

Fostering Growth in Japan's Emerging Generics Market



ANNUAL REPORT **2012**

For the year ended March 31, 2012

When Patients are First, So are We

“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 expressed its strong desire to raise the market share of generic drugs, and backed it with regulations to support such a change.

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.

Patients

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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.

Sawai's Mission

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

Sawai's Challenge

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

Corporate Philosophy

(established January 2007)

Sawai's Hope

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

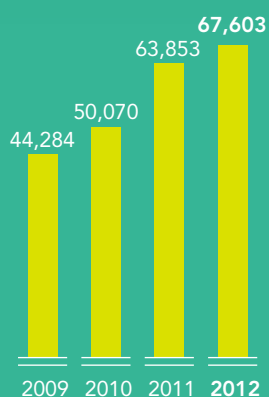
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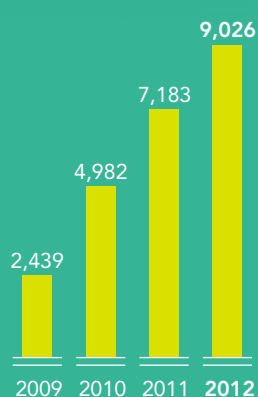
FINANCIAL HIGHLIGHTS



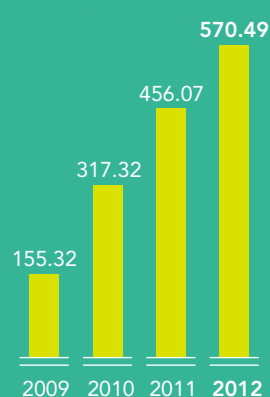
Net sales (Millions of yen)



Net income (Millions of yen)



Net income per share (basic) (Yen)



Years ended March 31

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net sales	¥ 67,603	¥ 63,853	\$ 816,562
Operating income	15,004	13,586	181,235
Net income	9,026	7,183	109,024
Net assets	58,575	50,863	707,512
Total assets	123,400	117,056	1,490,513
Research and development (R&D) expenses	4,317	3,902	52,141
Capital expenditures	4,599	2,805	55,538
Depreciation and amortization	3,389	3,066	40,936
	%		
Ratio of R&D expenses to sales	6.4	6.1	
Return on equity	16.5	15.1	
Shareholders' equity to total assets	47.4	43.4	
Amounts per common share:	Yen		U.S. dollars
Net income—basic	¥ 570.49	¥ 456.07	\$ 6.89
Net income—diluted	470.13	407.33	5.68
Cash dividends applicable to period	140.00	110.00	1.69
Net assets	3,693.68	3,210.32	44.62

Note: 1. The U.S. dollar amounts represent translation of Japanese yen amounts for convenience only and are at the approximate rate of ¥82.79 = \$1.00, the rate prevailing on March 31, 2012.

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



Hiroyuki Sawai, Chairman Mitsuo Sawai, President

Building a Strong Future on Today's Success

Fiscal 2011, the year ended March 31, 2012, brought sluggish economic recovery in Japan. Although supply chains were rebuilt thanks to public and private sector restoration and reconstruction efforts following the devastating blow of the Great East Japan Earthquake, negative factors included further yen appreciation to historically high levels in October and a global economic slowdown triggered by the European debt crisis.

In the generic drugs industry, following expansion of generics use due to medical system revisions including a review of premiums for generics dispensing systems implemented in April 2010, the volume share for volume drugs subsequently peaked in the 23% range and remained nearly flat in fiscal 2011. At the same time, competition intensified due to factors including the acquisition of a Japanese generic drug manufacturer by one of the world's largest generic drug makers and strengthening of generic drug units by major Japanese and foreign original drug manufacturers.

In these circumstances, to achieve the objectives in the M1 TRUST medium-term business plan, the Sawai Group released 14 product items based on 11 active ingredients in June 2011 followed by 25 items based on 12 active ingredients in November and worked to boost sales in collaboration with wholesalers and local agencies. Notably, Atorvastatin tablets, a hypolipidemic drug released in November, has substantially contributed to sales and also demonstrated the high level of Sawai's development and technological capabilities as an example of a drug that is difficult to formulate and that few manufacturers have released. In the area of production, we began construction of a new plant on the grounds of the Kanto Factory and undertook further enhancement of our stable supply capability.

As a result of these developments, although net sales fell short of the target in the medium-term business plan, we achieved a substantial earnings increase that greatly exceeded the earnings target in the business plan.

Generic drug use is expected to receive a major boost from a number of medical system revisions implemented in April 2012, including a review of premiums for generics dispensing systems and evaluation of the generic drug information provided by drug information sheets. Seizing the favorable opportunity provided by expansion of the generic drug market to achieve further growth, the Sawai Group has articulated a new medium- to long-term business vision and established M1 TRUST 2015, a new medium-term business plan for the period ending in fiscal 2014. We will strive to improve business results and increase corporate value by steadily implementing the measures set forth in the plan.

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."


Hiroyuki Sawai, Chairman


Mitsuo Sawai, President



First, please discuss the fiscal 2011 business results and the results of the M1 TRUST medium-term business plan.

Let us begin with a review of business performance in fiscal 2011. Net sales increased 5.9% to ¥67.603 billion. The growth rate did not exceed the overall industry level, and sales regrettably fell short of the target in the business plan. Factors that inhibited sales growth were continuing sluggish growth in the volume share of generic drugs, 23% in fiscal 2011, coupled with inventory reduction and purchasing restraint at pharmacies in preparation for the April 2012 medical system revisions. Nevertheless, overall sales of new products released in fiscal 2011 were ¥2.176 billion, boosted by favorable sales of Atorvastatin, a product released last November. On the earnings front, we achieved the M1 TRUST medium-term business plan final year targets of ¥11.5 billion in operating income and ¥6.0 billion in net income in fiscal 2010, a year ahead of schedule. Earnings continued to develop favorably in fiscal 2011, with operating income rising 10.4% to ¥15.004 billion and net income increasing 25.7% to ¥9.026 billion.

We achieved solid results with the M1 TRUST medium-term business plan by implementing 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 were able to increase net sales to 1.5 times, operating income to 3.2 times, and net income to 3.7 times the levels before the launch of the plan. We achieved an average annual sales growth rate of 15.1%, more than 2 percentage points above the industry average of 12.9%.

Nevertheless, issues that remain to be addressed include the targeting of DPC hospitals, strengthening of collaboration between production and sales, development of the Sawai brand into a brand chosen by healthcare professionals, and collaboration with distributors, and we will undertake continuous improvement in the next medium-term business plan.

Overview of Financial Results

	FY2010 Full Year Result		FY2011 Full Year Result		Year on Year (Growth)	
	Millions of yen	Sales (%)	Millions of yen	Sales (%)	Millions of yen	(%)
Net Sales	63,853	100.0	67,603	100.0	3,750	5.9
Operating Income	13,586	21.3	15,004	22.2	1,418	10.4
Ordinary Income	12,704	19.9	15,096	22.3	2,392	18.8
Net Income	7,183	11.2	9,026	13.4	1,842	25.7



Please provide an overview of the new medium-term business plan.

The Sawai Group has articulated a medium- to long-term vision of achieving sales of ¥200.0 billion by fiscal 2020 and set forth three basic policies: 1) Retention of top market share through the establishment of an overwhelmingly powerful position of leadership in the generic market, 2) Maintenance of top-class profitability through strengthening of corporate fundamentals to prevail in cost competition, and 3) Expansion into other businesses and overseas markets where synergy can be created to enhance the business portfolio.

The new medium-term business plan, named M1 TRUST 2015 to indicate that it carries on the spirit of the previous plan, is the first step toward achievement of the business vision. We have positioned the three-year period covered by the new plan as a springboard for the realization of dramatic growth. Basic policies set forth in the plan are 1) Establishment of overwhelming No. 1 presence in the generic market, 2) Rigorous groupwide cost control through strengthening of the management foundation, and 3) Strategic investment in new fields.

Numerical targets in the new business plan are net sales of ¥104.0 billion, operating income of ¥21.0 billion, and net income of ¥13.5 billion in fiscal 2014, which represent net sales of 1.5 times, operating income of 1.4 times, and net income of 1.5 times the fiscal 2012 levels.



What are the specific key initiatives in the new medium-term business plan?

As a key initiative for the establishment of overwhelming No. 1 presence in the generic market, we will above all else strive to surely and steadily release new products and capture market share. During the three-year period of the business plan, we plan to release 45 active ingredients in 98 dosage forms. We intend to be first to market and reliably capture market share.

Also, by increasing production capacity, we will strengthen our ability to ensure a stable supply of high-quality products. The start of operation at a new Kanto plant in March 2013 will result in a system with capacity to produce eight billion tablets, and we plan to implement a second phase of construction to establish a system with production capacity of ten billion tablets by March 2015.

In addition, we will increase the number of MRs by approximately 20% to further boost sales in the NHI pharmacy channel, improve sales quality to core hospitals, and increase penetration of the Sawai brand among prescribing physicians. At the same time, we will strengthen collaboration with wholesale distributors and local distributors to publicize Sawai's product quality, stable supply capabilities, and innovation in drug formulation.

Key initiatives for rigorous groupwide cost control through strengthening of the management foundation will be optimization of purchasing methods to obtain high-quality, low-cost raw materials, optimization of production systems, and manufacturing cost reduction.

In addition, with the aim of maximizing profits throughout the product lifecycle, we will engage in rigorous groupwide cost control by means including improvement of the new product development process and development of a new business administration system.

In the area of strategic investment in new fields, we will first of all introduce products in overseas markets and build an overseas production base in preparation for future business expansion. In preparation for realization of a hybrid business model, we will strive to realize new businesses with prospects for creating synergies with the generics business. We will also deliberately and carefully consider entry into the biosimilars market.



Review of M1 TRUST: Comparison of Growth Rates

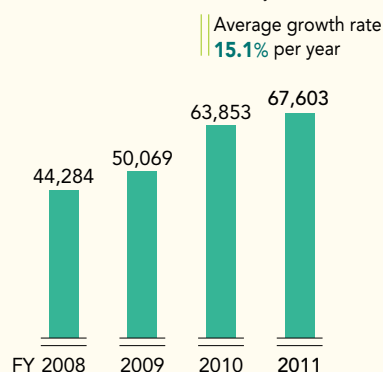
Average growth rate of corporate sales during M1 TRUST period exceeded average growth rate of GE market.

GE Market Size* (Millions of yen)



* On a NHI drug price basis

Sales of Sawai (Millions of yen)



Mitsuo Sawai, President



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

The market for generic drugs in Japan is expected to grow to ¥1.08 trillion in fiscal 2014 and ¥1.74 trillion in fiscal 2020 due to factors including further implementation of generic drug use promotion policies by the government, higher awareness and trust of generics by healthcare professionals, and increased cost-consciousness on the part of patients and insurers. The volume share of generics is expected to reach 30.3% in fiscal 2014 and 40% in fiscal 2020.

