

sawai



Becoming Japan's Pharmaceutical Brand of Choice



ANNUAL REPORT

2011

For the year ended March 31, 2011

A Leader in Japan's Generics Industry: 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 generic 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.



Patients First

Sawai's Mission

To enable people to live healthy lives through pharmaceutical products imbued with our whole-hearted dedication.

Corporate Philosophy

(established January 2007)

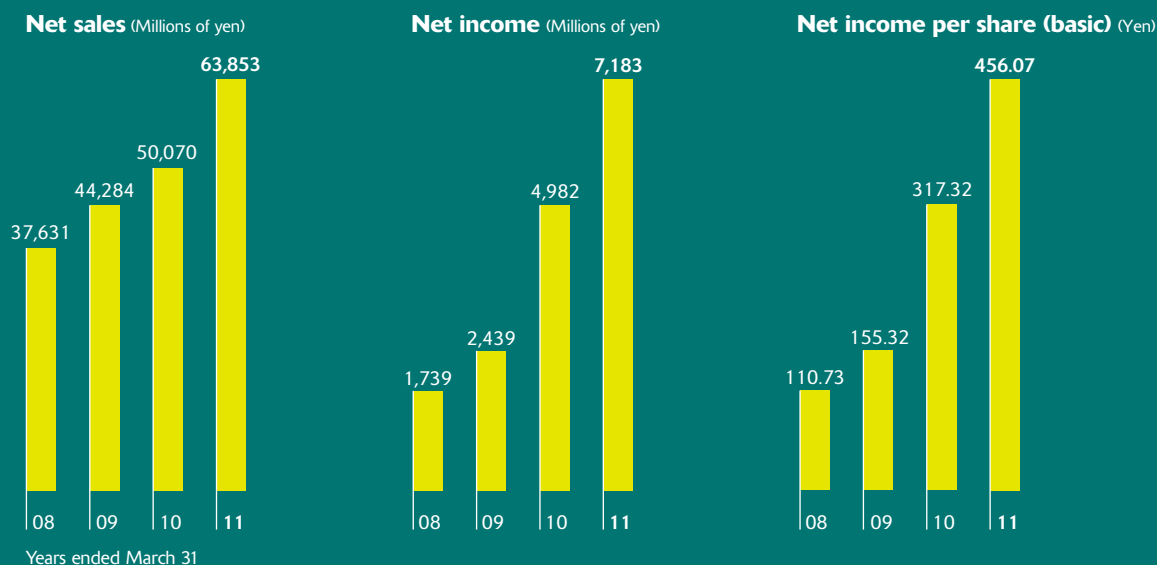
Sawai's Challenge

To grow in tandem with society through innovation and cooperation, while pursuing creativity.

Sawai's Hope

To become an indispensable part of society through our desire to be of service.

FINANCIAL HIGHLIGHTS



Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net sales	¥ 63,853	¥ 50,070	¥ 44,284	\$ 767,925
Operating income	13,586	8,519	4,668	163,391
Net income	7,183	4,982	2,439	86,386
Net assets	50,863	46,258	41,706	611,702
Total assets	117,056	81,236	72,320	1,407,768
Research and development (R&D) expenses	3,902	3,593	3,409	46,927
Capital expenditures	2,805	5,370	2,841	33,734
Depreciation and amortization	3,066	3,025	2,709	36,873
		%		
Ratio of R&D expenses to sales	6.1	7.2	7.7	
Return on equity	15.1	11.8	6.2	
Shareholders' equity to total assets	43.4	54.5	55.4	
Amounts per common share:		Yen		U.S. dollars
Net income—basic	¥ 456.07	¥ 317.32	¥ 155.32	\$ 5.48
Net income—diluted	407.33	316.86	—	4.90
Cash dividends applicable to period	110.00	70.00	55.00	1.32
Net assets	3,210.32	2,817.65	2,551.06	38.61

Note: 1. The U.S. dollar amounts represent translation of Japanese yen amounts for convenience only and are at the approximate rate of ¥83.15 = \$1.00; the rate prevailing on March 31, 2011.

2. Minority shareholders' interests are included in net assets due to the application of the Japanese Corporate Law.



Meeting Society's Needs Ahead of Plan

Mitsuo Sawai, President

Hiroyuki Sawai, Chairman

TO OUR SHAREHOLDERS

Economic conditions in Japan remained adverse in fiscal 2010, the year ended March 31, 2011. Although there were signs of an up-turn in business conditions due to favorable economic conditions in Asia and the impact of the government's economic stimulus measures, negative factors included further yen appreciation and rising crude oil prices. Furthermore, the Great East Japan Earthquake of March 11, 2011 had a tremendous impact on Japan's economy, especially the manufacturing industry.

In the ethical drugs industry, the government implemented measures to promote the use of generic drugs, including a review of additional medical service fees for the dispensing of generic drugs in April 2010, and the generic drug market continued to expand. However, the increase in the generic drug prescription rate is leveling off. In addition, competition in the generics market continues to intensify. For instance, 28 companies, including Sawai, have entered the market for Glimepiride tablets, an oral blood-glucose-lowering drug, since the patent expired in November 2010.

Under these circumstances, the Sawai Group implemented key policies set forth in the M1 TRUST medium-term business plan: 1) Improve "Quality of sales promotion" by strengthening the marketing function, 2) Build up Sawai's "Trust of its stable supply" and reduce costs of production, 3) Enhance development of value-added generic drugs meeting market needs and 4) Establish infrastructure to enable net sales of ¥100 billion. As a result of these efforts, we achieved record high consolidated net sales and profits in the year under review and were able to achieve the profit target in the M1 TRUST medium-term business plan a year ahead of schedule.

Although there will be no new revisions to the medical system in fiscal 2011, ongoing revisions will continue with revision of medical care compensation in 2012 and reform of the medical care system for the elderly in 2013, and the government is likely to promote further use of generics in preparation to achieve its target of a 30% volume share for generic drugs. In response to this situation, we consider it our mission to put in place a stable, reliable supply system and promote the dissemination of inexpensive, high-quality generic drugs in Japan.

Finally, I would like to express my heartfelt sympathies to those affected by the Great East Japan Earthquake. Sawai is committed to supporting the disaster recovery effort by continuing the monetary donations and provision of drugs that we began immediately after the disaster.

I ask the continued support of our shareholders in the years to come as we continue our pursuit of dramatic business growth and contributions to society in keeping with our corporate philosophy, "Patients first."

H. Sawai

Hiroyuki Sawai, Chairman

M. Sawai

Mitsuo Sawai, President

AN INTERVIEW WITH THE PRESIDENT



Mitsuo Sawai, President



First, please discuss the fiscal 2010 business results and progress with the M1 TRUST medium-term business plan.

First of all, in fiscal 2010, we achieved substantial sales and profit growth. Net sales increased 27.5% to ¥63.85 billion as a result of expanded use of generic drugs in the NHI pharmacy market due to medical system revision. Operating income rose 59.5% to ¥13.58 billion and net income increased 44.2% to ¥7.18 billion. The earnings increase is attributable to absorption of the impact of NHI drug price revisions through a gross profit reflecting higher sales, increased productivity and cost control.

Sales of the 63 product items released in 2009 rose steadily, and major new products such as Halthrow OD tablets, a drug that improves urinary disturbances, and Amlodipine OD tablets, a hypertension and angina medication, made a particularly significant contribution to the sales increase.

In addition, through vigorous marketing activities we steadily increased adoptions of medications for lifestyle diseases and anticancer drugs, primarily at pharmacies and DPC hospitals, which led to increased sales. Profits also increased sharply as a result of groupwide cost cutting activities cost cutting activities that curbed increases in the cost of sales and selling, general and administrative expenses.

As a result of these initiatives, we posted record-high sales and profits, achieved the target of ¥62.0 billion in net sales for the second year of the M1 TRUST medium-term business plan and achieved the targets of ¥11.5 billion in operating income and ¥6.0 billion in net income for the final year of the plan a year ahead of schedule.

Overview of Financial Results

	FY2009 Full Year Result		FY2010 Full Year Result		Year on Year (Growth)	
	Millions of yen	Sales (%)	Millions of yen	Sales (%)	Millions of yen	(%)
Net Sales	50,070	100.0	63,853	100.0	13,784	27.5
Operating Income	8,519	17.0	13,586	21.3	5,067	59.5
Ordinary Income	8,407	16.8	12,704	19.9	4,297	51.1
Net Income	4,982	10.0	7,183	11.2	2,201	44.2



Please discuss high-priority initiatives and the forecast for business results for fiscal 2011.

In fiscal 2011, the final year of the M1 TRUST medium-term business plan, we will move forward with initiatives to achieve the plan objectives: 1) Sales growth far exceeding the market growth rate, 2) Further strengthening of the management structure thorough cost control and effective strategic investment and 3) Establishment of a robust SAWAI brand. We have already achieved the profit targets in the plan a year ahead of schedule and have focused on two key issues to be addressed through high-priority initiatives in the current fiscal year: 1) Top-level performance in quality, stable supply and information provision and 2) Establishment of infrastructure in preparation for achieving net sales of ¥100.0 billion.

We received the Generic Drug of the Year Award 2011 from the Generic Drug Association, Japan for cetirizine hydrochloride OD tablets, an allergic disorder therapeutic agent released in May 2010. The award was in recognition of the formulation technology and new dosage form unavailable in the original drug. It has been our practice to

develop generics with greater added value than the original drugs, such as ease of administration for patients and ease of formulation for pharmacists, and this award reflects the high regard in the industry for our development approach. We will continue to engage in the development of high value-added products.

In the area of production, we plan to transfer the Kyushu Factory of subsidiary Medisa Shinyaku to Sawai in April 2012 to increase production efficiency. In addition, we have launched a project to build a new plant on the grounds of the Kanto Factory in Mobara City, Chiba Prefecture, which we aim to put into operation during fiscal 2012. In this way, we plan to increase production capacity by more than 40% from the current level to 8.0 billion tablets before the end of fiscal 2012.

