Annual Report 2009

For the year ended March 31, 2009

Innovation for 2012 and beyond

Beyond FY2012—Building Trust by Placing “Patients First”

“Patients first” is the primary corporate philosophy of Sawai, and, since 1965, that philosophy has guided us as a respected leader in the generic industry in Japan.

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

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

Corporate Philosophy
established in April 2007

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.

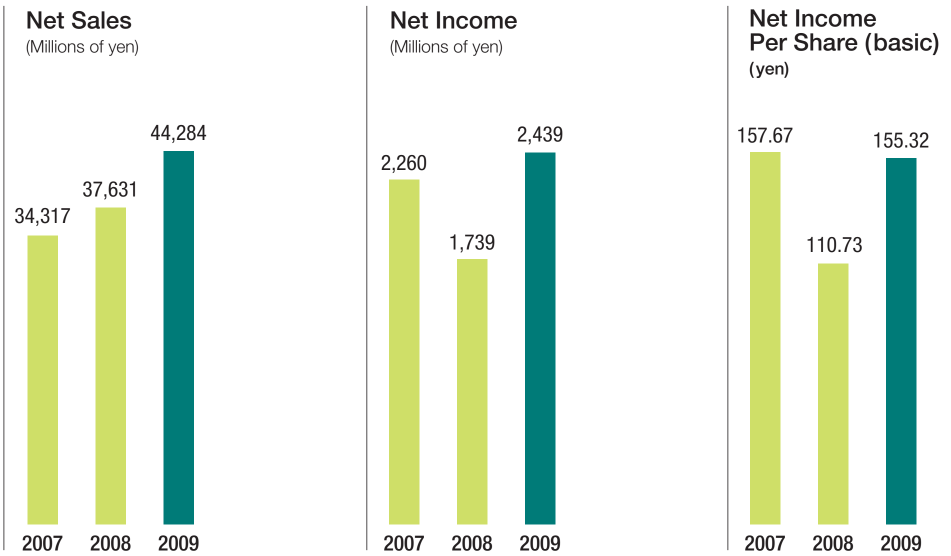
Sawai’s Hope
To become an indispensable part of society through our desire to be of service.

Contents

Financial Highlights

Years ended March 31	Millions of yen 2009	2008	2007	Thousands of U.S. dollars 2009
Net sales	**¥ 44,284**	¥ 37,631	¥ 34,317	**$ 450,682**
Operating income	**4,668**	4,048	4,693	**47,507**
Net income	**2,439**	1,739	2,260	**24,822**
Net assets	**41,706**	40,205	39,321	**424,446**
Total assets	**72,320**	66,295	67,827	**736,007**
Research and development (R&D) expenses	**3,409**	3,222	3,085	**34,694**
Capital expenditures	**5,469**	4,336	6,887	**55,658**
Depreciation and amortization	**2,709**	2,575	1,964	**27,570**
		%		
Ratio of R&D expenses to sales	**7.7**	8.6	9.0	
Return on equity	**6.2**	4.6	6.9	
Shareholders' equity to total assets	**55.4**	58.3	55.8	
Amounts per common share:		Yen		U.S. dollars
Net income—basic	**¥ 155.32**	¥ 110.73	¥ 157.67	**$ 1.58**
Net income—diluted	**—**	—	—	**—**
Cash dividends applicable to period	**55.00**	55.00	55.00	**0.56**
Net assets	**2,551.06**	2,460.17	2,408.42	**25.56**

Note: 1. The U.S. dollar amounts represent translation of Japanese yen amounts for convenience only and are at the approximate rate of ¥98.26 = $1.00; the rate prevailing on March 31, 2009.
2. Diluted net income per common share is not disclosed in 2009 and 2008 because there were no outstanding dilutive shares for the year ended March 31, 2008. For the year ended March 31, 2009, although there are outstanding potential shares, such shares dose not have a dilutive effect.
3. Minority shareholders' interests are included in net assets due to the application of the Japanese Corporate Law.
4. For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Measurement of Inventories ("ASBJ Statement No.9" issued on July 5, 2006).
5. For the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Lease Transactions ("ASBJ Statement No.13" issued on March 30, 2007), and the Guidance on Accounting Standard for Lease Transactions ("ASBJ Guidance No.16" issued on March 30, 2007).