At the same time, in the environment surrounding the generics market, intensification of downward pressure on NHI drug prices is expected to trigger escalation of competition and a shakeout of manufacturers. Likely developments at medical institutions are an increase in the influence of core hospitals, proliferation of joint purchasing, and formation of pharmacy chains. In these circumstances, Sawai, as a specialty generics company, has a number of important strengths not found in companies newly entering the market. 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 pharmacy market, an extensive line of high value-added products, and a low-cost operating structure, etc. By taking maximum advantage of these strengths, we will seek to strengthen relationships with the headquarters of pharmacy chains and core hospitals and develop a low-cost structure that can withstand NHI drug price reductions and downward pressure on prices from purchasers.



Finally, please discuss the policy for profit distribution to the shareholders.

We consider profit distribution to shareholders one of our most important management priorities. Our basic policy concerning profit distribution is to maintain sufficient internal reserves to prepare for future business development, enhance capital to increase financial soundness, and pay stable dividends with a target dividend payout ratio of 30%. In accordance with this policy, we aim to maintain ROE of 16% or higher while taking into consideration the balance between internal reserves and shareholder returns.

For fiscal 2011, in view of our favorable business performance and to reward our shareholders for their support, we increased the annual dividend by ¥30 per share from the previous fiscal year to ¥140. For fiscal 2012, we plan to pay an annual dividend of ¥150, to consist of an interim dividend of ¥70 and a year-end dividend of ¥80.

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

Mitsuo Sawai, President

FY2012 Business Forecast

	FY2012 Full Year Forecast		
	Millions of yen	Sales (%)	Year on Year Growth (%)
Net Sales	82,000	100.0	21.3
Operating Income	16,500	20.1	10.0
Ordinary Income	16,600	20.2	10.0
Net Income	10,300	12.6	14.1

NEW MEDIUM-TERM BUSINESS PLAN “M1 TRUST 2015”

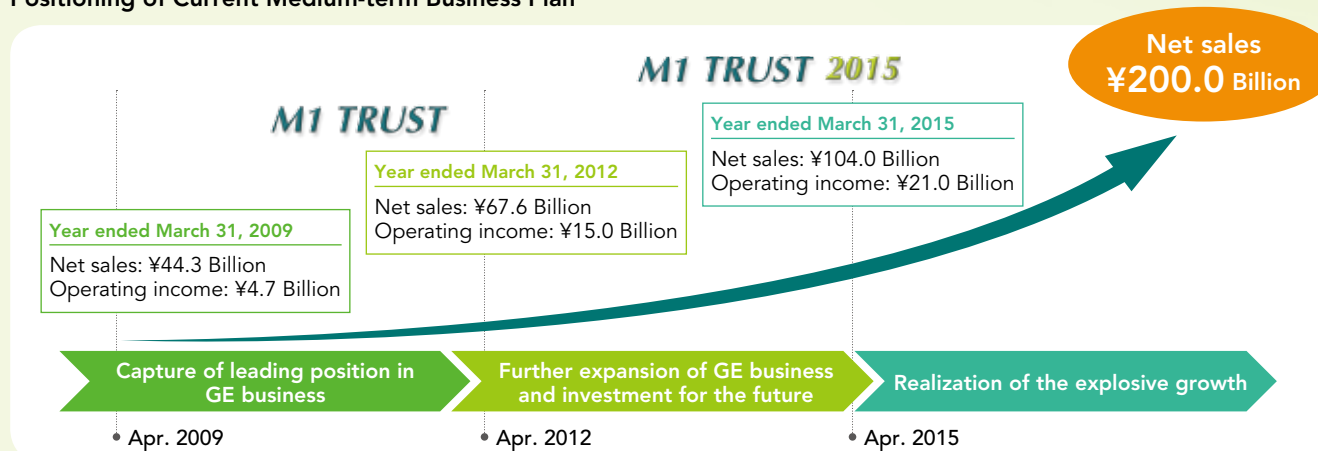
Carrying on the spirit and steady results of the preceding Medium-term Business Plan “M1 TRUST,” Sawai confidently implements further measures in the New Medium-term Business Plan “M1 TRUST 2015” aimed at achieving explosive growth.

Medium- to Long-term Vision

Sawai aims for sales of ¥200.0 billion by FY2020

- ① Through establishment of an overwhelming leading position in the generic market, steadily keeping the top market share
- ② Through strengthening of management make-up to survive cost competition, maintaining the highest profitability
- ③ Deployment to other businesses and overseas expansion where the synergy effect can be created toward enhancement of business portfolio

Positioning of Current Medium-term Business Plan



- | | |
|------------------------|-----------------------------------------------|
| 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 |

Basic Policy

- **Establishment of overwhelming No. 1 presence in the generic market**
 - Secure launching of new products and capturing market share
 - Strengthening of a stable supply system of high quality products by increasing production capacity
 - Further expansion of sales in health insurance pharmacy market
 - Improvement in sales quality to core hospitals and penetration of Sawai brand into prescribing physicians
 - Strengthening of partnerships with wholesalers and distributors
- **Thorough cost control of entire company through strengthening of the management foundation**
 - Cost reduction by optimizing both purchasing of raw materials and production system
 - Improvement in new product development process, aiming at maximum profits through the entire product lifecycle
 - Optimum distribution of SG&A expenses through strengthening of business administration system
- **Strategic Investment in New Fields**
 - Start of foundation building for overseas deployment
 - Review for realization of hybrid business model
 - Review of entry into the biosimilar market

Financial Targets in FY2014

Net Sales	Operating Income	Net Income	R&D Investment	Capital Investment	ROE	EPS
¥104.0 bil. (+54% from FY2011)	¥21.0 bil. (+40% from FY2011)	¥13.5 bil. (+50% from FY2011)	¥17.3 bil. (total in 3 years)	¥26.0 bil. (total in 3 years)	16.7 % (+0.2 pp from FY2011)	¥853 (+50% from FY2011)

Market and Business Growth

In the generics market in Japan, various measures to promote the use of generics are being implemented to achieve the government's goal of a 30% volume share for generic drugs by the end of March 2013.

National medical costs in Japan in fiscal 2009 were approximately ¥36 trillion, of which drug costs accounted for approximately ¥8 trillion*. These figures represent year-on-year increases of approximately ¥1.2 trillion and ¥630 billion, respectively, and these costs continue to rise year after year. To economize on ever-increasing medical expenses without lowering the quality of medical care, the government has set a goal of increasing the volume share for generic drugs to 30% by the end of March 2013.

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. As a result of the revision of the prescription form and the revision of the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities in April 2008 and the review of the premiums for generics dispensing systems in April 2010, the volume share of generic drugs steadily rose to 20.3%** in fiscal 2009 and 23.0%** in fiscal 2010. In fiscal 2011, however, volume share peaked at 23.3%**, roughly the prior-year level.

Further promotion of the use of generic drugs was incorporated into the outline of the draft proposal for comprehensive tax and social security reform decided by the Cabinet in February 2012, which confirmed continuation of the policy of promoting generics use. Then, evaluation of the generic drug information provided by drug information sheets, promotion of generic prescription, and other new measures were established in the revision of medical service fee of April 2012. Since patients

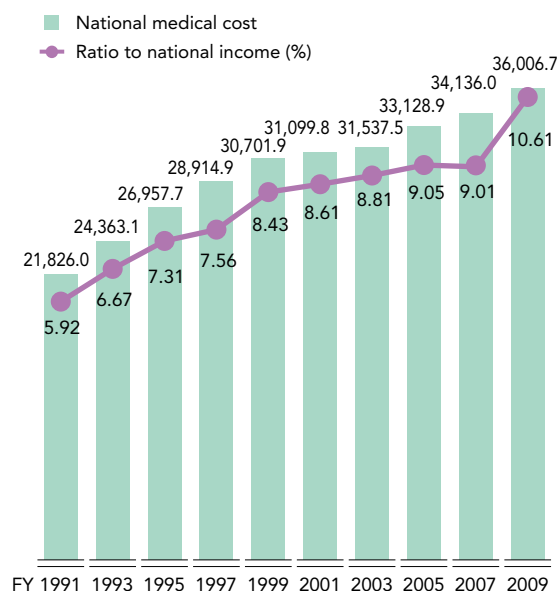
will be provided at pharmacies with written information about the availability of generic drugs and the price difference from original drugs, generics will become more familiar to patients, and it will become easier to switch to generics. Furthermore, the spread of generic prescription and a further revision to the prescription form are expected to reduce the number of prescriptions that cannot be changed to generics. Sawai believes that these promotion measures constitute a breakthrough that will have continuous impact and forecasts expansion of the generics market over three years from ¥730.0 billion in fiscal 2011 to ¥1,080.0 billion in fiscal 2014. Also, Japan's generics market is likely to increasingly become a focus of attention from within Japan and from overseas. For instance, in December 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.

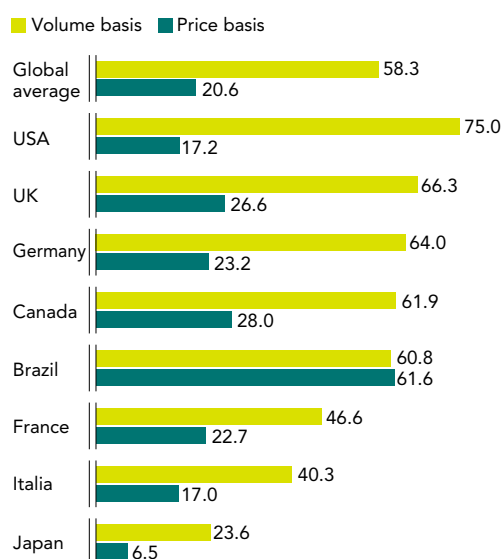
* Ministry of Health, Labour and Welfare data

** Information compiled by the Japan Generic Medicines Association

Growth of National Medical Costs (Billions of yen)



Generic Drug Share in Major Countries (CY2011/%)



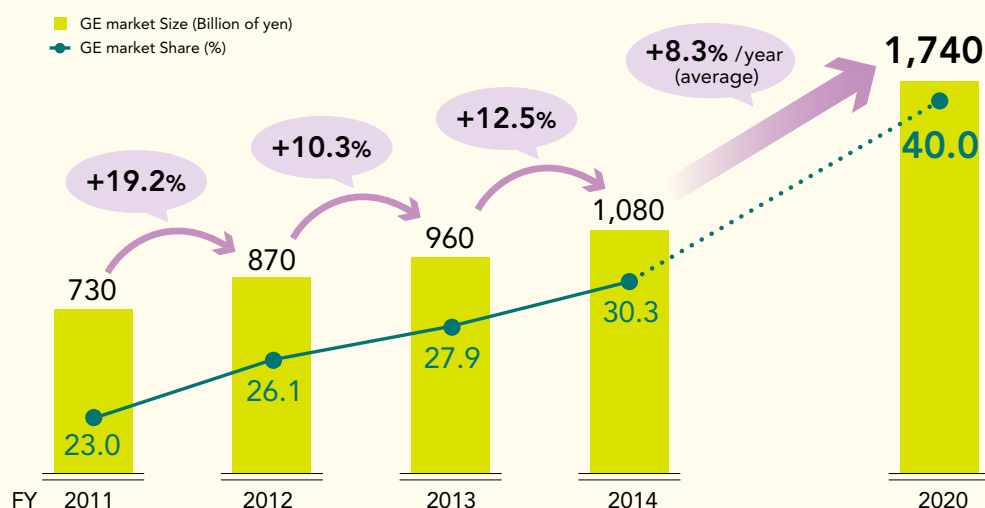
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Measures for Promoting Generic Drug Use in Japan

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, premiums for generics dispensing systems, 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	Revision of medical service fees, including evaluation of the generic drug information provided by drug information sheets, a review of premiums for generics dispensing systems at pharmacies, promotion of generic prescription, and further revision of the prescription form, etc.
Fiscal 2013	Planned reform of the medical care system for the elderly
Fiscal 2014	Planned revision of medical service fees

GE Market Size* and GE Market Share**

GE market size will reach ¥1,080 billion in FY2014 and expand to ¥1,740 billion in FY2020.