In marketing and sales, in June 2011 we released 14 product items in 11 active ingredients. We will engage in vigorous promotions to increase sales, especially for major products such as Edaravone intravenous drip infusion, a

Business Policy of 2011

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

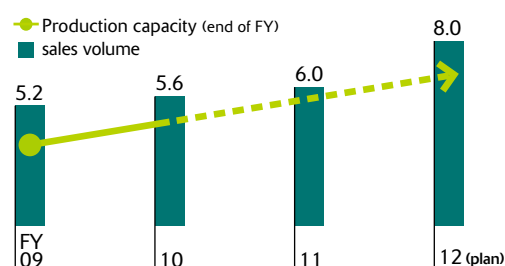
- I. Sales growth far exceeding market growth rate
- II. Further strengthening of management structure by thorough cost control and effective strategic investment
- III. Establish robust SAWAI brand

Business plan and its progress in FY2011

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

Build the stable supply system

8 billion tablets production capacity by the end of FY2012



New Factory in Chiba Prefecture (Artist's impression)

newly launched cerebroprotective agent, and Amlodipine OD tablets, a previously released product.

As a result of these business development initiatives, we forecast net sales to increase 13.5% to of ¥72.5 billion, operating income to rise 6.7% to ¥14.5 billion and net income to rise 15.5% to ¥8.3 billion in fiscal 2011.

We have set a target of achieving consolidated net sales of ¥100.0 billion by fiscal 2013. I think there are three prerequisites for further growth after the target has been achieved: 1) involvement with anticancer drugs, 2) a biosimilars strategy and 3) an alliance strategy. In the field of anticancer drugs, we will mount a groupwide effort to

strengthen information provision capabilities and increase brand recognition and will increase the number of dedicated hospital MRs to 100 within three years. As we develop a strategy for biosimilars, a term that refers to generic biological medicines, we will consider limiting the scope of drugs to target for development or effective activities involving joint development. We are considering an alliance strategy from three perspectives: 1) A strategy for entering overseas markets, 2) A strategy for new businesses including biosimilars and 3) The realization of a revolutionary hybrid pharmaceuticals company involved in both new drugs and generics.



What future trends do you foresee in the generics industry and how will Sawai respond?

Planned future medical system revisions are a revision of medical care compensation in 2012, reform of the medical care system for the elderly in 2013 and another revision of medical care compensation in 2014. We anticipate further government promotion of generics use and forecast an increase in demand of more than 16.0 billion tablets from the current level. In addition, realignment of the generic drugs industry due to market entry by major Japanese and foreign manufacturers (pharmaceutical and non-pharmaceutical) is advancing at an accelerating pace, and competition is likely to increasingly intensify.

In these circumstances, in September 2010 the Company issued ¥30.0 billion in Euroyen zero-coupon convertible bonds maturing in 2015 to raise funds for capital expenditures, development and strategic investment, and improvement of the financial position in preparation for future growth.

Furthermore, we discontinued the Policy Concerning Large-Scale Purchases of Shares (Takeover Defense Mea-

asures) introduced in 2008 at the conclusion of the Ordinary General Meeting of Shareholders held in June 2011. We discontinued the policy because the business environment has changed substantially since the time of introduction and because we believe that the best takeover defense measure is to faithfully implement the business plan and steadily increase the Company's corporate value.

In addition to the business structure innovation adapted to the changing times I have described, the Company has a number of other strengths as a specialty generics company. These include highly stable supply capability, a highly developed distribution system based on collaboration with wholesale distributors, a high share of generic drug transactions in the market, an extensive line of high value-added products and a low-cost operating structure. By taking maximum 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 create brand impetus for success in market competition.



Finally, please discuss the policy for 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 in-

creased the annual dividend by ¥40 per share from the previous fiscal year to ¥110.

Sawai will continue to vigorously pursue shareholder returns in the coming years, and I request the continued support of our shareholders for our business endeavors.

Mitsuo Sawai, President

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
T	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"

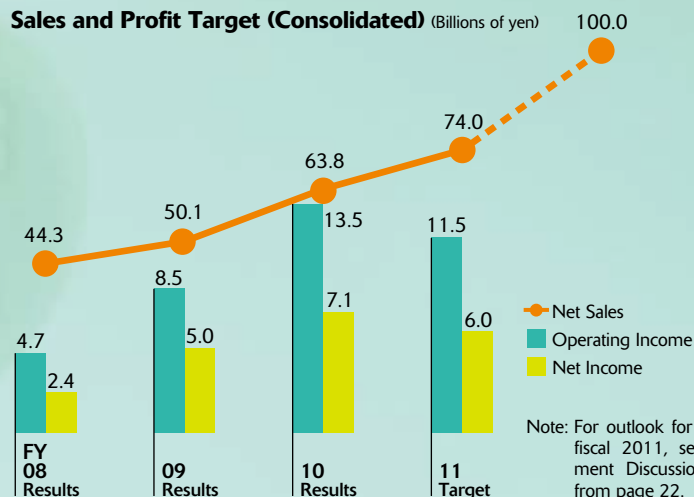
By FY2011, the final year of the medium-term plan, we expect to achieve net sales of ¥74.0 billion, operating income of ¥11.5 billion, and net income of ¥6.0 billion. These results will secure us a sure foothold on the way to becoming a ¥100-billion company.

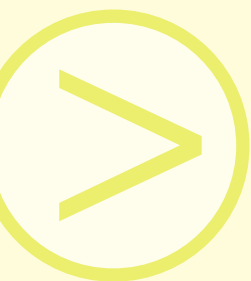
Achieving Net Sales of ¥100 Billion within 5 Years

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

Target of M1 TRUST

Sales and Profit Target (Consolidated) (Billions of yen)





Market and Business Growth

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

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

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

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

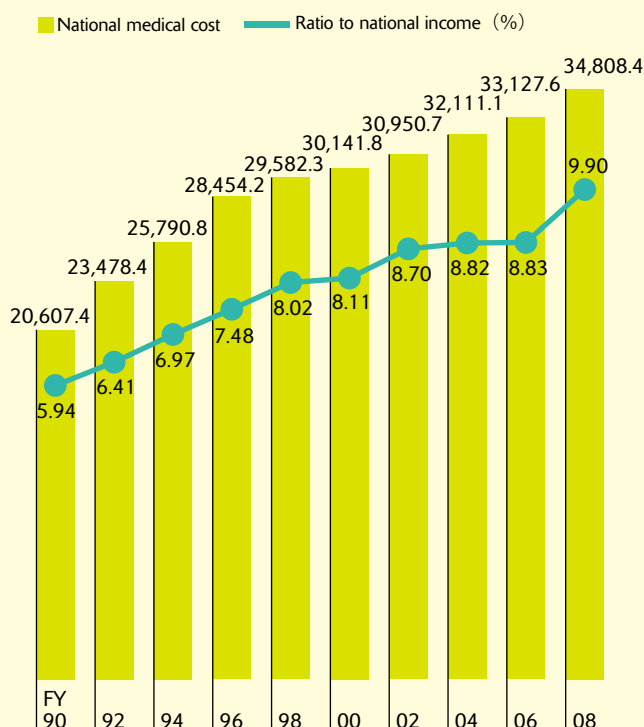
We estimate that the generic drug prescription rate reached approximately 23% on a volume basis in March 2011.

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

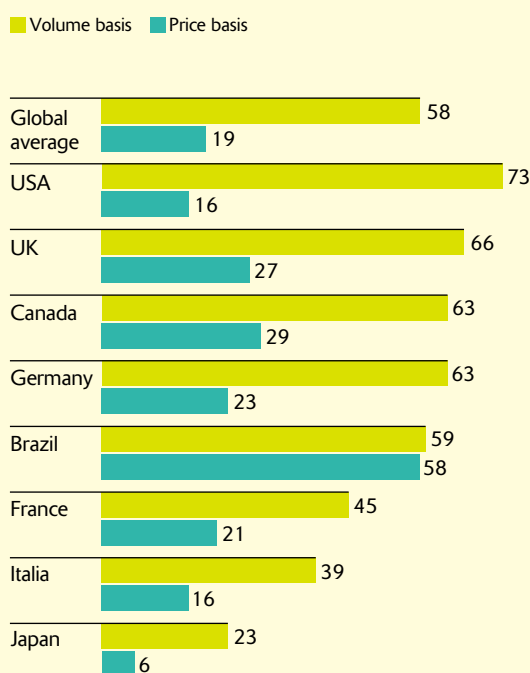
In this market environment, as the company with the top brand name in generics, Sawai has set forth the "Patients first" corporate philosophy. To ensure that patients can obtain and use inexpensive, high-quality generics with confidence and peace of mind, we will work to establish a stable supply system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

*Source: Japan Generic Medicines Association

Growth of National Medical Costs (Billions of yen)



Generic Drug Share in Major Countries (CY2009/%)



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Based on MIDAS Market Segmentation 2010 Dec MAT.
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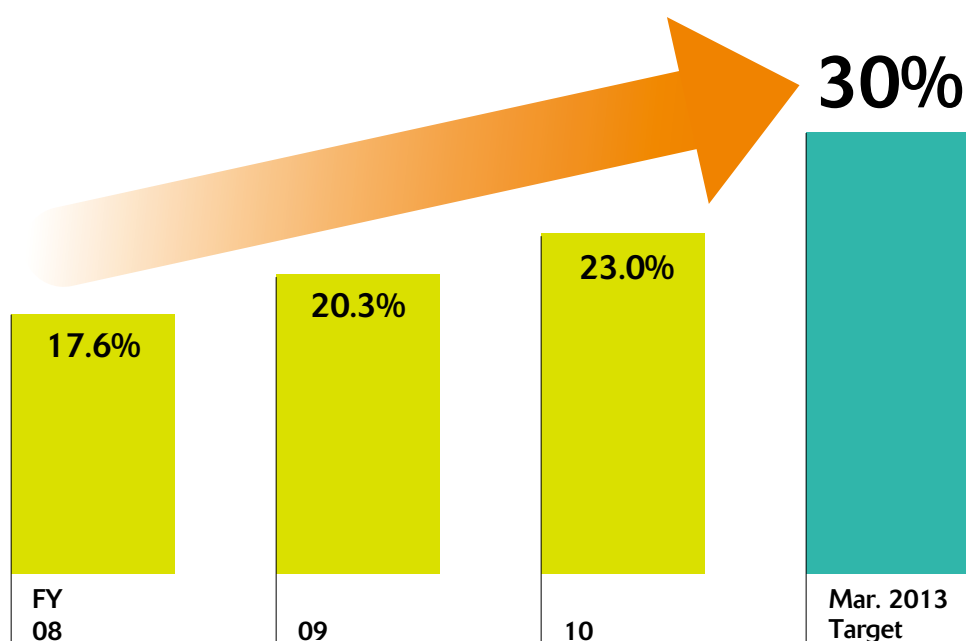
Measures for Promoting Generic Drug Use in Japan

Fiscal 2002	Changes in medical service fees and dispensing fees, including an additional fee for dispensing generic drugs, a fee for generic drug information provision and a fee for prescriptions that include generic drugs
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 the revision of the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities, additional fees for the dispensing of generic drugs, further revision of the prescription form (physician signature required to prohibit substitution of generic drugs) and abolition of the fee for prescriptions that include generic drugs
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
Fiscal 2012	Planned revision of medical and nursing care compensation
Fiscal 2013	Planned reform of the medical care system for the elderly
Fiscal 2014	Planned revision of medical care compensation

Market Share of Generic Drugs in Japan

Source: Japan Generic Medicines Association

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





Research and Development

In accordance with our “Patients first” corporate philosophy, Sawai is applying advanced technological capabilities to develop pharmaceuticals chosen by healthcare professionals, patients and distributors.

