and equipment are stated at cost. Depreciation is mainly calculated using the straight-line method over estimated useful life of the asset.

The Company and its consolidated subsidiaries have extended the useful life of machinery and equipment as per revisions on or after April 1, 2008 to the Japanese Corporate Tax Law. As a result of this change, gross profit increased by ¥121 million, operating income and ordinary income and income before income taxes both increased by ¥124 million for the year ended March 31, 2009 compared with the corresponding amounts which would have been recorded under the previous method.

Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are expensed as incurred.

#### (G) INTANGIBLE ASSETS (EXCLUDING LEASES)

The Company includes software costs in intangible assets and depreciates them using the straight-line method over the estimated useful life of five years.

#### (H) LEASES

For lease transactions not involving the transfer of ownership, lease assets are depreciated over their useful life using the straight-line method until the net residual value reaches zero.

For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Lease Transactions ("ASBJ Statement No.13" issued on March 30,2007), and the Guidance on Accounting Standard for Lease Transactions ("ASBJ Guidance No. 16" issued on March 30,2007) except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As a result of this change, the impact on operating income, income before income taxes and minority interests was immaterial for the year ended March 31, 2009 compared with the corresponding which would have been recorded under the previous method.

Finance leases commencing prior to April 2008, which do not transfer ownership or which do not have bargain purchase option provisions were accounted for in the same manner as operating leases in accordance with Japanese GAAP.

#### (I) ACCRUED BONUSES TO EMPLOYEES

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

#### (J) ACCRUED 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.

#### (K) RESERVE FOR SALES RETURNS

The reserve for sales returns provides for estimated future loses expected to be incurred from the return of products.

#### (L) RESERVE FOR SALES REBATES

The reserve for sales rebates provides for estimated future sales rebates by multiplying accounts receivable by the estimated rebate rates.

#### (M) PENSION AND OTHER POST RETIREMENTS OBLIGATIONS

#### (i) Employees

The Company and its subsidiary MEDISA SHINYAKU INC. revised its previous tax qualified pension plan and implemented a new defined contribution plan on October 1, 2005.

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 liability for directors and corporate auditors' retirement benefits is provided based on the Company's internally developed criteria.

#### (N) 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 expensed in the period incurred and amounted to  $\pm 3,593$  million (3,618 thousand) and  $\pm 3,409$  million for the years ended March 31, 2010 and 2009, respectively.

#### (O) INCOME TAXES

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

#### (P) NET INCOME PER SHARE

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

Calculations of diluted net income per share of common stock are based on the weighted average number of shares outstanding, after assuming the exercise of subscription rights to shares.

Cash dividends per share presented in the accompanying consolidated statements of income, are dividends applicable to the respective years, including dividends to be paid, after the end of the year.

#### (Q) 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.

#### (R) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2010 presentation.

FINANCIAL INSTRUMENTS

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows.

#### (A) QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

(1) Policies for using financial instruments

The Companies policy for the cash management; is mainly to hold short-term deposits at banks with the funding of cash mainly sourced from bank loans.

(2) Details of financial instruments used and the exposures to risks

Trade notes and accounts receivable are exposed to the credit risk of our customers. The Companies have management structures in place, to check the term and balance outstanding for every customer.

Investment securities are exposed to the risk of market price fluctuations. The Companies policies for investment securities, are to mainly invest in securities of counter-parties with which the Companies conduct business. The Companies regularly report the investment securities held, to the management board.

Trade notes and accounts payable are due within 1-year.

Short-term bank debts, mainly for the purpose of providing operating funds, are based on market price rates and Long-term bank debts (as a rule within 7-year), mainly due to operating funds and capital investment funds, which are based on fixed rates in order to minimize the risk of changing rates.

#### (3) Supplemental information on fair values

The Companies used market fair values of Financial Instruments but partially used rational estimations in case of no market fair values and in those estimations there are some variation factors.

#### **(B) FAIR VALUES OF FINANCIAL INSTRUMENTS**

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2010 are the following.