A Caution Concerning Forward-looking Statements

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

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

To Our Shareholders

Pursuing the “Patients first” philosophy and making the leap to the “Brand of choice”

Hiroyuki Sawai, *Chairman* Mitsuo Sawai, *President*

In fiscal 2008, the year ended March 31, 2009, the Japanese generic drug industry made steady progress toward full-scale diffusion of generics and market expansion. The revised prescription form and other innovations in the medical system went into effect during the year as measures to promote the use of generic drugs for achieving the government’s fiscal 2012 target of a 30% share for generic drugs.

Forecasts of growth in the generic market in Japan have been increasing, and competition has heated up at the same time. An era of industry shakeout in which the basic qualities of the business, including brand power, are called into question is now upon us.

Under these circumstances, the Sawai Group has been endeavoring to build the top brand under our philosophy, “Patients first.” We intend to take this idea one step further by making the leap to become the “Brand of choice” for patients, medical practitioners, pharmacists and health insurance societies. In addition, we are making progress on innovations in our business structure that are expanding sales growth to boost our presence in the market and increase profitability, as expected by our shareholders.

We ask for your continued support for our endeavors in the coming years, as we carry out our efforts to raise corporate value under the philosophy of “Patients first.”

H, Sawai M. Sawai

Hiroyuki Sawai, *Chairman* Mitsuo Sawai, *President*

Sawai Pharmaceutical achieved sales and profit growth and undertook to build the top brand in the midst of an expanding generic drug market characterized by heightened competition.

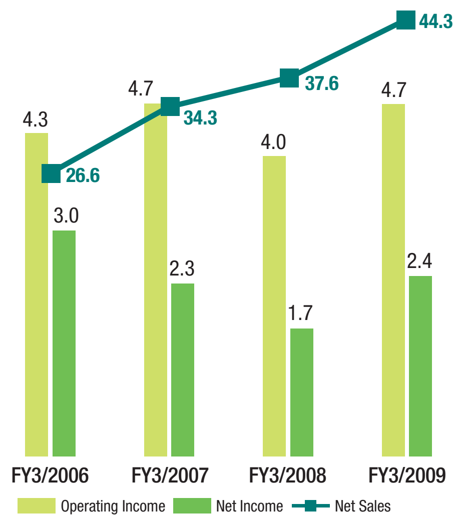
Mitsuo Sawai, *President*

Net sales and operating income both achieve double-digit gains

The Japanese generic drug ("generics") market is looking at the government's target of a 30% market share by fiscal 2012. It has shown moderate-but-steady growth since measures to promote the use of generics, such as the revised prescription form, took effect in April 2008. However, competition is growing fiercer among drug originators and generic drug manufacturers, alike. Meanwhile, patients have been cutting back their visits to medical practitioners in the face of the current recession. In response, the Sawai Group focused on quality assurance, dissemination of information and stable supply in pursuit of strengthened sales operations, a reinforced production system and increased reliability in accordance with the Medium-term Business Plan for 07–09 (April 2006 to March 2009). All the while, we undertook to build Sawai into the top brand.

The result was net sales of ¥44,284 million, a 17.7% year-on-year increase. The large increase in sales was able to overcome the effect of new accounting standards for valuation of inventory and led to operating income of ¥4,668 million, an increase of 15.3% year on year, and net income of ¥2,439 million a leap of 40.3%.