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

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 ac-

tively invests in R&D. Our R&D expenses of ¥3,902 million are the highest among generics manufacturers in Japan.

The size of the market for products whose patents are expected to expire from fiscal 2011 through fiscal 2015 is expected to reach approximately ¥1,470.0 billion, and competition is likely to further intensify, fueled by expectation that these products will be replaced by generics.

As the industry leader, Sawai will continue to put the interest of patients first by offering the industry’s premier lineup of new products made possible by the development and successful introduction of high-quality, high value-added formulations and by refining existing products. We will also consider product development in the field of anticancer drugs, where tremendous market expansion is expected to continue, and biosimilars development with a focus on antibody drugs.

Major Products

Trade Name	Active Ingredient	Dosage Form	Strength
HALTHROW OD	Tamsulosin Hydrochloride	Oral Disintegrating Tablets	0.2mg
LIMARMONE	Limaprost Alfadex	Tablets	5µg
PRAVATIN	Pravastatin Sodium	Tablets	10mg
AMLODIPINE	Amlodipine Besilate	Tablets	5mg
LASOPRAN OD	Lansoprazole	Oral Disintegrating Tablets	15mg
VOGLIBOSE OD	Voglibose	Oral Disintegrating Tablets	0.3mg
EPINAZION	Epinastine Hydrochloride	Tablets	20mg
LIPODOWN	Simvastatin	Tablets	5mg
REBAMIPIDE	Rebamipide	Tablets	100mg
CLARITHROMYCIN	Clarithromycin	Tablets	200mg (potency)
ARTIONE	Carvedilol	Tablets	10mg
SEFTAC	Teprenone	Capsules	50mg
OMEPRAZOLE	Omeprazole	Tablets	20mg
ETHYL ICOSAPENTATE	Ethyl Icosapentate	Seamless Capsules	900mg
METHYCOOL	Mecobalamin	Tablets	500µg
FAMOTIDINE	Famotidine	Tablets	20mg
CILNIDIPINE	Cilnidipine	Tablets	10mg
BEZATATE	Bezafibrate	Tablets	200mg
ITORAT	Itraconazole	Capsules	50mg
UBIRON	Ursodeoxycholic Acid	Tablets	100mg

Major New Products Listed in Nov. 2010 - June 2011

Trade Name	Active Ingredient	Dosage Form	Strength
RABEPAZOLE Na	Sodium Rabeprazole	Tablets	10mg/20mg
GLIMEPIRIDE	Glimepiride	Tablets	1mg/3mg
FLUVOXAMINE MALEATE	Fluvoxamine Maleate	Tablets	25mg/50mg/75mg
POLAPREZINC OD	Polaprezinc	Tablets	75mg
NICARPINE	Nicardipine Hydrochloride	Injections	25mg/25mL/1ampule
ALLOZYM	Allopurinol	Tablets	50mg
EDARAVONE	Edaravone	Injections	30mg/20mL/1ampule 30mg/100mL/bag
TAMOXIFEN	Tamoxifen Citrate	Tablets	30.4mg
ARDEPHYLLIN	Theophylline	Tablets	50mg/200mg
SIMVASTATIN	Simvastatin	Tablets	20mg
CEFTAZIDIME	Ceftazidime	Injections	0.5g (potency)/1vial
FLUCONAZOLE	Fluconazole	Injections	50mg/1vial



RABEPAZOLE Na tablets

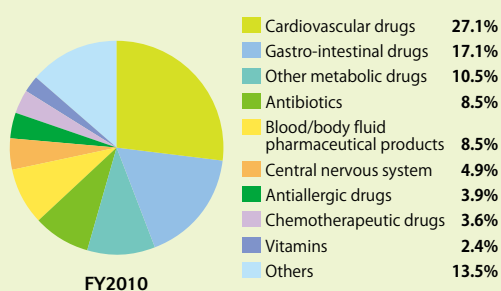


AMLODIPINE OD tablets



HALTHROW OD tablets

Sales by Therapeutic Category (%)



Representative Sawai Pharmaceutical Value-added Innovations

Easy-to-administer, enhanced drugs

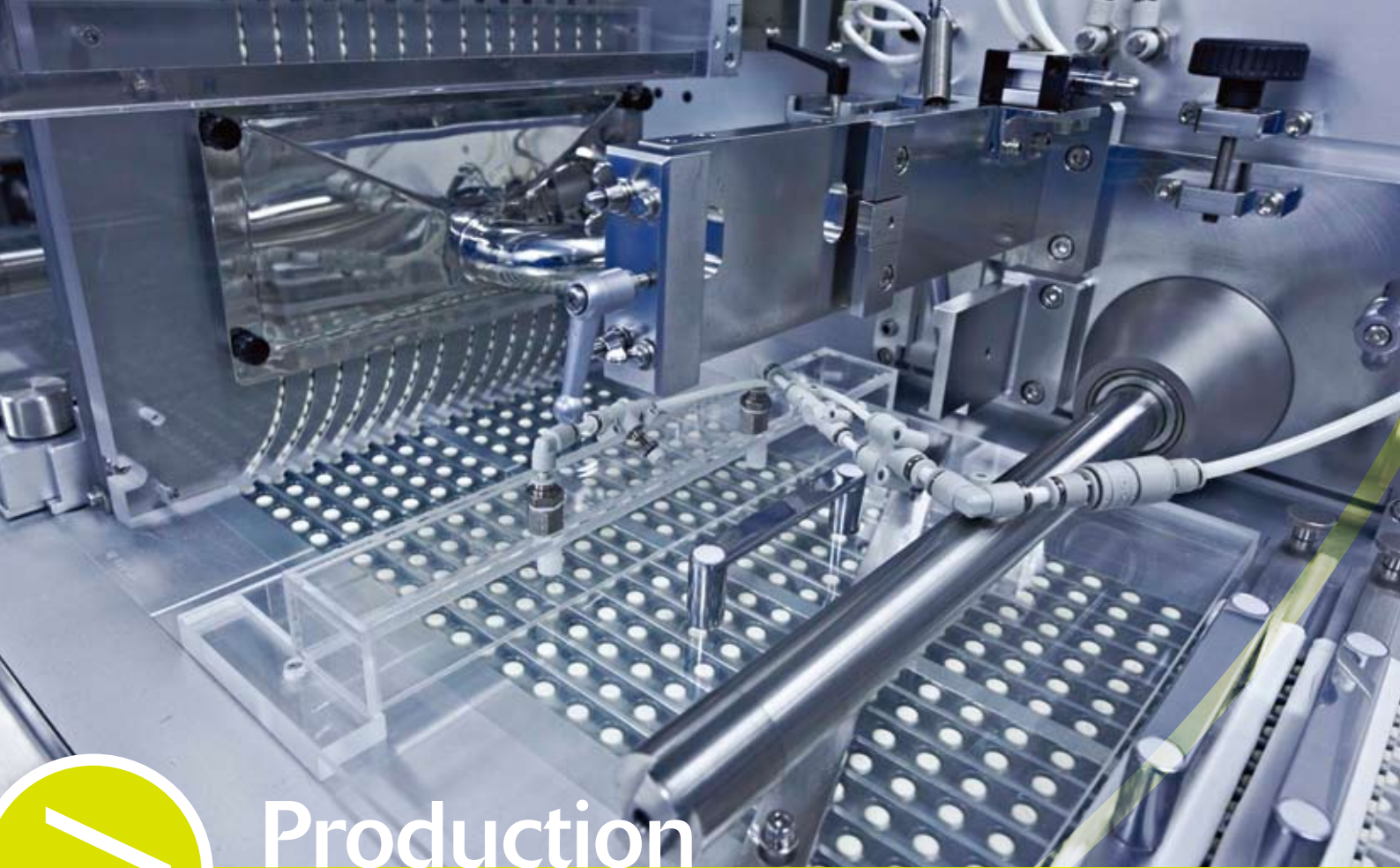
Capsules in tablet form	Large, hard-to-swallow capsules made into tablet form
Miniaturized tablets	Miniaturization of large, hard-to-swallow tablets
Improved taste	Sugar and film coatings to mask bitter taste

Enhancements that facilitate 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 linked 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

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 supply systems.

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.


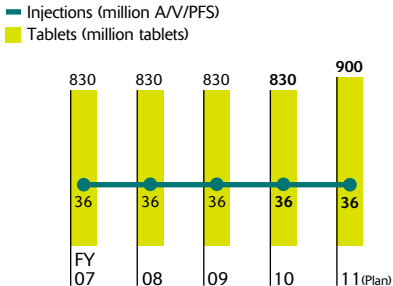

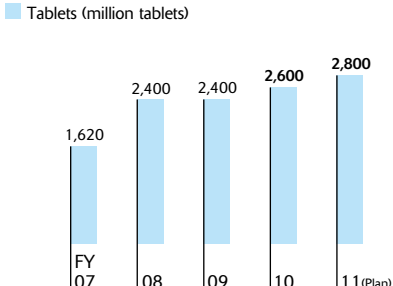

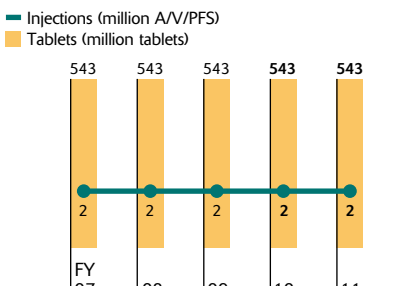

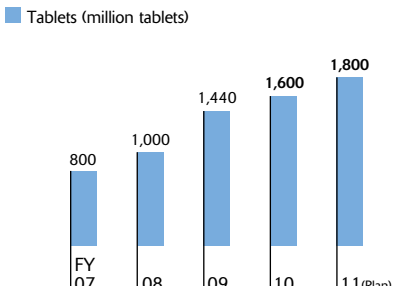
We will increase annual production capacity from approximately 5.6 billion tablets at present to 6.0 billion tablets during fiscal 2011 by making capital investments at the Company's Sanda Factory in Hyogo Prefecture and other factories and establishing efficient production and supply systems. Furthermore, in preparation for future demand expansion, we have commenced construction of a new plant on the grounds of the Kanto Factory in Mobara City, Chiba Prefecture and will increase annual production capacity to 8.0 billion tablets by the end of fiscal 2012. The plan is to establish management standards that com-

ply with regulations in Japan, the U.S. and Europe and equip the plant with state-of-the-art facilities that will make possible laborsaving and unattended production and ensure low environmental impact.