<u> </u>	Millions of yen			Thou	usands of U.S. do	ollars
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	9,474	9,474	_	101,827	101,827	_
Trade notes and accounts receivable	18,540	18,540	_	199,269	199,269	_
Investment securities; other securities	568	568	_	6,105	6,105	_
Total assets	¥28,582	¥28,582	¥—	\$307,201	\$307,201	\$ —
Trade notes and accounts payable	10,040	10,040	_	107,911	107,911	_
Bank debt and current portion of long-term debt	6,603	6,604	1	70,969	70,980	11
Other accounts payable	4,073	4,073	_	43,777	43,777	_
Income taxes payable	2,659	2,659	_	28,579	28,579	_
Long-term debt	8,172	8,211	39	87,833	88,252	419
Total liabilities	¥31,547	¥31,587	¥40	\$339,069	\$339,499	\$430

- (1) For certain financial instruments, including cash and cash equivalents, notes and accounts receivable and payable, bank debt, accrued income taxes payable and other current liabilities, Their fair value is approximately equal to the book value, due to short period until maturity of the respective items.
- (2) For marketable securities, fair value is determined based on observable quoted market prices.
- (3) For long-term debt including the current portion of long-term debt, fair value is determined using the estimated discounted values of future cash flows, for the same or similar, types of instruments.
- (4) Investment securities for non-listed companies, with aggregate book values of 86 million yen (\$924 thousand) at March 31, 2010, have not been included in "Investment securities; other securities" as it is not possible to reasonably or accurately estimate the fair values of these investments, based on estimated future cash flows or quoted market prices.

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INVENTORIES

Inventories at March 31, 2010 and 2009 are as follows:

·	Million	Thousands of U.S. dollars	
	2010	2009	2010
Finished goods and merchandise	¥ 9,998	¥ 6,704	\$107,459
Work-in-process	3,799	3,033	40,832
Raw materials and supplies	4,284	3,851	46,045
Total	¥18,081	¥13,588	\$194,336

# INVESTMENT SECURITIES

- (a) The following tables summarize acquisition costs and fair market values of available-for-sale securities with available fair values as of March 31, 2010 and 2009.
- (1) Securities with fair market values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars			
March 31, 2010:	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	
Equity securities	¥297	¥568	¥271	\$3,192	\$6,105	\$2,913	

	Millions of yen				
March 31, 2009:	Acquisition cost	Book value	Difference		
Equity securities	¥174	¥333	¥159		

(2) Securities with fair market values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars			
March 31, 2010:	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	
Equity securities	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —	

	Millions of yen				
March 31, 2009:	Acquisition cost	Book value	Difference		
Equity securities	¥ 77	¥ 75	¥ (2)		

- (b) Total sales of available-for-sale securities in the year ended March 31, 2010 amounted to ¥0 million, and the related losses amounted to ¥0 million. Total sales of available-for-sale securities in the year ended March 31, 2009 amounted to ¥4 million, and the related losses amounted to ¥0 million.
- (c) Acquisition cost of securities with no available fair values as of March 31, 2010, are as follows:
  Unlisted equity securities: ¥86 million (\$924 thousand).

  Acquisition cost of securities with no available fair values as of March 31, 2009, are as follows:

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SHORT-TERM DEBT AND LONG-TERM DEBT Short-term debt consisted mainly of unsecured bank loans with weighted average interest rates of 0.588% per annum at March 31, 2010 and 0.777% per annum at March 31, 2009.

Long-term debt at March 31, 2010 consisted of the following:

Unlisted equity securities: ¥136 million.

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2010 – 2017, interest 0.91% – 1.78%		
Secured	¥ 695	\$ 7,470
Unsecured	9,980	107,265
	10,675	114,735
Current portion of long-term debt	2,503	26,902
	¥ 8,172	\$ 87,833

Long-term debt at March 31, 2009 consisted of the following:

	Millions of yen
Loans from banks and other public corporations, due 2009 – 2016, interest 0.54% – 2.0%	
Secured	¥ 915
Unsecured	10,106
	11,021
Current portion of long-term debt	2,550
	¥ 8,471

The aggregate annual maturities of long-term debt outstanding at March 31, 2010 are as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 2,503	\$ 26,902
2012	2,152	23,130
2013	2,189	23,527
2014	1,951	20,969
2015	970	10,426
2016-2017	910	9,781
Total	¥10,675	\$114,735

At March 31, 2010, 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	¥1,005	\$10,802

At March 31, 2008, 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	¥3,989

# EMPLOYEES' PENSION BENEFITS

The Company and its subsidiary, MEDISA SHINYAKU INC., revised their tax qualified pension plan and implemented a new defined contribution plan on October 1, 2005.