*On a NHI drug price basis

**On volume basis (forecast by Sawai)



Research and Development

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

Sawai continues to lead Japan’s generics industry in R&D.

In R&D results for fiscal 2011, Sawai released 14 product items based on 11 active ingredients in June 2011 followed by 25 items for 12 active ingredients in November. We seek to differentiate ourselves from competitors by means of unique innovations that take advantage of our advanced formulation technologies.

One example of innovative R&D is zolpidem tartrate for which we developed OD tablets unavailable from the original product, applied a masking technology to reduce bitterness, and scored the amount of active ingredient on the tablets to differentiate tablets of different dosages. Donepezil hydrochloride OD tablets for treatment of dementia of the Alzheimer type are tablets that can be taken without water, which facilitates administration to elderly patients. In the case of atorvastatin tablets, the world’s most widely used hypolipidemic drug and a promising major product, Sawai demonstrated the high level of its development and technological capabilities by being first to market with a product that is difficult to formulate. We have also further strengthened our generics industry-leading line of anticancer drugs by releasing gemcitabine for intravenous infusion.

Sawai forecasts market size of approximately ¥920.0 billion (based on NHI drug price of original drug) for new products we plan to release in the coming three years. Original drug manufacturers that have entered the generics industry in recent years have released only a small number of generic products, and they are expected to make extraordinary efforts in this market for new products. As a result, competition in the market is likely to further intensify among new and existing players alike. To prevail in this fierce competition, it will be necessary to seek further differentiation from competitors’ products, and being first to market after patent expiration is one aspect of meeting patient needs.

To that end, Sawai is actively investing in R&D. Fiscal 2011 R&D expenses were ¥4,316 million, the highest among generic drug manufacturers in Japan. Furthermore, we plan R&D expenses of ¥17.3 billion during the three-year period of the new medium-term business plan and will invest in areas including the development of hard-to-develop formulations, compound drugs and high-value-added drugs, obtaining approvals overseas, and improvement of existing products. In addition, we will establish an overwhelming No. 1 presence in the generics market by surely and steadily introducing new products. Over the three-year period we aim to release 45 active ingredients in 98 dosage forms.

Major Products

Trade Name	Active Ingredient	Dosage Form	Strength
AMLODIPINE	Amlodipine Besilate	Tablets	5mg
ATORVASTATIN	Atorvastatin Calcium Hydrate	Tablets	10mg
BEZATATE	Bezafibrate	Tablets	200mg
CARVEDILOL	Carvedilol	Tablets	10mg
CILNIDIPINE	Cilnidipine	Tablets	10mg
CLARITHROMYCIN	Clarithromycin	Tablets	200mg (potency)
EPINAZION	Epinastine Hydrochloride	Tablets	20mg
ETHYL ICOSAPENTATE	Ethyl Icosapentate	Seamless Capsules	900mg
FAMOTIDINE D	Famotidine	Orally Disintegrating Tablets	20mg
LASOPRAN OD	Lansoprazole	Oral Disintegrating Tablets	15mg
LIMARMONE	Limaprost Alfadex	Tablets	5µg
METHYCOOL	Mecobalamin	Tablets	500µg
OMEPRAZOLE	Omeprazole	Tablets	20mg
PRAVASTATIN Na	Pravastatin Sodium	Tablets	10mg
RABEPRAZOLE Na	Sodium Rabeprazole	Tablets	10mg
REBAMIPIDE	Rebamipide	Tablets	100mg
SEFTAC	Teprenone	Capsules	50mg
SIMVASTATIN	Simvastatin	Tablets	5mg
TAMSULOSIN HYDROCHLORIDE OD	Tamsulosin Hydrochloride	Oral Disintegrating Tablets	0.2mg
VOGLIBOSE OD	Voglibose	Oral Disintegrating Tablets	0.3mg

Major New Products Listed in Nov. 2011 - June 2012

Trade Name	Active Ingredient	Dosage Form	Strength
ATORVASTATIN	Atorvastatin Calcium Hydrate	Tablets	5mg/10mg
DONEPEZIL HYDROCHLORIDE	Donepezil Hydrochloride	Tablets	3mg/5mg
DONEPEZIL HYDROCHLORIDE OD	Donepezil Hydrochloride	Oral Disintegrating Tablets	3mg/5mg
DONEPEZIL HYDROCHLORIDE	Donepezil Hydrochloride	Fine Granules	0.5%1g
GEMCITABINE	Gemcitabine Hydrochloride	Injections	200mg/1g/1vial
LORATADINE	Loratadine	Oral Disintegrating Tablets	10mg
LORATADINE	Loratadine	Tablets	10mg
LOSARTAN POTASSIUM	Losartan Potassium	Tablets	25mg/50mg/100mg
PAROXETINE	Paroxetine Hydrochloride Hydrate	Tablets	5mg/10mg/20mg
RISEDRONATE Na	Sodium Risedronate Hydrate	Tablets	2.5mg
TALTIRELIN	Taltirelin Hydrate	Tablets	5mg
ZOLPIDEM TARTRATE	Zolpidem Tartrate	Tablets	5mg/10mg
ZOLPIDEM TARTRATE OD	Zolpidem Tartrate	Oral Disintegrating Tablets	5mg/10mg



ATORVASTATIN

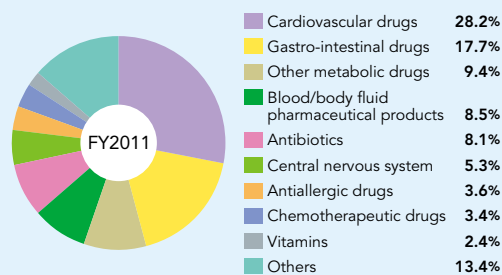


DONEPEZIL HYDROCHLORIDE



RABEPRAZOLE Na

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 Facilities

Sawai will further upgrade production capacity in the belief that the stable supply of high-quality products is part of its social responsibility as an industry leader.

Strengthening of Sawai's stable supply system to achieve production capacity of ten billion tablets


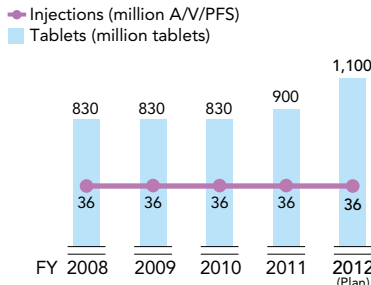

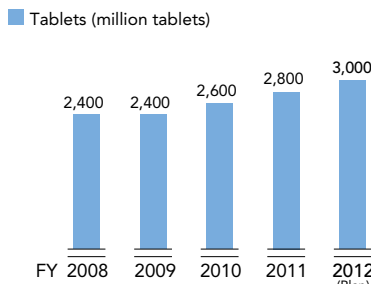

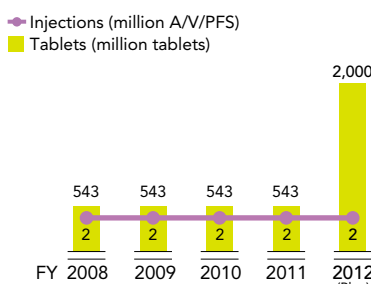

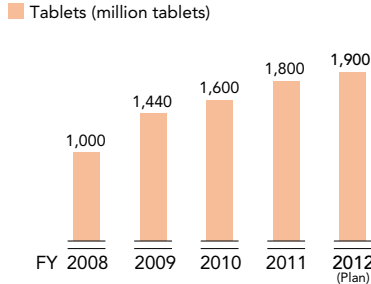
Ensuring a stable supply of high-quality pharmaceuticals to patients who require treatment is one of the most important missions of a drug manufacturer. With stable supply as its watchword, Sawai has actively engaged in forward-looking investment to upgrade production capacity, achieved the highest capacity in the generic drugs industry, and earned a high degree of trust among wholesale distributors and medical institutions alike.

The Sawai Group has already established an efficient production and supply system at all six of its plants, including the Sanda Factory in Hyogo Prefecture, the Group's main plant, and production capacity in fiscal 2011 reached the level of approximately six billion tablets. 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, an expansion that will increase annual production capacity to eight billion tablets by the end of fiscal 2012 (up two billion from the end of fiscal 2011). In a subsequent second phase of construction, we will increase annual production capacity to ten billion tablets (up four billion from the end of fiscal 2011). At the new plant, one of the largest in Japan, we will establish management standards that comply with regulations in Japan, the U.S. and Europe and install state-of-the-art facilities that will make possible labor-saving and unattended production and ensure low environmental impact.

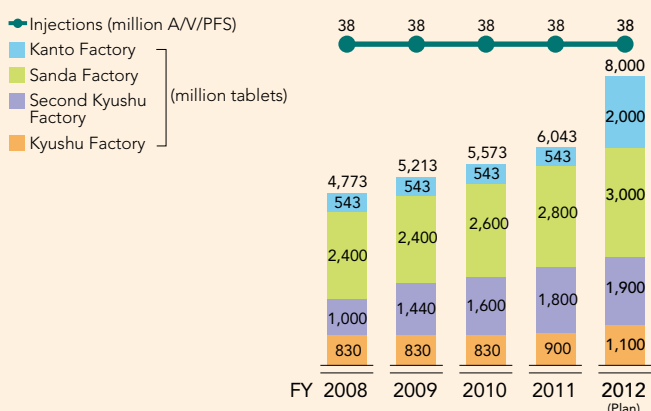
In April 2012, we transferred the Kyushu Factory of subsidiary Medisa Shinyaku to Sawai. As a result, all of the Group's production plants except the Yasato Factory of subsidiary Kaken Shoyaku have been concentrated within Sawai to increase production efficiency. In addition, we plan to establish an optimal production system at the Group level by securing high-quality raw materials from around the world, making timely, appropriate, and continuous capital investments, engaging in manufacturing control and quality control in accordance with rigorous internal standards, and maintaining and securing stable supply. On the basis of a business continuity plan formulated to ensure the maintenance of stable supply even when a natural disaster occurs, we will implement initiatives for multi-sourcing of key raw materials, standardization of production machinery, and flexible utilization of human resources.

In the coming years, we will continue efforts to further boost production efficiency at our factories and establish production and supply systems for high-quality, high-value-added products that meet market needs.