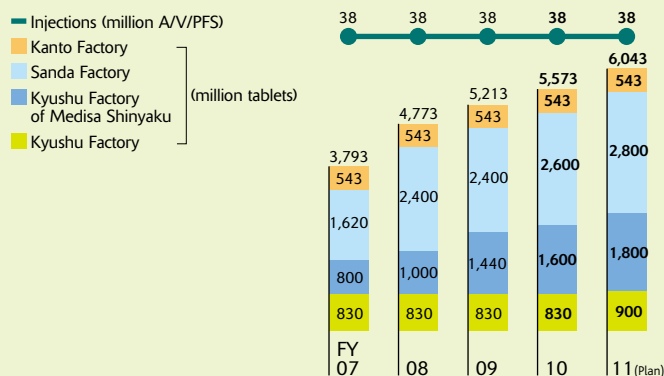
Sawai has the industry's top product line and emphasizes new products. In addition to establishing a high-variety, low-volume production system, a characteristic requirement of the generic drugs business, we will expand production lines for products for DPC hospitals, including prefilled syringes and injection solutions.

We believe that above all, the most important task for a generics company is to secure high quality and stable supply by 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.

Major Factories of Sawai Pharmaceutical

	Factory Outline	Special Features	Production Capacity
Kyushu Factory (Fukuoka Prefecture) 	Site Area: 70,351m ² Total Floor Area: 22,277m ² Production Capacity: 830 million tablets, 36 million V/A/PFS Dosage Forms Handled: Injection, granules, capsules, tablets, ointments	<ul style="list-style-type: none"> The main plant and the historical center of the Sawai Pharmaceutical Group Handles a broad spectrum of dosage forms Includes production facilities for injection solutions 	 <p>■ Injections (million A/V/PFS) ■ Tablets (million tablets)</p>
Sanda Factory (Hyogo Prefecture) 	Site Area: 14,686m ² Total Floor Area: 21,932m ² Production Capacity: 2,600 million tablets Dosage Forms Handled: Tablets	<ul style="list-style-type: none"> Dedicated tablet factory Completed third-stage expansion in 2009, increasing production capacity 1.5 times, 5.3 billion tablet production system established. Features production facilities for special drugs like hormone solutions. 	 <p>■ Tablets (million tablets)</p>
Kanto Factory (Chiba Prefecture) 	Site Area: 85,046m ² Total Floor Area: 7,740m ² Production Capacity: 543 million tablets, 2 million V/A/PFS Dosage Forms Handled: Tablets, capsules, granules, injection, other	<ul style="list-style-type: none"> Includes Sawai's own syringe plant, a rarity among drug manufacturers 	 <p>■ Injections (million A/V/PFS) ■ Tablets (million tablets)</p>
Kyushu Factory of Medisa Shinyaku (Fukuoka Prefecture) 	Site Area: 34,103m ² Total Floor Area: 16,300m ² Production Capacity: 1,600 million tablets Dosage Forms Handled: Tablets, granules, other	<ul style="list-style-type: none"> Construction work for sixth-stage expansion finished in 2008 Largest factory among our group companies, with large facilities for special drugs like OD tablets 	 <p>■ Tablets (million tablets)</p>

Company's Production Capacity



Production Facilities





Marketing and Sales Operations

Sawai is working to further improve marketing and sales quality through the reinforcement of its capabilities.

To cope with anticipated further expansion of demand for generic drugs, Sawai will reinforce marketing activities in various sales channels.

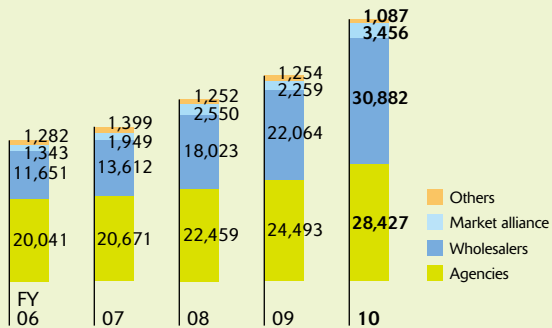
Sawai is vigorously targeting DPC hospitals and NHI pharmacies in its sales activities, where expanded use of generic drugs is expected. Net sales to hospitals increased by 12.6% year on year in fiscal 2010 thanks to vigorous sales promotion activities, such as promotion of anticancer drugs to DPC hospitals. In addition, deliveries to pharmacies rose sharply by 50.2% year on year as a result of the April 2010 revision of the additional medical service fee system for dispensing generic drugs.

To implement even more vigorous selling activities directed at this expanding market, the Company is increasing the number of dedicated hospital MRs primarily responsible for DPC hospitals, from 50 to 100, and will develop MRs equipped with specialized knowledge in the field of anticancer drugs, a market expected to expand at a particularly high rate. In addition, we are implementing measures to increase collaboration among MRs. We are also working to boost marketing capabilities by preparing venues for MRs and head office organization personnel to en-

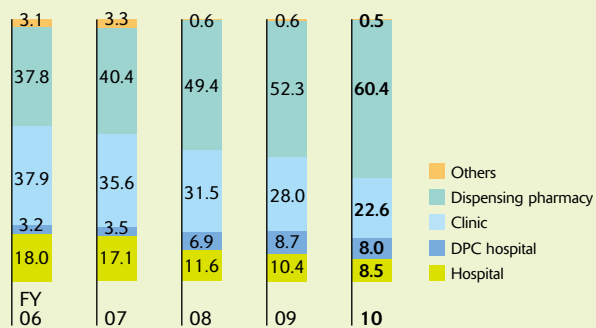
gage in discussions on a routine basis to consider sales strategies for high-priority products and core products, to select medical institutions to target and analyze activities and to develop a structure for cooperation and information sharing between area MRs and hospital MRs.

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. Sales through wholesale distributors in fiscal 2010 accounted for 48.4% of consolidated net sales. We are also establishing sales channels through local distributors located nearby the customers that are capable of providing meticulous customer service, and sales through local distributors account for 44.5% of consolidated net sales. We intend to increase our market share by continuing to pursue collaboration with distributors of both types.

Sales by Market Channel (Millions of yen)



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



Branches and Sales Offices



8 Branches

- Sapporo Branch
- Sendai Branch
- Saitama Branch
- Tokyo Branch
- Nagoya Branch
- Osaka Branch
- Hiroshima Branch
- Fukuoka Branch

11 Sales Offices

- Joshinetsu Sales Office
- Tokyo-Higashi Sales Office
- Tokyo-Nishi Sales Office
- Yokohama Sales Office
- Shizuoka Sales Office
- Kyoto Sales Office
- Kobe Sales Office
- Hokuriku Sales Office
- Takamatsu Sales Office
- Okayama Sales Office
- Kumamoto Sales Office

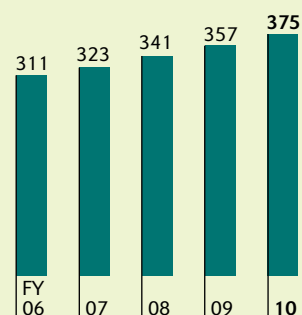
Head Office

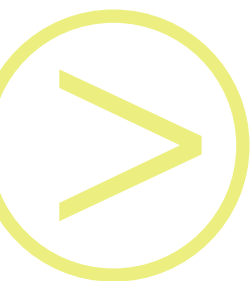


Entrance Hall



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 5 of the project.

In Phase 5, in addition to continuing activities to promote the corporate philosophy and raise employee awareness, we systematically reduced purchase costs, promoted information sharing and conducted personnel development.

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)

Purchase cost reduction activities:
Direct and indirect materials purchase cost reduction
Offsite meetings by department managers to promote information sharing
Management skills cultivation program for the development of executive management

Publicity Activities

As a leader in the generic drug 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 Nihon Keizai Shimbun



Co-sponsored Symposia

To contribute to patients and society, we co-sponsored academic symposia and held generics education seminars for the general public.

Nikkei Health Seminar 21



Sankei Breast Cancer Seminar for Women

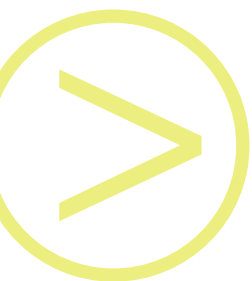


Pharmacists Rank Sawai First in Favorability Among Generic Drug Companies

The findings of a Web survey of pharmacists conducted by Nikkei Drug Information, a journal for pharmacies and pharmacists, indicate that Sawai Pharmaceutical enjoys high favorability among pharmacists, ranking first among generics companies in pharmacist support.

"Stable supply" (72.4%) was the most frequently mentioned reason given by the respondents who selected Sawai, followed by "Offer many products" (59.0%). The survey results indicate that Sawai's posture of ensuring stable supply to patients has met with support and made a favorable impression among pharmacists.

Sawai will continue efforts to ensure a stable supply of high-quality pharmaceuticals with the aim of winning even greater support from pharmacists.



Corporate Governance and Compliance

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

Corporate Governance

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.

To cultivate and maintain high ethical standards as a company that affects people's lives through the provision of medical drugs, in keeping with the "Patients first" corporate philosophy, Sawai will engage in business activities in accordance with the Company's code of conduct and internal regulations.

Sawai has adopted the corporate auditor system, which it considers the optimal corporate governance structure in view of its size and management style.

Description of Management Organization

The Company has a comparatively small management organization consisting of eleven 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. The three external corporate auditors have no business connections with the Sawai Group.

The corporate auditors are specialists in accounting, taxation, legal affairs and other disciplines. They attend meetings of the Board of Directors and express necessary opinions from an objective perspective. The Company has prepared Board of Auditors Regulations, Audit Standards and Internal Audit Regulations. It encourages close collaboration between the Board of Auditors and the Internal Inspection Section, and is undertaking reinforcement of the corporate audit function. In addition, the full-time corporate auditor shares information with the external corporate auditors by attending the Management Conference and other important meetings and reporting to the Board of Auditors.