Financial Results of FY3/2009
(Billions of yen)



	FY3/2008		FY3/2009		Year on Year	
	Millions of yen	% of Sales	Millions of yen	% of Sales	Millions of yen	Change
Net Sales	37,631	—	**44,284**	**—**	6,653	17.7%
Cost of Sales	20,130	53.5%	**25,156**	**56.8%**	5,026	25.0%
Gross Profit	17,501	46.5%	**19,128**	**43.2%**	1,627	9.3%
SG&A Expenses	13,453	35.7%	**14,460**	**32.7%**	1,008	7.5%
Operating Income	4,048	10.8%	**4,668**	**10.5%**	619	15.3%
Net Income	1,739	4.6%	**2,439**	**5.5%**	700	40.3%

We aim to enhance our presence as a generic drug manufacturer and build trust to its highest level through internal branding and business conducted on the "M1 TRUST" concept in the new Medium-term Business Plan.

Improved recognition and reliability through aggressive forward-looking investments

Up to now, Sawai's aim has been to establish itself as the top brand among generic drug manufacturers in accordance with the Medium-term Business Plan for 07–09 (April 2006 to March 2009). In pursuit of this goal, we have made progress on various initiatives, such as reinforcing the production system, strengthening R&D for the development of high-quality pharmaceutical products and drawing up a new strategy for hospitals. This strategy targets hospitals that subscribe to the expanding DPC (Diagnosis Procedure Combination) insurance rate system, which is being increasingly adopted over the fee-for-service system. Among other things, DPC favors the use of generics.

These moves have led most notably to expanded dealings with DPC hospitals and the development of strong relationships. We were also able to place products on new drug markets at a world-leading pace. To meet the need for stable supply, we established a production system capable of producing 4.8 billion tablets per year and improved our ability to deliver products quickly through closer cooperation with the four large wholesale distributors.

Our financial results, however, were significantly below our profit targets, owing not only to moderation in the growth rate of the generics market compared with the initial forecasts, but also to increased costs in conjunction with medical regulations and thorough enforcement of action programs. Changes in accounting standards also had a negative effect. Nevertheless, by investing aggressively in advance, we were able to improve our brand recognition and reliability, and we believe we have constructed a solid brand foundation. We will now take the next step to becoming the "Brand of choice" for patients, medical practitioners and health insurance societies. At the same time, we recognize our new challenges for finding ways to further increase sales and improve profitability.

A leap up with the "M1 TRUST" concept from the new Medium-term Business Plan

While tackling these challenges, we have laid out the route for our upward climb—the "M1 TRUST" concept from the new Medium-term Business Plan for 09–11. The Medium-term

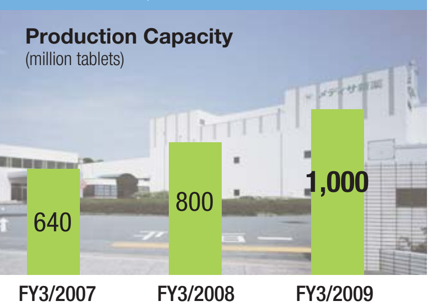
Enhancement of Production Capacity in Previous Business Plan

Kyushu Factory of Medisa Shinyaku

6th stage construction completed in May 2008.

Total floor area

6,405m² → 15,449m²

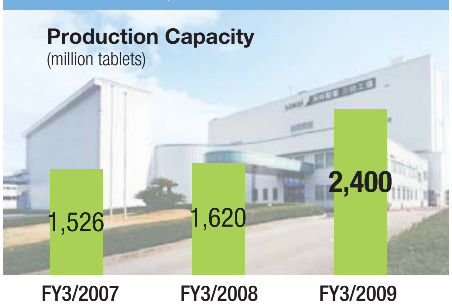


Sanda Factory

3rd stage construction completed in March 2009.