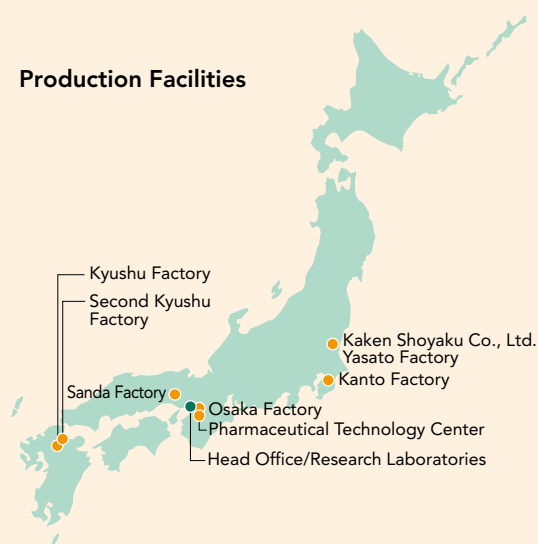
Major Factories of Sawai Pharmaceutical

	Factory Outline	Special Features	Production Capacity																		
Kyushu Factory (Fukuoka Prefecture) 	Site Area: 70,351m ² Total Floor Area: 22,277m ² Production Capacity: 900 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> <table><tr><th>FY</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012 (Plan)</th></tr><tr><td>Injections</td><td>36</td><td>36</td><td>36</td><td>36</td><td>36</td></tr><tr><td>Tablets</td><td>830</td><td>830</td><td>830</td><td>900</td><td>1,100</td></tr></table>	FY	2008	2009	2010	2011	2012 (Plan)	Injections	36	36	36	36	36	Tablets	830	830	830	900	1,100
FY	2008	2009	2010	2011	2012 (Plan)																
Injections	36	36	36	36	36																
Tablets	830	830	830	900	1,100																
Sanda Factory (Hyogo Prefecture) 	Site Area: 14,686m ² Total Floor Area: 21,932m ² Production Capacity: 2,800 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> <table><tr><th>FY</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012 (Plan)</th></tr><tr><td>Tablets</td><td>2,400</td><td>2,400</td><td>2,600</td><td>2,800</td><td>3,000</td></tr></table>	FY	2008	2009	2010	2011	2012 (Plan)	Tablets	2,400	2,400	2,600	2,800	3,000						
FY	2008	2009	2010	2011	2012 (Plan)																
Tablets	2,400	2,400	2,600	2,800	3,000																
Kanto Factory (Chiba Prefecture) 	Site Area: 86,747m 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> <table><tr><th>FY</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012 (Plan)</th></tr><tr><td>Injections</td><td>2</td><td>2</td><td>2</td><td>2</td><td>2</td></tr><tr><td>Tablets</td><td>543</td><td>543</td><td>543</td><td>543</td><td>2,000</td></tr></table>	FY	2008	2009	2010	2011	2012 (Plan)	Injections	2	2	2	2	2	Tablets	543	543	543	543	2,000
FY	2008	2009	2010	2011	2012 (Plan)																
Injections	2	2	2	2	2																
Tablets	543	543	543	543	2,000																
Second Kyushu Factory (Fukuoka Prefecture) 	Site Area: 34,105m ² Total Floor Area: 16,300m ² Production Capacity: 1,800 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> <table><tr><th>FY</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012 (Plan)</th></tr><tr><td>Tablets</td><td>1,000</td><td>1,440</td><td>1,600</td><td>1,800</td><td>1,900</td></tr></table>	FY	2008	2009	2010	2011	2012 (Plan)	Tablets	1,000	1,440	1,600	1,800	1,900						
FY	2008	2009	2010	2011	2012 (Plan)																
Tablets	1,000	1,440	1,600	1,800	1,900																

Company's Production Capacity



Production Facilities





Marketing and Sales Operations

Sawai is reinforcing its vigorous marketing activities in various distribution channels to cope with further expansion of demand for generic drugs.

Further penetration of the Sawai brand through reinforcement of marketing activities

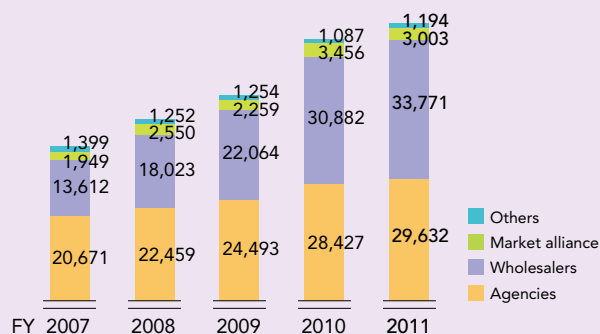
Sawai is vigorously engaging in sales activities focused on DPC hospitals and NHI pharmacies, where expanded use of generic drugs is expected. In fiscal 2011, deliveries to pharmacies increased dramatically by 15.7% over the previous year.

Sawai's brand name is highly regarded by wholesale distributors in the NHI pharmacy and DPC hospital channels because of quality, thorough information provision and stable supply. This is why we are steadily increasing sales through distributors. Net sales through wholesale distributors in fiscal 2011 accounted for 50.0% of consolidated net sales (48.4% in fiscal 2010). We are also establishing sales channels through local distributors located nearby customers that are capable of providing meticulous customer service, and sales through local distributors account for 43.8% of consolidated net sales.

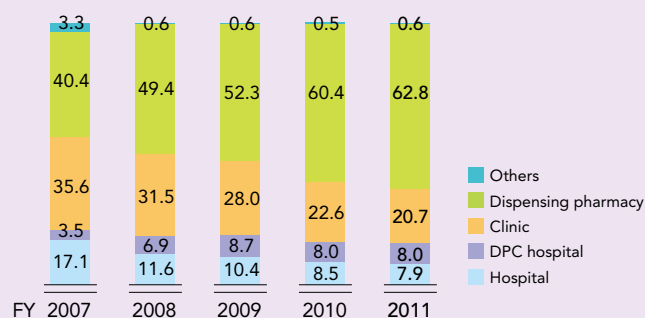
Although Sawai possesses strong selling power in all sales channels, sweeping changes are expected in the generics market. Amid increasing downward pressure on NHI drug price of generics, a shakeout of drug makers triggered by intensification of competition can be expected to gain impetus. In the hospital and pharmacy distribution channels, the influence of DPC hospitals and joint purchasing by hospitals are likely to increase, formation of pharmacy chains is likely to gain impetus, and the practice of chain headquarters designating generics manufacturers is expected to grow in impact.

To cope with these changes in the business environment, Sawai will engage in more effective marketing and sales activities for major products by developing a group-wide sales strategy and engaging in product-specific target selection and effective detailing. At the same time, we will seek to strengthen collaboration with wholesale distributors and local distributors, increase the frequency of communication between Sawai MRs and wholesaler MSs, communicate Sawai's product quality, stable supply capabilities, and innovation in drug formulation, and link this activity to an increase in adoptions of its products. We will also strengthen relationships with pharmacy chain headquarters and core hospitals and pursue further sales expansion in the NHI pharmacy market, improved sales quality to core hospitals, and increased penetration of the Sawai brand among prescribing physicians. Through these measures, we will aim for annual sales increases of 20% in the pharmacy market and 13% in the hospital market.

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

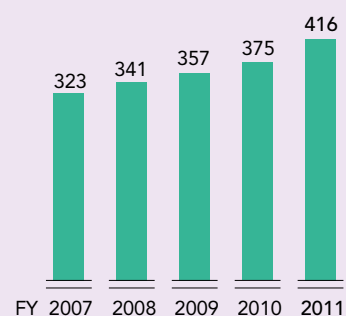
Head Office



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."

Upon completion of Phase 6 of the project, in fiscal 2012 we will undertake Phase 7. This phase will involve activities including dialogues between senior executives and employees to ensure inculcation within Sawai of the medium-term business plan and the sharing of experiences pertaining to the corporate philosophy.

Progress under the M1 Project

Phase	Concept	Key Themes	Common Themes
Phase 1 (Fiscal 2006)	Unification of values	<ul style="list-style-type: none"> •Drawing up and inculcation of the corporate philosophy •Training system development •Facilitation of information sharing 	<ul style="list-style-type: none"> •M1 Committee •M1 Club activities •Corporate philosophy inculcation activities •Employee awareness survey
Phase 2 (Fiscal 2007)	Awareness raising	<ul style="list-style-type: none"> •Drawing up and inculcation of the corporate philosophy (continued) •Training system development (continued) •Facilitation of information sharing (continued) •Inventory adjustment •Change management improvement 	
Phase 3 (Fiscal 2008)	Delivery of business results	<ul style="list-style-type: none"> •Performance management system development •Development investment process development •Drawing up and inculcation of a medium-term business plan 	
Phase 4 (Fiscal 2009)	Improvement of corporate fundamentals	<ul style="list-style-type: none"> •Off-site meetings 	
Phase 5 (Fiscal 2010)	Strengthening of the basis for competitiveness	<ul style="list-style-type: none"> •The Five Years-After Committee •Direct materials purchase cost reduction •Indirect materials purchase cost reduction (<i>Treasure Hunters</i>) •Management skills development program •Off-site meetings 	
Phase 6 (Fiscal 2011)	Corporate philosophy inculcation	<ul style="list-style-type: none"> •Indirect materials purchase cost reduction (<i>Treasure Hunters</i>) 	
Phase 7 (Fiscal 2012)	Reinforcement of corporate philosophy inculcation	<ul style="list-style-type: none"> •Drawing up and inculcation of a medium-term business plan •Indirect materials purchase cost reduction (<i>Treasure Hunters</i>) 	

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. We also co-sponsor academic symposia and hold generics education seminars for the general public. Through these vigorous publicity activities, we strive to promote the dissemination of generics and to establish a robust brand and unshakable customer trust.

TVCM

For Everyone Who Struggles with Lifestyle Diseases



Advertising to Healthcare Professionals



Atorvastatin

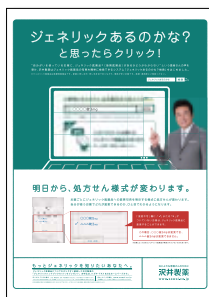


Sawai Generics

Advertising in Newspapers



Dementia



I Wonder if a Generic Is Available?

Generics Handbook



Demand is rapidly increasing from patients and other people who want to learn about generic drugs and medical professionals who proactively explain about them.

Web Site

- Completely renewed including the introducing of searching function for generic drugs
- Establishing the cancer information website for medical professionals aiming at the spread of antineoplastic drug generics.



Gratifying recognition for two consecutive years: 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. This followed an identical ranking in the last fiscal year.

"Stable supply" (75.1%) was the most frequently mentioned reason given by the respondents who selected Sawai, followed by "Offer many products" (63.7%). 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.

Sawai source: Translated from NIKKEI Drug Information, October 2011

Corporate Governance and Compliance

Sawai Pharmaceutical 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.

Basic Policy on Corporate Governance

The Company values a management system that can both ensure prompt decision-making leading to appropriate business execution in response to changes in the external environment and discharge good corporate governance through the practice of highly fair and transparent management. The Company considers the ongoing development of such a system to be one of the most important management priorities for the realization of the basic management policy of maximizing shareholder interests.

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 standards of behavior toward shareholders and other stakeholders and internal regulations.

Description of Management Organization

The best policy for pursuing efficiency and legality in management is for directors knowledgeable about the ethical drugs industry and Sawai's internal circumstances to maintain high ethical standards and engage in business management by paying careful attention to circumstances within the Company. Sawai considers the corporate auditor system, under which corporate auditors monitor business management, to be optimal in view of its size and management style and has adopted this system.