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, and the Company has a small management organization that allows for a close exchange of views and reciprocal checks on a regu-

lar 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 Board of Auditors and the Internal Inspection Section. The Internal Inspection Section has a staff of four and conducted audits at 27 business sites during the previous business year.

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 by the Company's independent accounting auditors as well as internal audits performed by the Company's Board of Auditors and Internal Inspection Section.

The Company obtains advice concerning issues related to corporate management and day-to-day business operation as necessary from several attorneys and other specialists, and refers to the advice when making business decisions. In addition, the Company submits matters, depending on their nature, to the Compliance Committee or the Internal Control Committee for deliberation. These committees are chaired by the president and consist of involved directors and the full-time corporate auditor.

With regard to risk management, the Company has prepared and implemented Risk Management Rules and other rules and regulations. It also concentrates channels for information, including insider information, on the Corporate Administration Division director who constitutes the Board of Directors, and ensures the rapid, accurate gathering and processing of information.

Decisions on directors' remuneration are made principally by the representative directors in accordance with internal regulations, within the total amount determined by a resolution of the General Meeting of Shareholders.

With regard to the appointment of independent executives, the purpose for the appointment and registration of independent executives is explained in advance at a meeting of the Board of Auditors and, after their prior approval of independent executive candidates, the matter is deliberated at a meeting of the Board of Directors. After the process above, two of the three external corporate auditors were designated as independent executives in this fiscal year.

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.

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 accounting auditors. When a corporate 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

Concerning the development and establishment of the business execution system, 1) the Company systematically observes and implements approval and authority regulations to prevent the occurrence of misconduct, while maintaining a balance between delegation of authority and checks and balances. Also, 2) the Company has prepared the Document Management Regulations and appropriately retains for the prescribed retention periods documents whose retention is prescribed by law, as well as minutes of important meetings, approval documents pertaining to important matters, important contracts and other information pertaining to the directors' execution of duties (including electronic records) whose retention is prescribed by internal regulations. 3) 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 and maintains a secretariat in the Compliance Section. 4) 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.

When serious accidents or disasters occur, a crisis management headquarters is set up immediately and the president takes up the chief position of it, and an emergency response team is dispatched to the disaster site.

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 has a resolute attitude against antisocial forces and cooperates with the police and other concerned public authorities and attorneys 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. In addition it is required by law to comply with permission, registration, designation, licensing and notification in the prefectures in which the Group has business offices. Although the Group has implemented a sufficient legal compliance system, 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 prod-

ucts, 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, design and trademark and engages in product development that reflects consideration of the Unfair Competition Prevention Law.

Nevertheless, in many cases, multiple patents pertaining to process, crystal form, dosage and administration, or formulation remain in force with respect to the original drugs on which the generic drugs sold by the Sawai Group are modeled, even after the expiration of substance or use patents, 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 after 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, and cause product liability depending on the nature of the accident 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.

The Group suffered no human loss from the Great East Japan Earthquake of March 11, 2011. Damage to production facilities was limited to minor damage to the Kanto Plant, and the disaster had no impact on plant operation. Although the Sendai Branch, which incurred partial building damage, was forced to relocate, it has resumed normal business operation. Nevertheless, additional damage could be identified, and the impact of the disaster could increase due to the electric power supply situation.

Crisis Management Headquarters

Sawai has put in place a system for establishing a crisis management headquarters and responding in the event an accident, disaster or other crisis occurs. When the Great East Japan Earthquake struck on March 11, 2011, on the same day, we set up a crisis management headquarters under the direction of the president and confirmed matters including the safety of the employees and their families, the state of damage to buildings and facilities, the inventory situation and damage incurred by our business partners. Fortunately, the disaster caused only minor damage to Sawai and had nearly no impact on operation at our factories. However, more than a few of our business partners incurred extensive damage. Accordingly, we immediately considered assistance measures. Even after completion of the initial response to the disaster, the Corporate Administration Division that serves as the secretariat of the crisis management headquarters is coordinating information sharing concerning examination of issues, such as planned alternative redundancy of business partners, a complementary production system to distribute production of products among the factories and power-saving measures.

In addition, as an outcome of the disaster we are conducting a review of our current crisis management structure. Sawai recognizes that the rapid establishment of a crisis management headquarters is of critical importance no matter what crisis may arise in the future and will strive to ensure preparedness for various crisis situations.

FINANCIAL SECTION

Five-year Summary

For the Years Ended March 31, 2011, 2010, 2009, 2008 and 2007

Years ended March 31	Millions of yen				
	2011	2010	2009	2008	2007
Net sales	¥ 63,853	¥ 50,070	¥ 44,284	¥ 37,631	¥ 34,317
Cost of sales	33,736	26,275	25,156	20,130	17,357
Gross profit	30,117	23,795	19,128	17,501	16,960
Selling, general and administrative expenses	16,531	15,276	14,460	13,453	12,267
Operating income	13,586	8,519	4,668	4,048	4,693
Income before income taxes and minority interests	12,289	8,372	4,320	3,129	4,166
Net income	7,183	4,982	2,439	1,739	2,260
Total assets	117,056	81,236	72,320	66,295	67,827
Inventories	21,218	18,081	13,588	13,500	13,768
Total current liabilities	25,811	25,441	20,911	17,152	18,525
Total long-term liabilities	40,382	9,537	9,703	8,938	9,981
Net assets	50,863	46,258	41,706	40,205	39,321
Net cash provided by (used in) operating activities	5,937	7,907	3,169	9,549	(4,370)
Net cash provided by (used in) investing activities	(20,362)	(5,329)	(3,037)	(6,562)	(10,551)
Net cash provided by (used in) financing activities	24,756	348	1,027	(4,958)	15,449
Cash and cash equivalents at end of year	19,805	9,474	6,548	5,389	7,360
Research and development (R&D) expenses	3,902	3,593	3,409	3,222	3,085
Capital expenditures	2,805	5,370	2,841	6,567	9,877
Depreciation and amortization	3,066	3,025	2,709	2,575	1,964
			%		
Ratio of R&D expenses to sales	6.1	7.2	7.7	8.6	9.0
Return on equity	15.1	11.8	6.2	4.6	6.9
Shareholders' equity to total assets	43.4	54.5	55.4	58.3	55.8
			Yen		
Amounts per common share:					
Net income—basic	¥ 456.07	¥ 317.32	¥ 155.32	¥ 110.73	¥ 157.67
Net income—diluted	407.33	316.86	—	—	—
Cash dividends applicable to period	110.00	70.00	55.00	55.00	55.00
Net assets	3,210.32	2,817.65	2,551.06	2,460.17	2,408.42

Note: 1. Diluted net income per common share is not disclosed in 2009, 2008 and 2007, because there were no outstanding convertible securities.
 2. Net assets as of 2011, 2010, 2009 and 2008 included minority shareholders' interest due to the application of the Japanese Corporate Law.
 3. Capital expenditures are calculated on a cash flow basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

Fiscal 2010, the year ended March 31, 2011, brought an upturn in business conditions in Japan due to favorable economic conditions overseas, particularly in Asia, and the impact of the government's measures to create demand and support employment. On the downside, there were lingering risks in the form of further yen appreciation and rising crude oil prices, and the employment and personal income environment remained adverse. Furthermore, the Great East Japan Earthquake of March 11, 2011 had a tremendous impact on Japan's economy, especially the manufacturing industry.

In the ethical drugs industry, in April 2010 the government began implementation of medical system revisions, including a review of additional medical service fees for the dispensing of generic drugs, as a policy to curb ever-increasing social security costs while maintaining the quality of medical care. Early in the fiscal year, promotion of generics use gained impetus. Nevertheless, the rate of increase in the use of generics is leveling off, as indicated by the findings of a survey conducted by the Central Social Insurance Medical Council, an advisory body to the Minister of Health, Labour and Welfare, in December 2012: "The generic drug prescription rate has peaked." In addition, competition in the generics market is intensifying. For instance, 28 companies have entered the market for Glimepiride tablets, an oral blood-glucose-lowering drug which was launched in November 2010. In these circumstances, in keeping with the "Patients first" corporate philosophy, the Sawai Group implemented policies and measures set forth in the M1 TRUST medium-term business plan: 1) Improve "Quality of sales promotion" by strengthening the marketing function, 2) Build up "SAWAI's Trust of its stable supply" and reduce costs of production, 3) Enhance development of value-added generic drugs meeting market needs, and 4) Establish infrastructure enabling net sales of ¥100 billion.

Income and Expenses

As a result of these developments, consolidated net sales in fiscal 2010 increased by 27.5% year on year to a record high of ¥63,853 million.

In the results for sales growth by channel, sales growth in the wholesaler channel was particularly strong, increasing by 40.0%, and sales through regional sales agencies increased by 16.1%. The sales increase is attributable to expanded use of generic drugs in the NH

pharmacy market.

Cost of sales rose 28.4% year on year to ¥33,736 million, while gross profit rose 26.6% to ¥30,117 million. Accordingly, the gross profit to sales ratio decreased by 0.3 percentage points to 47.2%.

Selling, general and administrative expenses increased by 8.2% year on year to ¥16,531 million as a result of increases of ¥322 million in personnel expenses and ¥309 million in R&D expenses.

As a result, operating income increased by 59.5% over the previous year to ¥13,586 million. The operating profit to sales ratio rose by 4.3 percentage points year on year to 21.3%.

After the recording of bond issue costs of ¥806 million and a loss on devaluation of investments in securities of ¥840 million for the year under review, net income increased by 44.2% year on year to a record high of ¥7,183 million. Net income per share rose ¥138.75 from the previous year to ¥456.07.

The return on equity rose by 3.3 percentage points from the previous year to 15.1%.

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 2010, the Group obtained approval for the manufacture and sale of 44 items. R&D expenses increased by 8.6% from the previous year to ¥3,902 million, and the ratio of R&D expenses to sales was 6.1%.

Financial Position

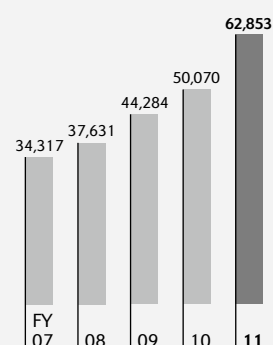
Total assets at the end of fiscal 2010 were ¥117,056 million, an increase of ¥35,820 million, or 44.1%, from the previous year.