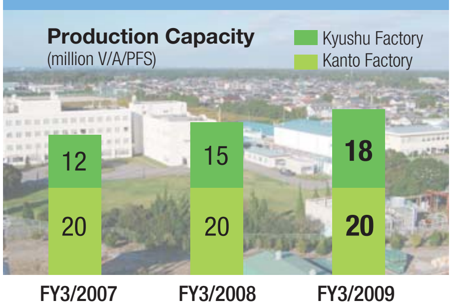
Total floor area

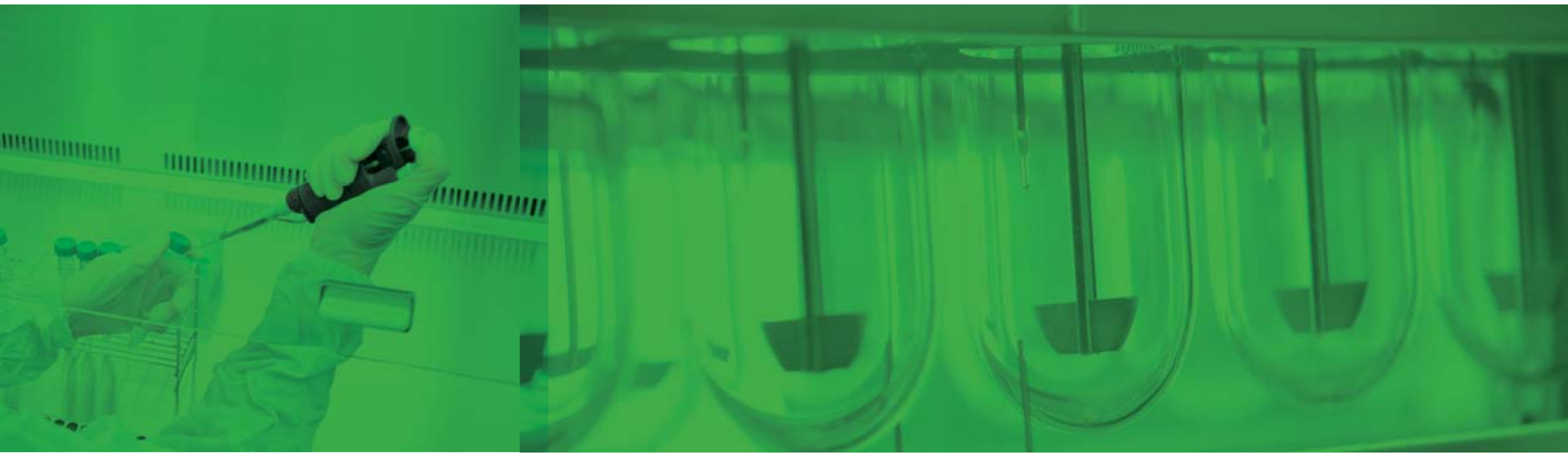
8,922m² → 21,932m²



Kanto Factory

New injection syringe production line completed in March 2007.