Sawai has also decided to introduce the external director system for the purpose of reinforcing the supervisory function over overall management and the supervisory function over conflict of interest, and adoption of the system was approved at the ordinary General Meeting of Shareholders held on June 22, 2012. The appointment of an external director with voting rights on proposals considered at meetings of the Board of Directors is expected to bring useful advice and insights to the Company's management. Sawai will strive to further increase management transparency and activate discussion at meetings of the Board of Directors.

In addition, Sawai considers it effective for the external corporate auditors to exercise a supervisory function over the Board of Directors. Although the external corporate auditors do not have voting rights on proposals before the Board of Directors, they have necessary legal oversight authority, such as the right to demand cessation of activities outside the purposes of the Company on the part of directors. External corporate auditors also have the obligation to attend meetings of the Board of Directors and express their opinions as necessary, and Sawai believes that supervision by the external corporate

auditors has a similar effect to the supervisory function expected of external directors.

The Company has twelve directors (including one external director) and four corporate auditors (including two external corporate auditors). The external director and two external corporate auditors have no business connections with the Sawai Group.

The Company's external 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 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 regular basis. The Company's Articles of Incorporation provide for a maximum of fifteen directors. In addition, the Company seeks to ensure rigorous auditing and supervision company-wide through means including business site audits conducted by the Board of Auditors and the Internal Inspection Section.

To ensure the appropriateness and efficiency of business operations throughout the Group, the Company ensures adherence to the corporate philosophy and management policies at Group companies and provides direction and guidance on matters related to the day-to-day execution of business. The Group's consolidated subsidiaries undergo accounting audits required for consolidated auditing performed by the Company's independent accounting auditors and comply with requests for studies and reports from 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 consults with the Compliance Committee or the Internal Control Committee about such issues, depending on their nature.

Each department in charge of management risks that occur in the course of business execution has primary responsibility for the implementation of risk management, and these departments have prepared regulations and manuals concerning risk management and provide employee education and training. The system for the management of risks pertaining to the business as a whole involves the use of duplicate sources for raw materials, the sharing of production equipment, flexible utilization of human resources, and other measures in conformance with the Crisis Management Regulations and Business Continuity Plan.

The risk management system concentrates channels for information on the Administration Division Director, a member of the Board of Directors, and ensures rapid and accurate information gathering, processing, and storage.

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.

External Directors and External Corporate Auditors

The Company's external director and external corporate auditors are not now and have never been officers, principal shareholders or investors, major business counterparts, or consultants, accounting professionals or legal professionals receiving a large amount of money or other assets from the Company, nor are they persons who previously met any of these criteria or close relatives of any of the above persons. Furthermore, the Company has determined that there is no potential conflict of interest with general shareholders.

The Company makes reference to the concept of the independent director/auditor system stipulated by the Tokyo Stock Exchange concerning the criteria or policy concerning independence from the Company of external directors or external corporate auditors and has determined that independence of the external director and external corporate auditors has been ensured. The Company has designated and registered the external director and external corporate auditors as independent officers in accordance with the regulations of the Tokyo Stock Exchange. The Company selects candidates who can perform the roles expected of external directors and external corporate auditors, making reference to the concept of the independent director system stipulated by the Tokyo Stock Exchange. The Board of Directors deliberates on and decides the appointment of independent officers after obtaining the opinion of the Board of Auditors, and a proposal is submitted to the General Meeting of Shareholders. The Company has determined that the check function by these organizations operates effectively.

To perform their supervisory function over management on the basis of objectivity, independence, and fairness, the Company's external director and external corporate auditors periodically exchange information with the Internal Inspection

Section and the independent accounting auditors, receive reports on the status of auditing, conduct their own examinations as necessary, offer opinions, and otherwise collaborate and contribute to improvement of the audit function. Although the external director and external corporate auditors do not directly offer advice to the departments responsible for internal control, the audit function operates indirectly through the standing statutory auditor or the Internal Inspection Section. In addition, the Company promotes information sharing, strengthening of the supervisory and audit functions, and efficiency by assigning members of the General Affairs Department to assist the external director and members of the Internal Inspection Section to assist the external corporate auditors to ensure that the external director and external corporate auditors can pay undivided attention to the fulfillment of their functions.

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, implementation, operation, and assessment of internal control systems.

With regard to the enhancement of corporate governance systems, the Company firmly adheres to the corporate governance systems it has 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. Employees directly report to the Corporate Auditors' Office (for the present, to the corporate auditors) any fraudulent activities on the part of directors.

The Internal Control Committee convenes regular and special meetings and strives to enhance the level of internal controls by exchanging information and deliberating responses to issues pertaining to internal controls for the assurance of systems for the appropriate preparation of financial reports in accordance with laws and regulations. The Internal Control Committee is made up of directors, the standing statutory auditor, and members of the Sales Division, Production Division, and Administration Division and maintains a secretariat in the Internal Inspection Section. It submits Internal Control System Report assessing the status of development and operation of internal control systems to the prime minister of Japan together with the Annual Securities Report.

Compliance System

With regard to the inculcation and instillation 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 groupwide activities and training by the Controller Department 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.

Concerning the implementation 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) 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.

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 inside and outside the Company in accordance with the Disclosure Policy.

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

The Company has established the following basic policy concerning the management of subsidiaries. 1) Each Group company engages in business in accordance with the Group's corporate philosophy and code of conduct. 2) The Company strives to rigorously implement the Subsidiary and Affiliate Management Regulations. 3) The Internal Inspection Section periodically conducts subsidiary audits. 4) The standing corporate

auditor strives to gather information about subsidiaries and monitors the fairness of transactions with the parent company.

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

Although the Group has implemented a sufficient legal compliance system, a violation of the law 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 NHI Drug Price System and Medical Care System

Studies of the actual market prices of drugs are conducted, and the prices of nearly all items are reduced in drug price revisions conducted once every two years. Future implementation of major changes to the NHI 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. Nevertheless multiple patents pertaining to process, crystal form, dosage and administration, or formulation remain in force with respect to the original drugs, 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

Many manufacturers are entering the generic drug market, and intense competition causes price deterioration. 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

The occurrence of unforeseen new side effects or accidents would make product discontinuation and recall unavoidable and cause product liability, which could have an adverse impact on business results.

Production Disruption or Delays due to Disasters, etc.

The shutdown of operation at a manufacturing site due to the occurrence of a natural disaster, technical problem, supply interruption of raw materials, power shortage by electric power companies or regulatory problem could result in the disruption of supply of certain products, which could have an adverse impact on business results.

FINANCIAL SECTION

Five-year Summary

For the Years Ended March 31, 2012, 2011, 2010, 2009 and 2008

Years ended March 31	Millions of yen				
	2012	2011	2010	2009	2008
Net sales	¥ 67,603	¥ 63,853	¥ 50,070	¥ 44,284	¥ 37,631
Cost of sales	34,411	33,736	26,275	25,156	20,130
Gross profit	33,192	30,117	23,795	19,128	17,501
Selling, general and administrative expenses	18,188	16,531	15,276	14,460	13,453
Operating income	15,004	13,586	8,519	4,668	4,048
Income before Income Taxes and minority interests	14,928	12,289	8,372	4,320	3,129
Net income	9,026	7,183	4,982	2,439	1,739
Total assets	123,400	117,056	81,236	72,320	66,295
Inventories	25,780	21,218	18,081	13,588	13,500
Total current liabilities	26,932	25,811	25,441	20,911	17,152
Total long-term liabilities	37,893	40,382	9,537	9,703	8,938
Shareholders' equity	—	—	—	—	—
Net assets	58,575	50,863	46,258	41,706	40,205
Net cash provided by operating activities	7,814	5,937	7,907	3,169	9,549
Net cash used in investing activities	(2,371)	(20,362)	(5,329)	(3,037)	(6,562)
Net cash provided by financing activities	(4,578)	24,756	348	1,027	(4,958)
Cash and cash equivalents at end of year	20,671	19,805	9,474	6,548	5,389
Research and development (R&D) expenses	4,317	3,902	3,593	3,409	3,222
Capital expenditures	4,599	2,805	5,370	2,841	6,567
Depreciation and amortization	3,389	3,066	3,025	2,709	2,575
			%		
Ratio of R&D expenses to sales	6.4	6.1	7.2	7.7	8.6
Return on equity	16.5	15.1	11.8	6.2	4.6
Shareholders' equity to total assets	47.4	43.4	54.5	55.4	58.3
			Yen		
Amounts per common share:					
Net income—basic	¥ 570.49	¥ 456.07	¥ 317.32	¥ 155.32	¥ 110.73
Net income—diluted	470.13	407.33	316.86	—	—
Cash dividends applicable to period	140.00	110.00	70.00	55.00	55.00
Net assets	3,693.68	3,210.32	2,817.65	2,511.06	2,460.17

Notes: 1. Diluted net income per common share is not disclosed in 2009 and 2008.

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

3. Capital expenditures are calculated on a cash flow basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

In the generic drugs industry in Japan in fiscal 2011, the year ended March 31, 2012, the volume share for generic drugs peaked in the 23% range and remained nearly flat for the year. The modest improvement followed expansion of the use of generic drugs in fiscal 2010 initiated by medical system revisions, including a review of premiums for generics dispensing systems implemented in April 2010. In light of these circumstances, in April 2012 the government implemented new measures to promote the use of generic drugs aiming to achieve its target of a 30% volume share for generics by the end of fiscal 2012. At the same time, competition in the market intensified due to factors including the acquisition of a Japanese generic drug manufacturer by one of the world's largest generic drug makers and a bid by Japanese and foreign original drug manufacturers to strengthen their marketing capabilities through the unification of their long-term listed drug units and generic drug units.

Amid these conditions, the Sawai Group worked to achieve the objectives in the final year of the M1 TRUST medium-term business plan, upholding the corporate philosophy, "Patients first." In June 2011, it released 14 product items based on 11 active ingredients, followed by 25 items based on 12 active ingredients in November and collaborated closely with wholesale distributors and local distributors to boost sales. Atorvastatin tablets, released in November, made a substantial contribution to sales of new products. This product, which few manufacturers have released, has demonstrated the high level of Sawai's development and technological capabilities and is expected to contribute significantly to increasing competitiveness into the future. In the area of production, Sawai began construction of a new plant on the grounds of the Kanto Factory and undertook further enhancement of its stable supply capability.

Income and Expenses

Consolidated net sales in fiscal 2011 increased by 5.9% year on year to ¥67,603 million, reaching a record high for the 12th consecutive year despite falling short of the target.

In the results for sales growth by channel, sales through the wholesaler channel increased by 9.4% year on year, while sales through regional sales agencies increased by 4.2%. The

wholesaler channel accounted for 50.0% of net sales (48.4% in fiscal 2010), and the regional sales agency channel accounted for 43.8% (44.5% in fiscal 2010).

Cost of sales rose 2.0% year on year to ¥34,411 million, while gross profit rose 10.2% to ¥33,192 million. Accordingly, the gross profit to sales ratio increased by 1.9 percentage points to 49.1%.

Selling, general and administrative expenses increased by 10.0% year on year to ¥18,188 million as a result of increases of ¥618 million in wages and benefits and ¥415 million in R&D expenses.