Current assets rose by ¥29,479 million to ¥77,495 million, primarily due to increases of ¥21,331 million in cash and deposits, ¥4,744 million in trade notes and accounts receivable, and ¥3,137 million in inventories.

Fixed assets increased by ¥6,341 million to ¥39,561 million. The increase is mainly attributable to an increase of ¥5,044 million in in-

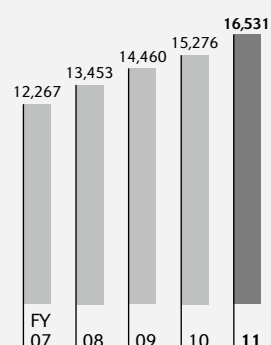
Net Sales

(Millions of yen)



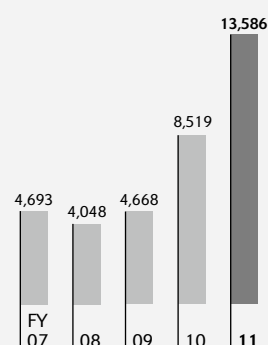
Selling, General and Administrative Expenses

(Millions of yen)



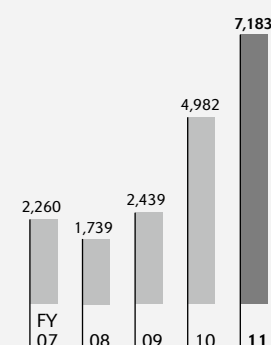
Operating Income

(Millions of yen)



Net Income

(Millions of yen)



vestment securities. Depreciation and amortization rose 1.4% from the previous year to ¥3,066 million. Capital expenditures were ¥2,805 million, ¥2,565 million lower than the previous year. The principal expenditures were for the upgrading and improvement of production facilities.

Total liabilities increased by ¥31,215 million, or 89.2%, from the end of the previous year to ¥66,193 million. Principal factors were a decrease of ¥191 million in trade notes and accounts payable, a decrease of ¥4,110 million in bank debt, an increase of ¥30,662 million in convertible bonds, an increase of ¥3,661 million in other accounts payable, and an increase of ¥485 million in income taxes payable.

Net assets were ¥50,863 million, an increase of ¥4,605 million from the end of the previous year. The equity ratio decreased by 11.1 percentage points to 43.4%.

Cash Flows

■ Cash flows from operating activities

Cash provided by operating activities was ¥5,937 million. The principal items were ¥12,290 million in income before income taxes and minority interests, ¥3,066 million in depreciation and amortization, a loss on devaluation of investments in securities of ¥840 million, an increase of ¥4,744 million in trade notes and accounts receivable, an increase of ¥3,137 million in inventories, a decrease of ¥561 million in trade notes and accounts payable, an increase of ¥2,089 million in other accounts payable and ¥4,573 million in income taxes paid.

■ Cash flows from investing activities

Cash used in investing activities was ¥20,362 million. The principal items were payments of ¥11,000 million for payments for time deposits, payments of ¥2,210 million for the purchase of property, plant and equipment, payments of ¥5,958 million for the purchase of investment securities and payments of ¥1,568 million for additional acquisition of subsidiary's securities.

■ Cash flows from financing activities

Cash provided by financing activities was ¥24,756 million. The principal items were ¥29,944 million in proceeds from the issuance of convertible bonds, a net decrease of ¥4,100 million in short-term bank debts, and ¥1,259 million in cash dividends paid.

As a result, cash and cash equivalents at end of year increased by ¥10,331 million from the previous fiscal year to ¥19,805 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 ¥110 per share of common stock, consisting of an interim dividend of ¥40 per share and a year-end dividend of ¥70.

Outlook for Fiscal 2011

In the outlook for the Japanese economy, although improvement in business conditions is expected due to the implementation of the government's new growth strategy aimed at economic growth fueled by an escape from deflation and employment, the deflationary trend and adverse employment situation remain causes for concern, and possible expansion of the impact of the Great East Japan Earthquake is feared.

In the ethical drugs industry, notwithstanding the revision of additional medical service fees for the dispensing of generic drugs implemented in April 2010, the generic drug prescription rate of 22.6% on a volume basis remains substantially below the government target of 30%. In view of the medical system revision scheduled for fiscal 2012, we expect further government promotion of generic drug use.

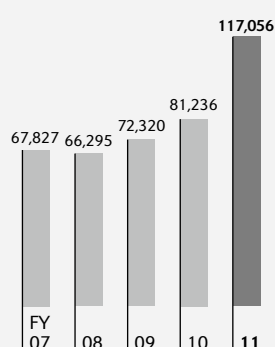
In these circumstances, the Sawai Group will strive to further augment business performance by implementing the measures set forth in the M1 TRUST medium-term business plan in its final year.

We forecast net sales to rise by 13.5% to ¥72,500 million, operating income to increase by 6.7% to ¥14,500 million, and net income to rise by 15.5% to ¥8,300 million in fiscal 2011.

In addition, although the Group incurred minor damage due to the Great East Japan Earthquake of March 11, the forecast may be revised due to factors such as future power-saving measures or the state of recovery at raw materials suppliers.

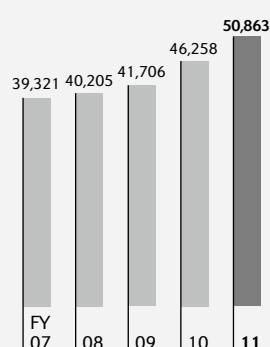
Total Assets

(Millions of yen)



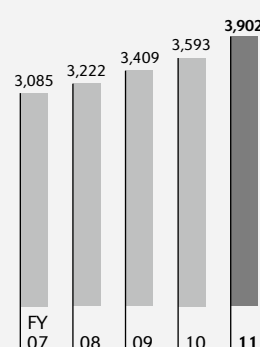
Net Assets

(Millions of yen)



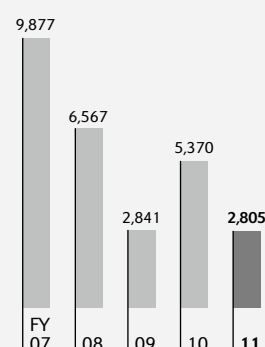
Research and Development (R&D) Expenses

(Millions of yen)



Capital Expenditures

(Millions of yen)



(Years ended March 31)

FINANCIAL STATEMENTS

Consolidated Balance Sheets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
ASSETS			
Current Assets:			
Cash and deposits (Notes 3, 4)	¥ 30,805	¥ 9,474	\$ 370,475
Trade notes and accounts receivable (Note 4)	23,284	18,540	280,024
Allowance for doubtful receivables	(21)	(10)	(253)
	54,068	28,004	650,246
Inventories (Note 5)	21,218	18,081	255,177
Deferred income taxes (Note 10)	1,812	1,787	21,792
Other current assets	397	144	4,775
Total current assets	77,495	48,016	931,990
Property, Plant and Equipment :			
Land	4,950	5,140	59,531
Buildings and structures	29,266	28,532	351,966
Machinery and equipment	19,264	17,861	231,678
Leased assets	45	38	541
Construction in progress	494	570	5,941
Other	4,848	4,422	58,304
	58,867	56,563	707,961
Accumulated depreciation	(26,550)	(24,778)	(319,302)
Net property, plant and equipment	32,317	31,785	388,659
Intangible Assets	1,148	478	13,806
Investments and Other Assets:			
Investment securities (Notes 4, 6)	5,702	658	68,575
Long-term receivables	18	55	216
Long-term deposits	61	42	734
Other investments and long-term receivables	380	248	4,570
	6,161	1,003	74,095
Allowance for doubtful receivables	(65)	(46)	(782)
Net investments and other assets	6,096	957	73,313
	¥ 117,056	¥ 81,236	\$ 1,407,768

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2011	2010	2011
Current Liabilities:			
Bank debt (Notes 4, 7)	¥ —	¥ 4,100	\$ —
Current portion of long-term debt (Notes 4, 7)	2,660	2,503	31,990
Current portion of lease obligations	7	12	84
Trade notes and accounts payable (Note 4)	9,849	10,040	118,449
Other accounts payable (Note 4)	7,734	4,073	93,013
Accrued bonuses to employees	1,086	1,081	13,061
Accrued bonuses to directors and corporate auditors	61	83	734
Income taxes payable (Note 4)	3,144	2,659	37,811
Reserve for sales returns	126	102	1,515
Reserve for sales rebates	792	509	9,525
Other current liabilities	352	279	4,233
Total current liabilities	25,811	25,441	310,415
Long-Term Liabilities:			
Convertible Bonds with subscription rights to shares (Notes 4, 7, 14)	30,662	—	368,755
Long-term debt (Notes 4, 7)	8,162	8,172	98,160
Long-term lease obligations	11	11	132
Employees' retirement benefits (Note 8)	90	92	1,082
Directors' and corporate auditors' retirement benefits	340	271	4,089
Deferred tax liabilities (Note 10)	167	186	2,008
Negative goodwill	12	26	144
Other long-term liabilities	938	779	11,281
Total long-term liabilities	40,382	9,537	485,651
Net Assets (Note 9):			
Shareholders' Equity:			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding			
15,807,800 shares in 2011			
15,702,000 shares in 2010	11,814	11,502	142,081
Capital surplus	12,138	11,825	145,977
Retained earnings	26,687	20,763	320,950
Treasury stock			
712 shares in 2011			
662 shares in 2010	(3)	(3)	(36)
Accumulated Other Comprehensive Income			
Net unrealized holding gains on securities	110	154	1,323
Subscription Rights to Shares	108	202	1,299
Minority Interests	9	1,815	108
Net assets	50,863	46,258	611,702
	¥ 117,056	¥ 81,236	\$ 1,407,768

Consolidated Statements of Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net Sales	¥ 63,853	¥ 50,070	\$ 767,925
Cost of Sales	33,736	26,275	405,725
Gross Profit	30,117	23,795	362,200
Selling, General and Administrative Expenses	16,531	15,276	198,809
Operating Income	13,586	8,519	163,391
Other Income (Expenses):			
Interest and dividend income	139	14	1,672
Interest expense	(215)	(211)	(2,586)
Subsidy income	30	38	361
Compensation income	62	59	746
Expenses for loan commitment agreements	(29)	(32)	(349)
Gain on sale of fixed assets	598	—	7,192
Loss on disposal of buildings and structures	(126)	(35)	(1,515)
Loss on sale of fixed assets	(46)	—	(553)
Loss on devaluation of investments in securities	(840)	—	(10,102)
Reversal of allowance for doubtful receivables	5	17	60
Amortization of negative goodwill	14	13	168
Bonds issue costs	(806)	—	(9,693)
Other, net	(83)	(10)	(999)
	(1,297)	(147)	(15,598)
Income Before Income Taxes And Minority Interests	12,289	8,372	147,793
Provision for Income Taxes:			
Current	4,979	3,571	59,880
Deferred	(14)	(432)	(168)
Income Before Minority Interests	7,324	5,233	88,081
Minority Interests	141	251	1,695
Net Income	¥ 7,183	¥ 4,982	\$ 86,386
Per Share of Common Stock:	Yen		U.S. dollars (Note 1)
Net income — basic	¥ 456.07	¥ 317.32	\$ 5.48
Net income — diluted	407.33	316.86	4.90
Dividends	110.00	70.00	1.32