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 pension benefit obligations.

The liability for employees' pension benefits at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected retirement benefit obligation	¥92	¥116	\$989
Liability for retirement benefits	¥92	¥116	\$989

Retirement benefit expenses for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 15	¥ 13	\$ 161
Payment of contribution to defined contribution pension plan	378	373	4,063
Retirement benefit expenses	¥393	¥386	\$4,224

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

#### **NET ASSETS**

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors. designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or a legal earnings reserve. Legal earnings reserves are included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserves may not be distributed as dividends. Under the Law, all additional paid-in-capital and all legal earnings reserves may, by resolution of the shareholders, be transferred to other capital surplus and retained earnings, respectively, which are potentially available for distribution as dividends.

On June 24, 2010, the Company's shareholders approved the payment of year-end cash dividends of ¥40 (\$0.43) per share, totaling ¥628 million (\$6,750 thousand) paid to the Company's shareholders of record as of March 31, 2010.

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# DEFERRED INCOME TAXES

The Company is 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, 2010 and 2009.

Significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Unrealized gains on land	¥ 29	¥ 29	\$ 312
Retirement benefits for directors and corporate auditors	111	84	1,193
Unrealized gains on inventories	366	187	3,934
Accrued bonuses to employees	433	347	4,654
Reserve for sales rebates	208	141	2,236
Amount in excess of depreciation and amortization	119	131	1,279
Loss due to impairment of fixed assets	205	205	2,203
Loss on disposal of buildings and structures	147	147	1,580
Enterprise taxes	214	139	2,300
Loss on valuation of inventories	343	439	3,687
Other	373	208	4,008
Sub total deferred tax assets	2,548	2,057	27,386
Less valuation allowance	(562)	(495)	(6,040)
Total deferred tax assets	1,986	1,562	21,346
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	(136)	(136)	(1,462)
Reserve for special depreciation	_	(8)	_
Net unrealized holding gains on securities	(111)	(65)	(1,193)
Unrealized gain on revaluation of land	(138)	(138)	(1,483)
Other	(0)	(0)	(0)
Total deferred tax liabilities	(385)	(347)	(4,138)
Net deferred tax assets	¥1,601	¥1,215	\$17,208

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rate for financial statement purposes for the year ended March 31, 2010 and 2009.

	2010	2009
Statutory income tax rate	40.87%	40.87%
Special tax credits	(4.23)	(5.81)
Permanently nondeductible expenses	0.23	1.79
Additions and reductions of valuation allowance	(0.87)	(0.59)
Other	0.25	0.78
Effective income tax rate	37.50%	37.04%

**LEASES** 

As discussed in Note 2, finance leases that commended prior to April 1, 2008 which do not transfer ownership or which do not have bargain purchase option provisions were accounted for in the same manner as operating leases are accounted for as operating leases.

Assumed amounts of acquisition cost and accumulated depreciation at March 31, 2010 and 2009 are as follows:

#### (A) FINANCE LEASES - LESSEE

At March 31, 2010 and 2009, lease obligations for machinery and equipment and other assets under non-capital finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease obligations, including finance charges	¥582	¥650	\$6,255

Lease obligations under non-capital finance leases, including finance charges, remaining at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Payments due within one year	¥ 87	¥130	\$ 935
Payments due after one year	47	94	505
Total	¥134	¥224	\$1,440

Leases payments under such leases for the years ended March 31, 2010 and 2009 are  $\pm$ 162 million (\$1,741 thousand) and  $\pm$ 183 million, respectively.

#### (B) OPERATING LEASES - LESSEE

Lease obligations under operating leases remaining at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Payments due within one year	¥22	¥22	\$236
Payments due after one year	33	53	355
Total	¥55	¥75	\$591

11 SEGMENT

**INFORMATION** 

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

#### STOCK OPTION PLAN

Stock option expenses in the amounts of ¥119 million (\$1,279 thousand) and ¥83 million have been accounted for as "Selling, general and administrative expenses" on the consolidated statements of income for the year ended March 31, 2010 and 2009.