As a result, operating income increased by 10.4% over the previous year to ¥15,004 million. The operating profit to sales ratio rose by 0.9 percentage point year on year to 22.2%.

Due to the non-recurrence of bond issue costs of ¥806 million and a loss on devaluation of investments in securities of ¥840 million recorded in fiscal 2010, net income increased by 25.7% year on year to a record high of ¥9,026 million. Net income per share rose ¥114.42 from the previous year to ¥570.49.

The return on equity rose by 1.4 percentage points from the previous year to 16.5%.

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 2011, the Group obtained approval for the manufacture and sale of 40 items.

R&D expenses increased by 10.6% from the previous year to ¥4,316 million, and the ratio of R&D expenses to sales was 6.4%.

Financial Position

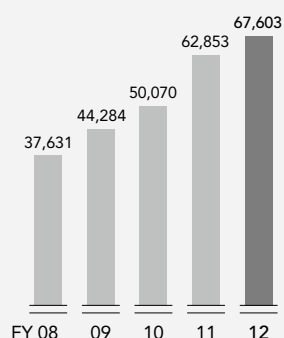
Total assets at the end of fiscal 2011 were ¥123,400 million, an increase of ¥6,344 million, or 5.4%, from the previous year.

Current assets rose by ¥3,013 million to ¥80,508 million, primarily due to increases of ¥4,562 million in inventories and ¥2,202 million in trade notes and accounts receivable and a decrease of ¥4,134 million in cash and deposits.

Fixed assets increased by ¥3,331 million to ¥42,892 million.

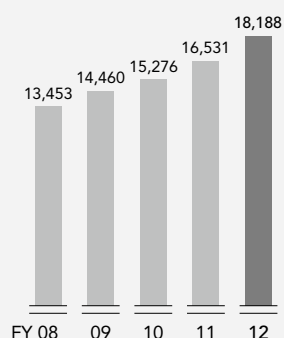
Net Sales

(Millions of yen)



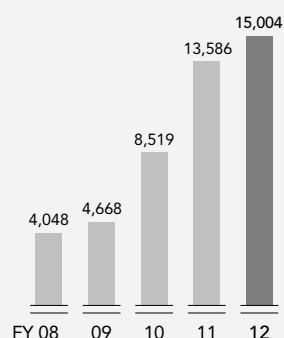
Selling, General and Administrative Expenses

(Millions of yen)



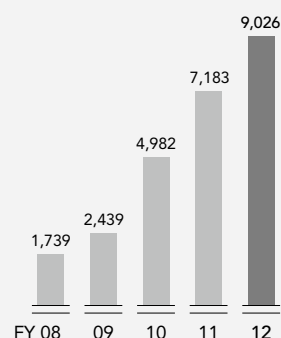
Operating Income

(Millions of yen)



Net Income

(Millions of yen)



The increase is attributable to increases of ¥1,408 million in property, plant and equipment, ¥864 million in intangible assets, and ¥1,058 million in investments and other assets. Capital expenditures were ¥4,800 million, ¥863 million higher than the previous year. The principal expenditures were for the upgrading and improvement of production facilities.

Total liabilities decreased by ¥1,368 million, or 2.1%, from the end of the previous year to ¥64,825 million. Current liabilities increased by ¥1,121 million to ¥26,932 million. Principal factors were increases of ¥944 million in trade notes and accounts payable and ¥895 million in income taxes payable and a decrease of ¥1,061 million in other accounts payable. Long-term liabilities decreased by ¥2,489 million to ¥37,893 million due to factors including a decrease of ¥2,681 million in long-term debt.

Net assets were ¥58,575 million, an increase of ¥7,712 million, or 15.1%, from the end of the previous year. The equity ratio rose by 4.0 percentage points to 47.4%.

Cash Flows

■ Cash flows from operating activities

Cash provided by operating activities was ¥7,814 million. The principal items were ¥14,928 million in income before income taxes and minority interests, ¥3,389 million in depreciation and amortization, increases of ¥2,202 million in trade notes and accounts receivable and ¥4,563 million in inventories, and ¥5,260 million in income taxes paid.

■ Cash flows from investing activities

Cash used in investing activities was ¥2,371 million. The principal items were a net decrease of ¥5,000 million in payments for time deposits, payments of ¥3,454 million for the purchase of property, plant and equipment, payments of ¥2,307 million in connection with new plant construction and payments of ¥1,145 million for the purchase of intangible assets.

■ Cash flows from financing activities

Cash used in financing activities was ¥4,578 million. The principal items included ¥2,652 million in repayment of long-term debts and ¥2,056 million in cash dividends paid.

As a result, cash and cash equivalents at end of year increased by ¥865 million from the previous fiscal year to ¥20,671 million.

Dividend Policy

The Company considers profit distribution to shareholders one of its most important management priorities. The basic policy concerning profit distribution is to consider an appropriate balance between the maintenance of sufficient funds for active investment in preparation for future growth, enhancement of capital to increase financial soundness, and shareholder returns and to continue to pay stable dividends with a target dividend payout ratio of 30% while comprehensively taking into consideration factors such as consolidated business performance each year and the dividend payout ratio.

For fiscal 2011, the Company stressed shareholder returns and paid an annual dividend of ¥140 per share of common stock, consisting of an interim dividend of ¥60 per share and a yearend dividend of ¥80.

Outlook for Fiscal 2012

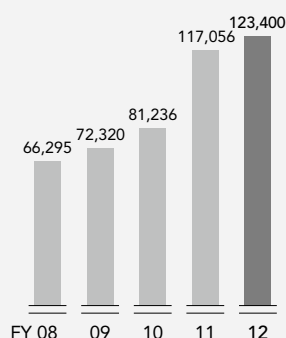
The outlook for the Japanese economy in fiscal 2012 is for gradual economic recovery. This is expected to result primarily from demand stimulation and employment creation from various government measures for recovery from the Great East Japan Earthquake and comprehensive measures to counter yen appreciation and additional monetary easing measures by the Bank of Japan to escape from deflation.

In the generic drugs industry, a number of medical system revisions were implemented in April 2012, including a review of premiums for generics dispensing systems, evaluation of information provision pertaining to generic drugs using drug information sheets and promotion of generic prescription. Sawai expects these revisions to result in expansion of the market for generic drugs.

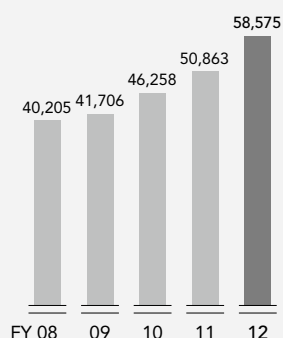
Seizing the favorable opportunity provided by expansion of the generic drug market, the Sawai Group has established M1 TRUST 2015, a new medium-term business plan to increase corporate value through further growth, and will strive to improve business results by steadily implementing the measures set forth in the plan.

We forecast net sales to rise by 21.3% to ¥82,000 million, operating income to increase by 10.0% to ¥16,500 million and net income to rise by 14.1% to ¥10,300 million in fiscal 2012.

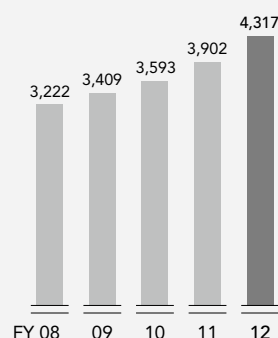
Total Assets
(Millions of yen)



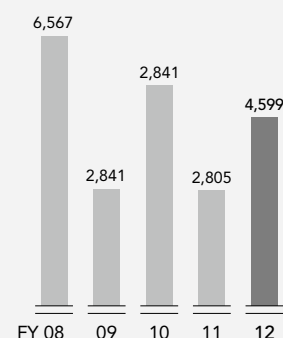
Net Assets
(Millions of yen)



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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2012	2011	2012
Current Assets:			
Cash and deposits (Note 3 and 4)	¥ 26,671	¥ 30,805	\$ 322,147
Trade notes and accounts receivable (Note 4)	25,486	23,284	307,845
Allowance for doubtful receivables	(22)	(21)	(262)
	52,135	54,068	629,730
Inventories (Note 5)	25,780	21,218	311,394
Deferred income taxes (Note 10)	1,975	1,812	23,849
Other current assets	618	397	7,466
Total current assets	80,508	77,495	972,439
Property, Plant and Equipment :			
Land	4,846	4,950	58,531
Buildings and structures	30,002	29,266	362,388
Machinery and equipment	20,544	19,264	248,150
Leased assets	36	45	440
Construction in progress	2,402	494	29,011
Other	5,290	4,848	63,892
	63,120	58,867	762,412
Accumulated depreciation	(29,395)	(26,550)	(355,058)
Net property, plant and equipment	33,725	32,317	407,354
Intangible Assets	2,013	1,148	24,315
Investments and Other Assets:			
Investment securities (Notes 4, 6)	6,786	5,702	81,966
Long-term receivables	6	18	70
Long-term deposits	41	61	501
Other investments and long-term receivables	361	380	4,356
	7,194	6,161	86,893
Allowance for doubtful receivables	(40)	(65)	(488)
Net investments and other assets	7,154	6,096	86,405
	¥ 123,400	¥ 117,056	\$ 1,490,513

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)
	2012	2011	2012
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Bank debt (Note 4 and 7)	¥ —	¥ —	\$ —
Current portion of long-term debt (Note 4 and 7)	2,689	2,660	32,476
Current portion of lease obligations	8	7	96
Trade notes and accounts payable (Note 4)	10,793	9,849	130,371
Other accounts payable (Note 4)	6,673	7,734	80,601
Accrued bonuses to employees	1,152	1,086	13,916
Accrued bonuses to directors and corporate auditors	79	61	950
Income taxes payable (Note 4)	4,039	3,144	48,787
Reserve for sales returns	65	126	783
Reserve for sales rebates	884	792	10,673
Other current liabilities	550	352	6,648
Total current liabilities	26,932	25,811	325,301
Long-Term Liabilities:			
Convertible bonds with subscription rights to shares (Note 4, 7 and 14)	30,513	30,662	368,553
Long-term debt (Note 4 and 7)	5,481	8,162	66,200
Long-term lease obligations	14	11	174
Employees' retirement benefits (Note 8)	93	90	1,126
Directors' and corporate auditors' retirement benefits	425	340	5,138
Deferred tax liabilities (Note 10)	83	167	997
Negative goodwill	—	12	—
Other long-term liabilities	1,284	938	15,512
Total long-term liabilities	37,893	40,382	457,700
Net Assets (Note 9):			
Shareholders' Equity:			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding			
15,837,200 shares in 2012	11,901	11,814	143,749
15,807,800 shares in 2011			
Capital surplus	12,225	12,138	147,659
Retained earnings	33,657	26,687	406,538
Treasury stock			
712 shares in 2012			
712 shares in 2011	(3)	(3)	(42)
Accumulated Other Comprehensive Income			
Net unrealized holding gains on securities	715	110	8,641
Subscription Rights to Shares			
	71	108	856
Minority Interests			
	9	9	111
Net assets	58,575	50,863	707,512
	¥ 123,400	¥ 117,056	\$ 1,490,513