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

Consolidated Statements Of Comprehensive Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Income Before Minority Interests	¥ 7,324	¥ 5,233	\$ 88,081
Other Comprehensive Income			
Net unrealized holding gains on securities	(43)	67	(516)
Total other comprehensive income	(43)	67	(516)
Comprehensive Income	¥ 7,281	¥ 5,300	\$ 87,565
Comprehensive income attribute to :			
Comprehensive income attribute to owners of the parent	7,139	5,049	85,857
Comprehensive income attribute to minority interests	142	251	1,708

Consolidated Statements of Changes in Net Assets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and 2010

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total accumulated other comprehensive income			
Balance at March 31, 2009	¥ 11,502	¥ 11,825	¥ 16,644	¥ (2)	¥ 39,969	¥ 87	¥ 87	¥ 82	¥ 1,568	¥ 41,706
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	¥ 11,502	¥ 11,825	¥ 20,763	¥ (3)	¥ 44,087	¥ 154	¥ 154	¥ 202	¥ 1,815	¥ 46,258
Changes of items during the year										
Stock issue (exercise of stock subscription right)	312	313			625			(133)		492
Cash dividends			(1,259)		(1,259)				(456)	(1,715)
Net income			7,183		7,183					7,183
Net increase in treasury stock				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(44)	(44)	39	(1,350)	(1,355)
Total changes of items during the period	312	313	5,924	(0)	6,549	(44)	(44)	(94)	(1,806)	4,605
Balance at March 31, 2011 (Note 9)	¥ 11,814	¥ 12,138	¥ 26,687	¥ (3)	¥ 50,636	¥ 110	¥ 110	¥ 108	¥ 9	¥ 50,863

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income		Subscription rights to shares	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total accumulated other comprehensive income			
Balance at March 31, 2010	\$ 138,328	\$ 142,213	\$ 249,706	\$(36)	\$ 530,211	\$ 1,852	\$ 1,852	\$ 2,429	\$ 21,828	\$ 556,320
Changes of items during the year										
Stock issue (exercise of stock subscription right)	3,753	3,764			7,517			(1,599)		5,918
Cash dividends			(15,142)		(15,142)				(5,484)	(20,626)
Net income for the year			86,386		86,386					86,386
Acquisition of treasury stock				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(529)	(529)	469	(16,236)	(16,296)
Total increase/decrease during the year	3,753	3,764	71,244	(0)	78,761	(529)	(529)	(1,130)	(21,720)	55,382
Balance at March 31, 2011 (Note 9)	\$142,081	\$145,977	\$320,950	\$(36)	\$608,972	\$1,323	\$1,323	\$ 1,299	\$ 108	\$611,702

Note: These are items concerning the appropriation of earnings are resolved at the general shareholders meeting held on June 2011 and 2010.

Consolidated Statements of Cash Flows

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 12,290	¥ 8,372	\$ 147,805
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	3,066	3,025	36,873
Amortization of goodwill	12	—	144
Amortization of negative goodwill	(14)	(13)	(168)
Increase in reserve for sales rebates	283	165	3,403
Increase in allowance for doubtful receivables	29	3	349
Increase in accrued bonuses to employees	5	209	60
Increase (decrease) in accrued bonuses to directors and corporate auditors	(22)	35	(265)
Increase (decrease) in reserve for loss on sales returns	23	(26)	277
Decrease in employees' retirement benefits	(2)	(24)	(24)
Increase in retirement benefits to directors and corporate auditors	69	64	830
Interest and dividend income	(139)	(14)	(1,672)
Interest expense	215	211	2,586
Loss on devaluation of investments in securities	840	—	10,102
Bonds issue cost	806	—	9,693
Loss on disposal of buildings and structures	126	31	1,515
Increase in trade notes and accounts receivable	(4,744)	(1,250)	(57,054)
Increase in inventories	(3,137)	(4,493)	(37,727)
Increase (decrease) in trade notes and accounts payable	(561)	3,555	(6,747)
Increase (decrease) in long-term prepaid expenses	(19)	28	(229)
Increase in other accounts payable	2,089	428	25,123
Other	(550)	299	(6,615)
Subtotal	10,665	10,605	128,259
Interest and dividends received	52	14	625
Interest paid	(207)	(209)	(2,489)
Income taxes paid	(4,573)	(2,503)	(54,997)
Net cash provided by operating activities	5,937	7,907	71,398
Cash Flows from Investing Activities:			
Payments for time deposits	(11,000)	—	(132,291)
Payments for purchase of property, plant and equipment	(2,210)	(5,214)	(26,578)
Proceeds from sale of property, plant and equipment	931	—	11,197
Payments for purchase of intangible assets	(594)	(156)	(7,144)
Payments for purchase of investment securities	(5,958)	—	(71,654)
Proceeds from collection of long-term receivables	37	44	445
Payment for additional acquisition of subsidiary's securities	(1,568)	(3)	(18,857)
Other	(0)	0	(0)
Net cash used in investing activities	(20,362)	(5,329)	(244,882)
Cash Flows from Financing Activities:			
Net increase (decrease) in bank debt	(4,100)	1,570	(49,308)
Proceeds from long-term debts	3,000	2,500	36,079
Repayment of long-term debts	(2,853)	(2,847)	(34,311)
Proceeds from issuance of convertible bonds	29,944	—	360,120
Proceeds from issuance of stock resulting from exercise of stock subscription rights	492	—	5,917
Payments for purchase of treasury stock	(0)	(0)	(0)
Cash dividends paid	(1,259)	(864)	(15,141)
Cash dividends paid to minority shareholders	(456)	—	(5,484)
Other	(12)	(11)	(143)
Net cash provided by financing activities	24,756	348	297,729
Net increase in cash and cash equivalents	10,331	2,926	124,245
Cash and cash equivalents at beginning of year	9,474	6,548	113,939
Cash and cash equivalents at end of year (Note 3)	¥ 19,805	¥ 9,474	\$ 238,184

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, 2011 and 2010

①

BASIS OF FINANCIAL STATEMENTS

SAWAI PHARMACEUTICAL CO., LTD. (the “Company”) and its consolidated subsidiaries (the “Companies”) maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements 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, 2011, which was approximately ¥83.15 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

②

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, MEDISA SHINYAKU INC. and KAKEN SHOYAKU CO., LTD., and KM GODO KAISHA 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 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. The Company has purchased 30 percent of the shares from the third party, and the Company holds 100 percent of the outstanding shares of the subsidiary from the first quarter of the fiscal year ended March 31, 2011.

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.

KM GODO KAISHA, a limited liability company incorporated in Japan, and wholly owned by the Company (100 percent share) has been included in the scope of consolidation with 100 percent share, from the first quarter of the fiscal year ended March 31, 2011.

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

Inventories of the Company and its consolidated subsidiaries are stated at the lower of weighted moving average cost or net realized value under "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9 revised on July 5, 2006).

(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.

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

Effective April 1, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (Accounting Standards Board of Japan ("ASBJ") Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). The change had no material impact on the consolidated financial statements.

(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.

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) Bonds Issue Costs

Bonds issue costs are charged to income as incurred.

(j) 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.

(k) 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.

(l) Reserve for Sales Returns

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

(m) Reserve for Sales Rebates

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

(n) 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.

KM GODO KAISHA, with no employee, does not maintain any benefit pension plan.

(ii) Directors and Corporate Auditors

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

(o) Goodwill

Goodwill is amortized using the straight-line method principally over five years.

(p) 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 ¥3,902 million (\$46,927 thousand) and ¥3,593 million for the years ended March 31, 2011 and 2010, respectively.

(q) 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.

(r) 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.

(s) 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.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2011 presentation.

3

**CASH AND
CASH EQUIVALENTS**

Cash and cash equivalents as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥ 30,805	¥ 9,474	\$ 370,475
Time deposits with maturities of over three months	(11,000)	—	(132,291)
Cash and cash equivalents	¥ 19,805	¥ 9,474	\$ 238,184

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 "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008).

(1) Qualitative information on financial instruments

(i) 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.

(ii) 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.

(iii) 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.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2011 and 2010 are as follows:.

	Millions of yen 2011			Millions of yen 2010		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	30,805	30,805	—	9,474	9,474	—
Trade notes and accounts receivable	23,284	23,284	—	18,540	18,540	—
Investment securities; other securities	5,616	5,616	—	568	568	—
Total assets	¥ 59,705	¥ 59,705	¥ —	¥ 28,582	¥ 28,582	¥ —
Trade notes and accounts payable	9,849	9,849	—	10,040	10,040	—
Bank debt and current portion of long-term debt	2,660	2,673	13	6,603	6,604	1
Other accounts payable	7,734	7,734	—	4,073	4,073	—
Income taxes payable	3,144	3,144	—	2,659	2,659	—
Convertible bonds	30,662	31,706	1,044	—	—	—
Long-term debt	8,162	8,213	51	8,172	8,211	39
Total liabilities	¥ 62,211	¥ 63,319	¥ 1,108	¥ 31,547	¥ 31,587	¥ 40

	Thousands of U.S. dollars 2011		
	Book value	Fair value	Difference
Cash and deposits	370,475	370,475	—
Trade notes and accounts receivable	280,024	280,024	—
Investment securities; other securities	67,541	67,541	—
Total assets	\$ 718,040	\$ 718,040	\$ —
Trade notes and accounts payable	118,449	118,449	—
Bank debt and current portion of long-term debt	31,990	32,146	156
Other accounts payable	93,013	93,013	—
Income taxes payable	37,811	37,811	—
Convertible bonds	368,755	381,311	12,556
Long-term debt	98,160	98,773	613
Total liabilities	\$ 748,178	\$ 761,503	\$ 13,325

- (i) For certain financial instruments, including cash and cash deposits, notes and accounts receivable and payable, 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.
- (ii) For marketable securities, and convertible bonds, fair value is determined based on observable quoted market prices.
- (iii) 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.
- (iv) Investment securities for non-listed companies, with aggregate book values of 86 million yen (\$1,034 thousand) and 86 million yen at March 31, 2011 and 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.
- (v) The Company issued the zero coupon convertible bonds with stock acquisition rights total amounts of ¥30,750 million (\$369,814 thousand) in the Euro Market. Information on Convertible bonds is described on Note 14 as below.