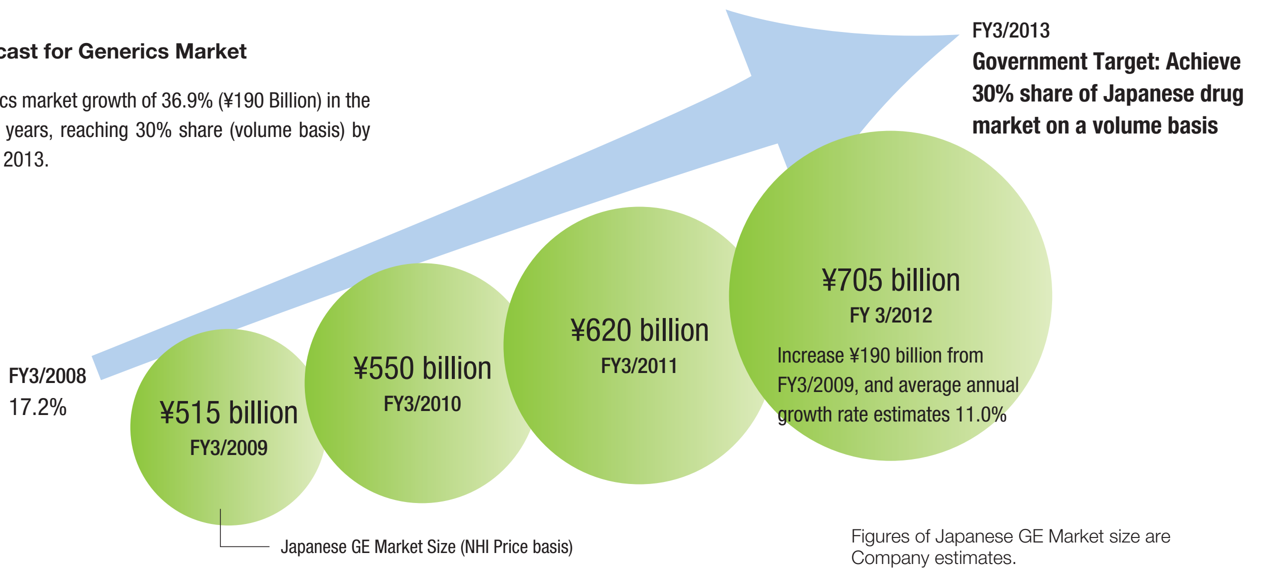
Business Plan envisions a generics market that will expand by ¥190.0 billion over the fiscal 2009–2011 period (April 2009 to March 2012) premised on the government target of a 30% market share for generics by volume one year later in 2013. We expect market share to grow faster year by year until it crosses the 25% barrier, by which time, the value of generics will be firmly implanted in the minds of patients and medical practitioners alike. At that point, we expect to see a steep rise in growth. But we also foresee risks. The NHI (National Health Insurance) may reduce its drug reimbursement prices, effectively reducing the selling price of drugs, or the cost of API (active pharmaceutical ingredients) could rise. Competition may get even fiercer as originator drug manufacturers strengthen their defenses and branded and foreign generic drug firms plunge into the market. In the end, we see greater disparities emerging among generic drug makers.

The new Medium-term Business Plan sets out the goal of developing a robust business structure that can prevail in this environment. We feel strongly about realizing this concept and have named it “M1 TRUST.” “M1” (minna de ichiban in Japanese) means “No. 1 All Together” and has been applied to our internal branding communications to innovate the business structure. It also encompasses the vision of developing human resources as the single most important key to corporate growth. “TRUST” means much more than just “building up customer trust in our company.” It is actually an acronym of the concepts Top brand, Reliability, Unity (comprehensive power together with our business partners), Stable supply, and Top share. Under the banner of “M1 TRUST”, we aim to move up to be the generics drug company with overwhelming presence and the highest level of trust in Japan. We look forward to establishing a strong foothold for producing these results: operating income of ¥11.5 billion and net income of ¥6.0 billion in fiscal 2011, net sales of ¥74.0 billion in fiscal 2011, growing to ¥100 billion within the next five years.

Mitsuo Sawai, *President*

Forecast for Generics Market

Generics market growth of 36.9% (¥190 Billion) in the next 3 years, reaching 30% share (volume basis) by March 2013.



Figures of Japanese GE Market size are Company estimates.

Medium-term Business Plan 09–11 “M1 TRUST”

● Concept of Medium-term Business Plan “M1 TRUST”

“*Minna de 1-ban*”and Building Trust

T	Top Brand	Robust Sawai brand
R	Reliability	Improved reliability
U	Unity	United power together with our counterparties
S	Stable Supply	Stable supply
T	Top Share	Overwhelming share in Japanese market