Consolidated Statements of Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net Sales	¥ 67,603	¥ 63,853	\$ 816,562
Cost of Sales	34,411	33,736	415,640
Gross Profit	33,192	30,117	400,922
Selling, General and Administrative Expenses	18,188	16,531	219,687
Operating Income	15,004	13,586	181,235
Other Income (Expenses):			
Interest and dividend income	331	139	4,002
Interest expense	(164)	(215)	(1,981)
Subsidy income	43	30	518
Compensation income	17	62	199
Expenses for loan commitment agreements	(109)	(29)	(1,319)
Gain on sale of fixed assets	—	598	—
Loss on disposal of buildings and structures	(35)	(126)	(421)
Loss on sale of fixed assets	—	(46)	—
Loss on devaluation of investments in securities	—	(840)	—
Loss on impairment of fixed assets (Note 15)	(133)	—	(1,607)
Reversal of allowance for doubtful receivables	2	5	29
Amortization of negative goodwill	12	14	150
Bonds issue costs	—	(806)	—
Other, net	(40)	(83)	(490)
	(76)	(1,297)	(920)
Income Before Income Taxes and Minority Interests	14,928	12,289	180,315
Provision for Income Taxes:			
Current	6,166	4,979	74,475
Deferred	(264)	(14)	(3,184)
Income Before Minority Interests	9,026	7,324	109,024
Minority Interests	0	141	0
Net Income	¥ 9,026	¥ 7,183	\$ 109,024
Per Share of Common Stock:	Yen		U.S. dollars (Note 1)
Net income—basic	¥ 570.49	¥ 456.07	\$ 6.89
Net income—diluted	470.13	407.33	5.68
Dividends	140.00	110.00	1.69

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income Before Minority Interests	¥ 9,026	¥ 7,324	\$ 109,024
Other Comprehensive Income			
Net unrealized holding gains on securities	605	(43)	7,311
Total other comprehensive income	605	(43)	7,311
Comprehensive Income	¥ 9,631	¥ 7,281	\$ 116,335
Comprehensive income attribute to:			
Owners of the parent	9,631	7,139	116,335
Minority interests	0	142	0

Consolidated Statements of Changes in Net Assets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2012 and 2011

	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 April 1, 2010	¥ 11,502	¥ 11,825	¥20,763	¥ (3)	¥ 44,087	¥ 154	¥ 154	¥ 202	¥ 1,815	¥ 46,258
Changes in 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 in items other than shareholders' equity					—	(44)	(44)	39	(1,350)	(1,355)
Total changes in 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
Changes in items during the year										
Stock issue (exercise of stock subscription right)	87	87			174			(37)		137
Cash dividends			(2,056)		(2,056)					(2,056)
Net income			9,026		9,026					9,026
Net increase in treasury stock					—					—
Net changes in items other than shareholders' equity					—	605	605	(0)		605
Total changes in items during the period	87	87	6,970	—	7,144	605	605	(37)	—	7,712
Balance at March 31, 2012 (Note 9)	¥ 11,901	¥ 12,225	¥ 33,657	¥ (3)	¥ 57,780	¥ 715	¥ 715	¥ 71	¥ 9	¥ 58,575

	Thousands of U.S. dollars (Note 1)									
	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 April 1, 2011 (Note 9)	\$ 142,700	\$ 146,610	\$ 322,347	\$ (42)	\$ 611,615	\$ 1,331	\$ 1,331	\$ 1,310	\$ 110	\$ 614,366
Changes in items during the year										
Stock issue (exercise of stock subscription right)	1,049	1,049			2,098			(446)		1,652
Cash dividends			(24,833)		(24,833)					(24,833)
Net income for the year			109,024		109,024					109,024
Acquisition of treasury stock					—					—
Net changes in items other than shareholders' equity					—	7,310	7,310	(7)		7,303
Total increase/decrease during the year	1,049	1,049	84,191	—	86,289	7,310	7,310	(453)	—	93,146
Balance at March 31, 2012 (Note 9)	\$ 143,749	\$ 147,659	\$ 406,538	\$ (42)	\$ 697,904	\$ 8,641	\$ 8,641	\$ 857	\$ 110	\$ 707,512

Note: These items concerning the appropriation of earnings were resolved at the general shareholders meeting held in June 2012 and 2011.

Consolidated Statements of Cash Flows

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2012	2011	2012
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 14,928	¥ 12,290	\$ 180,315
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	3,389	3,066	40,936
Loss on impairment of fixed assets	133	—	1,607
Amortization of goodwill	65	12	785
Amortization of negative goodwill	(12)	(14)	(150)
Increase in reserve for sales rebates	91	283	1,102
Increase in allowance for doubtful receivables	(24)	29	(289)
Increase in accrued bonuses to employees	66	5	794
Increase (decrease) in accrued bonuses to directors and corporate auditors	18	(22)	220
Increase (decrease) in reserve for loss on sales returns	(61)	23	(735)
Decrease in employees' retirement benefits	3	(2)	39
Increase in retirement benefits to directors and corporate auditors	86	69	1,035
Interest and dividend income	(331)	(139)	(4,002)
Interest expense	164	215	1,981
Loss on devaluation of investments in securities	—	840	—
Bonds issue cost	—	806	—
Loss on disposal of buildings and structures	30	126	362
Increase in trade notes and accounts receivable	(2,202)	(4,744)	(26,602)
Increase in inventories	(4,563)	(3,137)	(55,110)
Increase (decrease) in trade notes and accounts payable	872	(561)	10,536
Increase (decrease) in long-term prepaid expenses	19	(19)	235
Increase in other accounts payable	20	2,089	243
Other	361	(550)	4,355
Subtotal	13,052	10,665	157,657
Interest and dividends received	181	52	2,190
Interest paid	(159)	(207)	(1,928)
Income taxes paid	(5,260)	(4,573)	(63,538)
Net cash provided by operating activities	7,814	5,937	94,381
Cash Flows from Investing Activities:			
Net time deposits	5,000	(11,000)	60,394
Payments for purchase of property, plant and equipment	(3,454)	(2,210)	(41,716)
Proceeds from sale of property, plant and equipment	—	931	—
Payments for purchase of intangible assets	(1,145)	(594)	(13,823)
Payments for purchase of investment securities	(460)	(5,958)	(5,560)
Proceeds from collection of long-term receivables	12	37	145
Payment for additional acquisition of subsidiary's securities	—	(1,568)	—
Payment for new factory construction	(2,307)	—	(27,864)
Other	(17)	(0)	(209)
Net cash used in investing activities	(2,371)	(20,362)	(28,633)
Cash Flows from Financing Activities:			
Net increase (decrease) in bank debt	—	(4,100)	—
Proceeds from long-term debt	—	3,000	—
Repayment of long-term debt	(2,652)	(2,853)	(32,032)
Proceeds from issuance of convertible bonds	—	29,944	—
Proceeds from issuance of stock resulting from exercise of stock subscription rights	137	492	1,651
Cash dividends paid	(2,056)	(1,259)	(24,833)
Cash dividends paid to minority shareholders	—	(456)	—
Other	(7)	(12)	(86)
Net cash provided by financing activities	(4,578)	24,756	(55,300)
Net increase in cash and cash equivalents	866	10,331	10,448
Cash and cash equivalents at beginning of year	19,805	9,474	239,226
Cash and cash equivalents at end of year (Note 3)	¥ 20,671	¥ 19,805	\$ 249,674

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, 2012 and 2011

1

Basis of Financial Statements

SAWAI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (together, 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 the 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, 2012, which was approximately ¥82.79 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., 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 outstanding shares 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. MEDISA SHINYAKU INC. reduced the amount of capital from 914 million yen to 91 million yen on March 30, 2012.

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 shares) has been included in the scope of consolidation with 100 percent shares 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 certain receivables 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 September 26, 2008).

(f) Property, Plant and Equipment (excluding leases)

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

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

(g) Intangible Assets (excluding leases)

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

(h) Leases

For lease transactions not involving the transfer of ownership, of the 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 are 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

The Company and its consolidated subsidiaries accrue amounts for bonuses to directors and corporate auditors based on estimated amounts to be paid in the subsequent period. The total amounts of remuneration paid to directors and corporate auditors were recognized at the general meeting of shareholders.

(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

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.

(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 ¥4,317 million (\$52,141 thousand) and ¥3,902 million for the years ended March 31, 2012 and 2011, respectively.

(q) **Income Taxes**

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax. The provision for income taxes is based on income for financial statement purposes. The tax effects of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes 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 shares 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 2012 presentation.

3

**Cash and
Cash Equivalents**

Cash and cash equivalents as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥ 26,671	¥ 30,805	\$ 322,147
Time deposits with maturities of over three months	(6,000)	(11,000)	(72,473)
Cash and cash equivalents	¥ 20,671	¥ 19,805	\$ 249,674

4

**Financial
Instruments**

(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 mainly to invest in securities of counterparties 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 one year. Short-term bank debts mainly for the purpose of providing operating funds are based on market price rates. Long-term bank debts (as a rule within seven years) are for operating funds and capital investment funds and are based on fixed rates in order to minimize the risk of changing rates.

(iii) Supplemental information on fair values

The Companies used fair market values for the values of Financial Instruments but partially used rational estimations when no market fair values were determinable. In those estimations, there were some variable factors.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2012 and 2011 were as follows:

Millions of yen						
	2012			2011		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	26,671	26,671	—	30,805	30,805	—
Trade notes and accounts receivable	25,486	25,486	—	23,284	23,284	—
Investment securities: other securities	6,698	6,698	—	5,616	5,616	—
Total assets	¥ 58,855	¥ 58,855	¥ —	¥ 59,705	¥ 59,705	¥ —
Trade notes and accounts payable	10,793	10,793	—	9,849	9,849	—
Bank debt and current portion of long-term debt	2,689	2,699	10	2,660	2,673	13
Other accounts payable	6,673	6,673	—	7,734	7,734	—
Income taxes payable	4,039	4,039	—	3,144	3,144	—
Convertible bonds	30,513	32,838	2,325	30,662	31,706	1,044
Long-term debt	5,481	5,517	36	8,162	8,213	51
Total liabilities	¥ 60,188	¥ 62,559	¥ 2,371	¥ 62,211	¥ 63,319	¥ 1,108

Thousands of U.S. dollars			
	2012		
	Book value	Fair value	Difference
Cash and deposits	322,147	322,147	—
Trade notes and accounts receivable	307,845	307,845	—
Investment securities: other securities	80,903	80,903	—
Total assets	\$ 710,895	\$ 710,895	\$ —
Trade notes and accounts payable	130,371	130,371	—
Bank debt and current portion of long-term debt	32,476	32,603	127
Other accounts payable	80,601	80,601	—
Income taxes payable	48,787	48,787	—
Convertible bonds	368,553	396,646	28,093
Long-term debt	66,200	66,634	434
Total liabilities	\$ 726,988	\$ 755,642	\$ 28,654

(i) For certain financial instruments, including cash and cash deposits, notes and accounts receivable and payable, income taxes payable and other accounts payable, the fair value is approximately equal to the book value due to the short period until maturity of the respective items.

(ii) For marketable securities and convertible bonds, fair value is determined based on 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 of non-listed companies with aggregate book values of ¥88 million (\$1,063 thousand) and ¥86 million at March 31, 2012 and 2011 have not been included in "Investment securities: other securities" as it is not possible to accurately estimate the fair values of these investments based on estimated future cash flows or quoted market prices.