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INVENTORIES

Inventories at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods and merchandise	¥ 11,593	¥ 9,998	\$ 139,423
Work-in-process	4,158	3,799	50,006
Raw materials and supplies	5,467	4,284	65,748
Total	¥ 21,218	¥ 18,081	\$ 255,177

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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, 2011 and 2010.

(1) Securities with fair market values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
March 31, 2011:						
Equity securities	¥ 293	¥ 493	¥ 200	\$ 3,524	\$ 5,929	\$ 2,405

	Millions of yen		
	Acquisition cost	Book value	Difference
March 31, 2010:			
Equity securities	¥ 297	¥ 568	¥ 271

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
March 31, 2011:						
Equity securities	¥ 5,125	¥ 5,124	¥ (1)	\$ 61,636	\$ 61,624	\$ (12)

	Millions of yen		
	Acquisition cost	Book value	Difference
March 31, 2010:			
Equity securities	¥ —	¥ —	¥ —

(b) Acquisition cost of securities with no available fair values as of March 31, 2011, are as follows:

Unlisted equity securities: ¥86 million (\$1,034 thousand).

Acquisition cost of securities with no available fair values as of March 31, 2010, are as follows:

Unlisted equity securities: ¥86 million.

7

**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, there was a zero balance on short-term debt at March 31, 2011.

Long-term debt and Convertible Bonds at March 31, 2011 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2010 – 2017, interest 1.22% – 1.78%		
Secured	¥ 559	\$ 6,723
Unsecured	10,263	123,428
Zero coupon convertible bonds with subscription rights to shares	30,662	368,755
	41,484	498,906
Current portion of long-term debt	2,660	31,990
	¥ 38,824	\$ 466,916

Note: Information on zero coupon convertible bonds with subscription rights to shares is described on Note.14 as below.

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

	Millions of yen
Loans from banks and other public corporations, due 2009 – 2016, interest 0.91% – 1.78%	
Secured	¥ 695
Unsecured	9,980
	10,675
Current portion of long-term debt	2,503
	¥ 8,172

The aggregate annual maturities of long-term debt and convertible bonds outstanding at March 31, 2011 are as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥ 2,660	\$ 31,990
2013	2,689	32,339
2014	2,451	29,477
2015	1,461	17,571
2016	31,708	381,335
2017-2020	515	6,194
Total	¥ 41,484	\$ 498,906

At March 31, 2011, 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	¥ 902	\$ 10,848

At March 31, 2010, 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	¥ 1,005

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**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, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected retirement benefit obligation	¥ 90	¥ 92	\$ 1,082
Liability for retirement benefits	¥ 90	¥ 92	\$ 1,082

Retirement benefit expenses for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 15	¥ 15	\$ 180
Payment of contribution to defined contribution pension plan	392	378	4,714
Retirement benefit expenses	¥ 407	¥ 393	\$ 4,894

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.

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NET ASSETS

Under Japanese Corporate Law ("the Law"), 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 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 23, 2011, the Company's shareholders approved the payment of year-end cash dividends of ¥70 (\$0.84) per share, totaling ¥1,106 million (\$13,301 thousand), paid to the Company's shareholders of record as of March 31, 2011.

**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, 2011 and 2010.

Significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Unrealized gains on land	¥ 29	¥ 29	\$ 349
Retirement benefits for directors and corporate auditors	139	111	1,672
Unrealized gains on inventories	256	366	3,079
Accrued bonuses to employees	436	433	5,243
Reserve for sales rebates	324	208	3,896
Amount in excess of depreciation and amortization	36	119	433
Loss due to impairment of fixed assets	198	205	2,381
Loss on disposal of buildings and structures	147	147	1,768
Enterprise taxes	259	214	3,115
Loss on valuation of inventories	332	343	3,993
Other	618	373	7,432
Subtotal deferred tax assets	2,774	2,548	33,361
Less valuation allowance	(821)	(562)	(9,873)
Total deferred tax assets	1,953	1,986	23,488
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	(227)	(136)	(2,730)
Reserve for special depreciation	—	—	—
Net unrealized holding gains on securities	(81)	(111)	(974)
Unrealized gain on revaluation of land	—	(138)	—
Other	(0)	(0)	(0)
Total deferred tax liabilities	(308)	(385)	(3,704)
Net deferred tax assets	¥ 1,645	¥ 1,601	\$ 19,784

There was no significant difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2011.

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.

	2011	2010
Statutory income tax rate	40.87%	40.87%
Special tax credits	—	(4.23)
Permanently nondeductible expenses	—	0.23
Additions and reductions of valuation allowance	—	0.87
Other	—	(0.25)
Effective income tax rate	— %	37.50%

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LEASES

As discussed in Note 2, finance leases that commenced 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, 2011 and 2010 are as follows:

(a) Finance leases – lessee

At March 31, 2011 and 2010, 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
	2011	2010	2011
Lease obligations, including finance charges	¥ 88	¥ 582	\$ 1,058

Lease obligations under non-capital finance leases, including finance charges, remaining at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Payments due within one year	¥ 12	¥ 87	\$ 144
Payments due after one year	1	47	12
Total	¥ 13	¥ 134	\$ 156

Leases payments under such leases for the years ended March 31, 2011 and 2010 are ¥ 125million (\$1,503thousand) and ¥162 million, respectively.

(b) Operating leases - lessee

Lease obligations under operating leases remaining at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Payments due within one year	¥ 21	¥ 22	\$ 253
Payments due after one year	11	33	132
Total	¥ 32	¥ 55	\$ 385

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SEGMENT INFORMATION

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

Effective April 1, 2010, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan ("ASBJ") Statement No. 17 on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

Information about major customers at March 31, 2011 is as follows:

Name of the Customer	Millions of yen	Thousands of U.S. dollars	Related segment
Mediseo Co., Ltd.	¥ 6,740	\$ 81,058	Pharmaceuticals

STOCK OPTION PLAN

Stock option expenses in the amounts of ¥40 million (\$482 thousand) and ¥119 million have been accounted for as "Selling, general and administrative expenses" on the consolidated statements of income for the year ended March 31, 2011 and 2010, respectively.

The details related to the stock option expenses at March 31, 2011 are as follows:

Fiscal year 2009 Stock options	
Position and number of grantee	Directors of the Company: 9 Corporate auditors: 1 Employees: 664 Subsidiary Employees: 39
Type and number of shares	Common stock of Company: 195,700 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, 2011 and 2010 are as follows:

	Number of shares	
	2011	2010
Before Settlement of Rights		
Beginning of year	192,300	—
Granted	—	195,000
Expired	—	2,700
Settled	192,300	—
End of year	—	192,300
After Settlement of Rights		
Beginning of year	192,300	—
Settled	—	—
Exercised	105,800	—
Expired	200	—
End of year	86,300	—

Information per share price at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Exercise price	¥ 4,650	¥ 4,650	\$ 55.92
Fair value at grant date	1,257	1,257	15.12

*1 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.

*2 Mid-term point between date of grant and estimated exercisable period.

*3 Actual dividend per share for the year ended March 31, 2008 for the stock options.

*4 Interest rate for a government bond with similar period as option vesting period of stock options.

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CONVERTIBLE BONDS WITH SUBSCRIPTION RIGHTS TO SHARES

Fiscal year 2011 convertible bonds

Bonds	Zero coupon convertible bonds due 2015
Kinds of stock	The Company's common stock
Issue price of acquisition rights	No cost
Initial convertible price ^{*1, 2}	¥9,537 per share (\$114.70 per share)
Total amount of issue	¥30,750 million (\$369,814 thousand)
Due	September 17, 2015

*1 Convertible price is subject to adjustment for subsequent events such as the issue of common stock at less than market value, stock splits, and extra dividends.

*2 Convertible price is changed to ¥9,497.8 (\$114.22) by the resolution of the general meeting of shareholders on June 23, 2011.

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ADDITIONAL INFORMATION

Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standard Board of Japan ("ASBJ") Statement No. 25 on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010). As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

INDEPENDENT AUDITORS' REPORT



Independent Auditors' Report

To the 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, 2011 and 2010, and the related consolidated statements of income, comprehensive 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 LLC

Osaka, Japan
June 23, 2011

KPMG AZSA LLC, a limited liability 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 International Cooperative ("KPMG International"), a Swiss entity.

BOARD OF DIRECTORS (As of June 23, 2011)

Chairman	Hiroyuki Sawai*	Director	Kyozo Inari
President	Mitsuo Sawai*	Director	Shinichi Tokuyama
Managing Director	Takashi Iwasa, Ph.D.	Director	Yoshiteru Takahashi, Ph.D.
Managing Director	Harumasa Toya, Ph.D.	Director	Minoru Kodama
Managing Director	Keiichi Kimura	Director	Kenzo Sawai
Managing Director	Shigeharu Yokohama, Ph.D.	Standing Statutory Auditor	Toshiaki Konishi
(*Representative Director)		Statutory Auditor	Takekiyo Sawai
		External Auditor	Koji Ueda
		External Auditor	Hidefumi Sugao
		External Auditor	Takashi Takahashi

CORPORATE DATA (As of March 31, 2011)

Sawai Pharmaceutical Co., Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥11,814 million
Number of Shares Outstanding:	15,807,800
Number of Shareholders:	6,267
Number of Employees:	912
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:	Joshinetsu, Tokyo-Higashi, Tokyo-Nishi, Yokohama, Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu, Okayama, Kumamoto
Consolidated Subsidiary:	Medisa Shinyaku Inc. Kaken Shoyaku Co.,Ltd. KM GODO KAISHA, a limited liability company in incorporated in Japan
Factories:	Kyushu, Sanda, Osaka, Kanto, Kyusyu Factory of Medisa Shinyaku, Yasato Factory of Kaken Shoyaku, Pharmaceutical Technology Center

Stock Price Information

	Stock Price	
	High	Low
From April 1, 2010 to March 31, 2011	¥ 9,100	¥ 5,840
First Quarter	9,100	5,980
Second Quarter	8,820	7,210
Third Quarter	7,690	6,300
Fourth Quarter	7,820	5,840

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