● Basic Policy

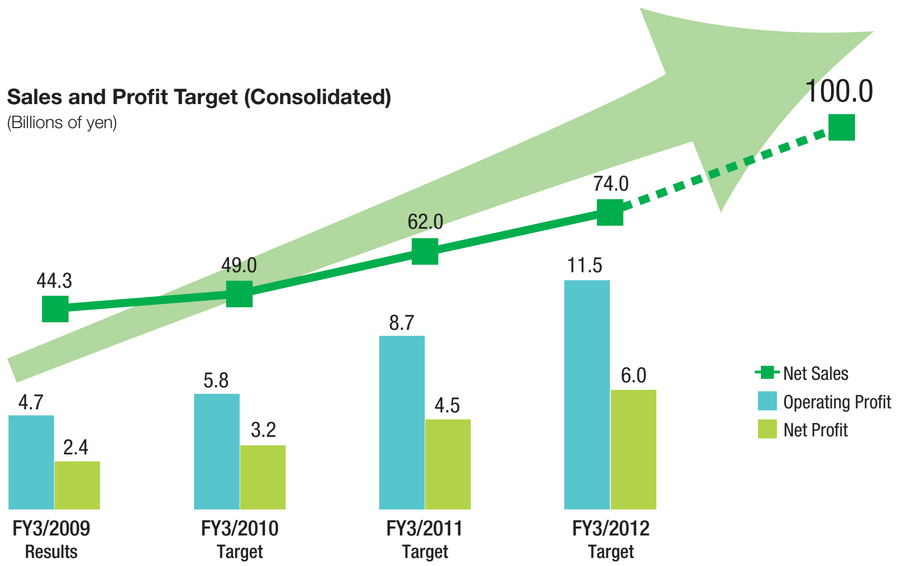
- Sales growth far exceeding market growth rate
- Strengthen management structure through cost control and effective strategic investment
- Establish robust Sawai brand

● Target of “M1 TRUST”

By 2011, the final year of the medium-term plan, we expect to achieve net sales of ¥74.0 billion, operating profit of ¥11.5 billion, and net profit of ¥6.0 billion. These results will secure us a sure foothold on the way to becoming a ¥100-billion company.

Achieving Net Sales of ¥100 Billion within 5 years
To become the most trusted GE company with a strong presence throughout pharmaceutical business and through internal branding (M1) activities.

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



Basic Policy 1

Net Sales Growth Far Exceeding Market Growth Rate

Achieve net sales of ¥74.0 billion in fiscal 2011

Avg. annual growth of 18.7% for Sawai vs. estimated 11.0% for generics market

Key strategies

(1) Offer a rich, new product lineup

(2) Capture the DPC hospital market

(3) Expand sales of mainstay and high-growth products

Sawai is setting out to raise its market presence and expand sales faster than the market grows. We aim to release products encompassing 53 active ingredients and 101 dosage forms in addition to capturing the DPC hospital market and expanding sales in mainstay and high growth products.

Basic Policy 2

Strengthened Management Structure Through Cost Control and Effective Strategic Investment

End-to-end cost control and strategic investment aimed at concrete results

Key strategies

(1) Increase production efficiency (Establish production capacity of 6.0 billion tablets)

(2) Strengthen cooperation between sales and manufacturing (Manage inventories to proper levels and reduce disposal losses)

(3) Provide selection and focus on R&D

(4) Cut costs across the board

By enforcing cost control throughout the entire group and assuring that strategic investments achieve their goals, we will boost profits and strengthen the management structure.

Basic Policy 3

Establish Robust Sawai Brand

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

Key strategies

(1) Evolve the "Brand of choice"
- Release high-quality, high value-added products
- Raise adoption rates by DPC hospitals
- Form solid relationships with health insurance societies

(2) Make stronger partnerships with wholesalers
- Reassure stable supply with high production capacity (6.0 billion tablets)

(3) Continue and develop "M1" internal branding
- Improve corporate integrity and strengthen employees' concentration

Sawai aims to become the "Brand of choice" in generics by developing high value-added, high-quality pharmaceutical products and by enhancing our relationships with DPC hospitals, health insurance societies, and wholesalers.