(v) The Company issued zero coupon convertible bonds with stock acquisition rights in the total amount of ¥30,750 million (\$371,422 thousand) in the Euro Market. Information on convertible bonds is described on Note 14 as below.

5

Inventories

Inventories at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods and merchandise	¥ 14,673	¥ 11,593	\$ 177,235
Work-in-process	4,320	4,158	52,177
Raw materials and supplies	6,787	5,467	81,982
Total	¥ 25,780	¥ 21,218	\$ 311,394

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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, 2012 and 2011.

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

March 31, 2012:	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 5,869	¥ 6,690	¥ 821	\$ 70,896	\$ 80,811	\$ 9,915

March 31, 2011:	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 293	¥ 493	¥ 200

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

March 31, 2012:	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 8	¥ 7	¥ (1)	\$ 106	\$ 92	\$ (14)

March 31, 2011:	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 5,125	¥ 5,124	¥ (1)

(b) Acquisition costs of securities with no available fair values as of March 31, 2012, were as follows:

Unlisted equity securities: ¥88 million (\$1,063 thousand).

Acquisition costs of securities with no available fair values as of March 31, 2011, were as follows:

Unlisted equity securities: ¥86 million.

**Short-term
and Long-term Debt**

There was a zero balance on short-term debt at March 31, 2011, and 2012.

Long-term debt and convertible bonds at March 31, 2012 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2013 – 2020, interest at 1.25% – 1.78%		
Unsecured	¥ 8,170	\$ 98,676
Zero coupon convertible bonds with subscription rights to shares	30,513	368,553
	38,683	467,229
Current portion of long-term debt	2,689	32,476
	¥ 35,994	\$ 434,753

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

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

	Millions of yen
Loans from banks and other public corporations, due 2012 – 2020, interest at 1.22% – 1.78%	
Secured	¥ 559
Unsecured	10,263
Zero coupon convertible bonds with subscription rights to shares	30,662
	41,484
Current portion of long-term debt	2,660
	¥ 38,824

The aggregate annual maturities of long-term debt and convertible bonds outstanding at March 31, 2012 are as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥ 2,689	\$ 32,476
2014	2,451	29,606
2015	1,470	17,748
2016	31,558	381,183
2017	165	1,988
2018 – 2020	350	4,228
Total	¥ 38,682	\$ 467,230

At March 31, 2011, assets pledged as collateral for secured long-term debt, including current portions, were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ 902	\$ 10,848

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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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected retirement benefit obligation	¥ 93	¥ 90	\$ 1,126
Liability for retirement benefits	¥ 93	¥ 90	\$ 1,126

Retirement benefit expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 8	¥ 15	\$ 102
Payment of contribution to defined contribution pension plan	421	392	5,080
Retirement benefit expenses	¥ 429	¥ 407	\$ 5,182

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.

9

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 22, 2012, the Company's shareholders approved the payment of year-end cash dividends of ¥80 (\$0.97) per share, totaling ¥1,267 million (\$15,303 thousand), paid to the Company's shareholders of record as of March 31, 2012.

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, 2012 and 2011.

Significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Unrealized gains on land	¥ 29	¥ 29	\$ 352
Directors' and corporate auditors' retirement	151	139	1,824
Unrealized gains on inventories	296	256	3,571
Accrued bonuses to employees	436	436	5,263
Reserve for sales rebates	334	324	4,040
Amount in excess of depreciation and amortization	39	36	472
Loss due to impairment of fixed assets	210	198	2,536
Loss on disposal of buildings and structures	127	147	1,539
Accrued enterprise taxes	310	259	3,738
Loss on valuation of inventories	454	332	5,488
Other	630	618	7,607
Subtotal deferred tax assets	3,016	2,774	36,430
Less valuation allowance	(832)	(821)	(10,052)
Total deferred tax assets	2,184	1,953	26,378
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	(194)	(227)	(2,345)
Net unrealized holding gains on securities	(97)	(81)	(1,175)
Other	(1)	(0)	(6)
Total deferred tax liabilities	(292)	(308)	(3,526)
Net deferred tax assets	¥ 1,892	¥ 1,645	\$ 22,852

There was no significant difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2012.

There's no 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, 2011.

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On December 2, 2011, amendments to the Japanese tax regulations were enacted. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.86% for years beginning on or after April 1, 2012 and 37.86% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.86% and 35.49%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥113 million (\$1,363 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by ¥128 million (\$1,541 thousand), and net unrealized holding gains (losses) on securities increased by ¥15 million (\$178 thousand).

Leases

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

Assumed amounts of acquisition cost and accumulated depreciation at March 31, 2012 and 2011 are as follows:

(a) Finance leases — lessee

At March 31, 2012 and 2011, lease obligations for machinery and equipment and other assets under non-capital finance leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Lease obligations, including finance charges	¥ 14	¥ 88	\$ 168

Lease obligations under non-capital finance leases, including finance charges, remaining at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Payments due within one year	¥ 1	¥ 12	\$ 9
Payments due after one year	—	1	—
Total	¥ 1	¥ 13	\$ 9

Leases payments under such leases for the years ended March 31, 2012 and 2011 were ¥7 million (\$82 thousand) and ¥125 million, respectively.

(b) Operating leases — lessee

Lease obligations under operating leases remaining at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Payments due within one year	¥ 1	¥ 21	\$ 11
Payments due after one year	0	11	1
Total	¥ 1	¥ 32	\$ 12

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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.

Information about major customers at March 31, 2012 was as follows:

Name of the Customer	Millions of yen	Thousands of U.S. dollars	Related segment
Mediseo Co., Ltd.	¥ 8,146	\$ 98,395	Pharmaceuticals

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Stock Option Plan

Stock option expenses have not changed from the previous fiscal year and ¥40 million has been accounted for as "Selling, general and administrative expenses" on the consolidated statements of income for each of the year ended March 31, 2012 and 2011.

The details related to the stock option expenses at March 31, 2012 were 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, 2012 and 2011 were as follows:

	Number of shares	
	2012	2011
Before Settlement of Rights		
Beginning of year	—	192,300
Granted	—	—
Expired	—	—
Settled	—	192,300
End of year	—	—
After Settlement of Rights		
Beginning of year	86,300	192,300
Settled	—	—
Exercised	29,400	105,800
Expired	500	200
End of year	56,400	86,300

Information per share price at March 31, 2012 and 2011 was as follows:

	Yen		U.S. dollars
	2012	2011	2012
Exercise price	¥ 4,650	¥ 4,650	\$ 56.17
Fair value at grant date	1,257	1,257	15.18

Notes: 1. Rate of variability, which is calculated based on the monthly closing prices of common stock of the Company for the period of 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 a similar period as the option vesting period of the stock options.

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Convertible Bonds with Subscription Rights to Shares

	Fiscal year 2012 convertible bonds
	Zero coupon convertible bonds due 2015
Bonds	The Company's common stock
Types of stock	No cost
Issue price of acquisition rights	¥9,537 per share (\$115.20 per share)
Initial convertible price*1, 2	¥30,750 million (\$371,422 thousand)
Total amount of issue	September 17, 2015
Due	

*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 ¥9,438.9 (\$114.01) by resolution of the general meeting of shareholders on June 22, 2012.

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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

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Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2012 consisted of the following:

(a) Grouping

The Company classifies the business of pharmaceutical supplies as a single business segment, and fixed assets not-used in operations are categorized into idle assets.

(b) Assets subject to impairment

In accordance with the grouping described in (a) above, an impairment loss of ¥133 million to idle assets was recognized in 2012. Significant properties included in this loss were the estimated loss to the land, buildings and structures located in Sendai city and damaged by the Tohoku Region Pacific Coast Earthquake on March 11, 2011.

(c) Assessment of recoverable values

For the year ended March 31, 2012, recoverable values of the production facilities were measured mainly based on the net selling prices.

Recoverable values for land and buildings are measured based on appraisal values obtained from real estate appraisers.

(d) Impairment loss on fixed assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Land	¥ 106	¥ —	\$ 1,279
Buildings and structures	27	—	328
	¥ 133	¥ —	\$ 1,607

17

Subsequent Events

Effective April 1, 2012, the Company implemented an" absorption type" company split, with the Company as the succeeding company and its subsidiary, MEDISA SHINYAKU INC. as the split company.

For this company split transaction, the Company adopted an accounting treatment for" transactions between parties under common control" in accordance with the Accounting Standards for Business Combination (Revised Corporate Accounting Standards No. 21, issued by the Corporate Accounting Standards Council on December 26, 2008) and the Guidelines for Adopting the Accounting Standards for Business Combination and the Accounting Standards for Business Separation (Revised Corporate Accounting Standards Adoption Guidelines No. 10, issued by the Corporate Accounting Standards Committee on December 26, 2008).

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Change in Accounting Policies – Accounting Standards for Accounting Changes and Error Corrections

The Company and its consolidated domestic subsidiaries adopted" Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on December 4, 2009) and" Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

INDEPENDENT AUDITORS' REPORT



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of SAWAI PHARMACEUTICAL CO.,LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SAWAI PHARMACEUTICAL CO.,LTD. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note.16 to the consolidated financial statements, effective as of April 1, 2012, the Company implemented an "absorption type" company split, with the Company as the succeeding company and its subsidiary, MEDISA SHINYAKU INC. as the split company.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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

June 22, 2012
Osaka, Japan

BOARD OF DIRECTORS (As of June 22, 2012)

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	Kenzo Sawai
Managing Director	Keiichi Kimura	External Director	Hidefumi Sugao
Managing Director	Shigeharu Yokohama, Ph.D.	Standing Statutory Auditor	Hidetsugu Matsunaga
Managing Director	Minoru Kodama	Statutory Auditor	Takekiyo Sawai
(*Representative Director)		External Auditor	Takashi Takahashi
		External Auditor	Toshiaki Kobayashi

CORPORATE DATA (As of March 31, 2012)

Sawai Pharmaceutical Co.,Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥11,900 million
Number of Shares Outstandings:	15,837,200
Number of Shareholders:	5,201
Number of Employees:	991
Stock Listing:	1st Section of Tokyo Stock Exchange
Independent Public Accountant:	KPMG Azusa & Co.
Transfer Agent:	Sumitomo Mitsui Trust Bank, Limited
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 Subsidiaries:	Medisa Shinyaku Inc. Kaken Shoyaku Co., Ltd. KM GODO KAISHA (a limited liability company incorporated in Japan)
Factories:	Kyushu, Sanda, Osaka, Kanto, Second Kyushu Factory, Yasato Factory of Kaken Shoyaku, Pharmaceutical Technology Center

Stock Price Information

	Stock Price	
	High	Low
From April 1, 2011 to March 31, 2012	¥8,800	¥6,830
First Quarter	8,650	7,120
Second Quarter	8,480	6,830
Third Quarter	8,450	7,020
Fourth Quarter	8,800	7,750

For further information, please contact

Investor Relations

Tel: +81-(0)6-6105-5823

Fax: +81-(0)6-6394-7311

E-mail: ir@sawai.co.jp

URL: <http://www.sawai.co.jp>

sawai



Sawai Pharmaceutical Co.,Ltd.

2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan

URL <http://www.sawai.co.jp/>

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