The details related to the stock option expenses at March 31, 2010 are as follows:

	Fiscal year 2009 Stock options
Position and number of grantee	Directors of the Company: 9 Corporate auditors: 1 Employees: 646 Subsidiary Employees: 38
Type and number of shares	Common stock of Company: 192,300 shares
Date of grant	August 11, 2008
Settlement of rights	After providing service for the period
Period of providing service for stock option	For 2 years (From August 11, 2008 to August 11, 2010)
Exercise period of rights	For 5 years from grant date (From August 12, 2010 to August 11, 2015)

Number of shares of stock options at March 31, 2010 and 2009 are as follows:

	Number of shares	
	2010	2009
Before Settlement of rights		
Beginning of year	_	_
Granted	195,000	195,700
Expired	2,700	700
Settled	_	_
End of year	192,300	195,000
After Settlement of rights		
Beginning of year	_	_
Settled	_	_
Exercised	_	_
Expired	_	_
End of year	_	_

Information per share price at March 31, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Exercise price	¥4,650	¥4,650	\$49.98
Fair value at grant date	1,257	1,257	13.51

Assumptions used in estimation of the fair value of stock options above are as follows:

	Fiscal year 2010 Stock options	
Method of estimation	Black-Scholes model	
Volatility *1	34.8%	
Expected remaining period *2	4 years and 6 months	
Expected dividend *3	¥55 (\$0.59)	
Risk-free interest rate *4	1.00%	

<sup>\*1</sup> Rate of variability, which is calculated based on the monthly closing prices of common stock of the Company for 4 years and 6 months from February 2004 to August 2008 for the 2010 stock options, respectively.

<sup>\*2</sup> Mid-term point between date of grant and estimated exercisable period.

 $<sup>^{*}</sup>$ 3 Actual dividend per share for the year ended March 31, 2008 for the stock options.

<sup>\*4</sup> Interest rate for a government bond with similar period as option vesting period of stock options.



#### 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, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended 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, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2(e) to the consolidated financial statements, for the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Measurement of Inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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.

KPMG AZSA & Co.

Osaka, Japan June 24, 2010

> KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG

#### Board of Directors (As of June 24, 2010)

Chairman Hiroyuki Sawai\* Director Kyozo Inari

President Mitsuo Sawai\* Director Shinichi Tokuyama

Managing Director Takashi Iwasa, Ph.D. Director Yoshiteru Takahashi, Ph.D.

Managing DirectorHarumasa Toya, Ph.D.DirectorMinoru KodamaManaging DirectorKeiichi KimuraDirectorYasuhiro ObanaManaging DirectorShigeharu Yokohama, Ph.D.DirectorKenzo Sawai

(\*Representative Director)Standing Statutory AuditorToshiaki KonishiStatutory AuditorTakekiyo SawaiExternal AuditorKoji Ueda

External Auditor Koji Ueda
External Auditor Hidefumi Sugao
External Auditor Takashi Takahashi

#### Corporate Data (As of March 31, 2010)

Sawai Pharmaceutical Co., Ltd.

**Head Office:** 2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan

Founded: 1929 Incorporated: 1948

Paid-in Capital:¥11,501 millionNumber of Shares Outstanding:15,702,000

Number of Shareholders: 6,947
Number of Employees: 862

**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, Saitama, Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka

Area Offices: Tokyo-Higashi, Tokyo-Nishi, Yokohama, Joshinetsu,

Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu, Okayama, Kumamoto

**Consolidated Subsidiary:** Medisa Shinyaku Inc.

Kaken Shoyaku Co., Ltd.

**Factories:** Kyushu, Sanda, Osaka, Kanto, Kyushu Factory of Medisa Shinyaku,

Yasato Factory of Kaken Shoyaku, Pharmaceutical Technology Center

#### Stock Price Information

	Stock Price		
	High	Low	
From April 1, 2009 to March 31, 2010	¥ 6,450	¥ 4,400	
First Quarter	5,430	4,400	
Second Quarter	5,460	4,950	
Third Quarter	5,450	4,610	
Fourth Quarter	6,450	5,080	

#### For further information, please contact

**Investor Relations** 

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