We will proceed with the "M1" internal branding project, while improving corporate integrity and strengthening employee focus—all to enhance our group power.

Internal Branding “M1 Project”

Creating Sawai’s quality with teamwork as we aim for “No. 1 All Together”

Sawai’s guiding principle is that “the Sawai brand is constructed by every individual employee.” Accordingly, we started the “M1 Project”, internal branding program in October 2006, directing our efforts at enhancing the corporate structure. The “M1 Project” is designed to elicit everyone’s active participation under the watchword “No. 1 All Together.” Sawai completed Phase 3 this past fiscal year, after already carrying out Phase 1 and Phase 2 from October 2006 to March 2008.

Phases 1 and 2 drew up a corporate philosophy and long-term vision and developed activities to raise the awareness of all employees. We also advanced a variety of initiatives to realize the corporate philosophy by involving all employees in the “M1 Club” small group activities. In Phase 3, in order to develop into a truly major corporation, Sawai focused on fostering strategic thinking and a corporate management style together with financial skills, then connecting these abilities to efforts that apply unified management to achieve business results. We will continue to evolve the “M1 Project” as we strengthen the corporate structure and move forward on building the Sawai brand.

Phase 1: (Oct. 2006 to Mar. 2007)

Oct. 2006: Employee awareness survey

Dec. 2006: Four task forces launched, including corporate philosophy task force

Jan. 2007: Corporate philosophy devised and publicly announced

Mar. 2007: Long-term vision prepared (for term ending Mar. 2012) and “President’s caravan” held

Phase 2: (Apr. 2007 to Mar. 2008)

Apr. 2007: Continue/create task forces (three continued, two newly created)

Oct. 2007: “M1 Club” activities (small group activities to inculcate the corporate philosophy and code of conduct)
—improved communications from the start, promoted understanding of code of conduct.

Feb. 2008: Financial performance targets for the long-term vision reviewed

Rolled over the goals of the Phase 1 long-term vision one year and revised financial goals for March 2013, when the 30% generics market share announced by the Ministry of Health, Labour and Welfare is achieved.

Phase 3: (Apr. 2008 to Mar. 2009)

Continued “M1 Club” small group activities to raise employee awareness and put into action three management improvement study groups led by directors, under the slogan of “Producing Results with M1.”

Study group to upgrade business performance control

Revised the control style, especially cost accounting from the viewpoint of efficiency. Made improvements in data preparation for business decision support.

Study group to improve the R&D process

Gave transparency to investment in new product development, while focusing on an overall check and improvement of the R&D process.

Study group for the medium-term business plan

Set a clear path—with specific numbers and actions—on work to be done to achieve the long-term vision, and defined processes and targets for structural innovation. The product of this work was released as “M1 TRUST”, the new medium-term business plan.

Corporate Governance and Compliance

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

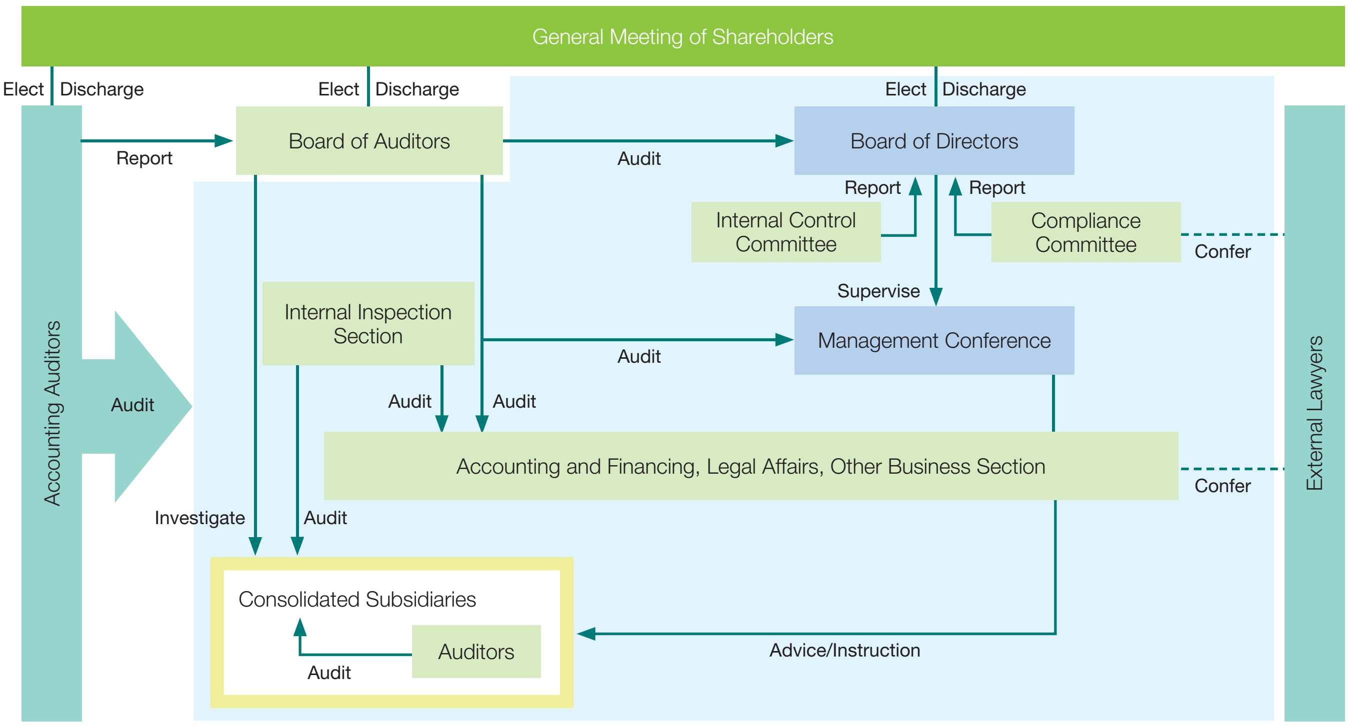
Status of Corporate Governance

Sawai's management structure ensures decision-making and execution that responds appropriately and promptly to external changes. We have created this structure to fulfill a fundamental management policy of raising corporate value through profitable growth and to maximize the long-term return to our shareholders.

The Company has eleven directors and five corporate auditors (including three external corporate auditors). In view of corporate scale and management style, for some time, the Company adopted the corporate auditor system. The Company employs a dynamic approach to management that balances decisions and oversight through the Board of Directors, the Management Conference, and the Conference of Head Office General Managers. Sawai takes seriously its role as a pharmaceutical company that affects people's lives, and fosters ethical norms and information-sharing to that end. The Board of Directors meets regularly every month and holds additional meetings as needed, meeting 14 times in the year under review. With comparatively few Directors (the Company's articles of incorporation provide for up to 15 directors), the system allows for a close exchange of views and reciprocal checks on a regular basis. The Internal Inspection Section aims to inculcate Sawai's principles and policies throughout the Company through audits of its business sites.

To ensure proper and efficient business practices for the entire corporate group, Sawai sees to it that its management philosophy and policies are practiced at the group companies and provides direction and advice from a daily operations approach. The Group's consolidated subsidiaries undergo accounting audits by the Company's independent auditors, as required for consolidated auditing, as well as internal audits performed by the Company's Internal Inspection Section.

Corporate Governance Structure



Basic Policy for Internal Controls

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

The Company has set forth standards of conduct that include these specific objectives: 1) inculcation of the corporate philosophy to all employees throughout the group, 2) a Committee for Spreading the Management Philosophy that, together with the General Affairs Department as secretariat, conducts programs like training for the entire group to make sure that the management philosophy and code of conduct are firmly established, 3) all directors and employees comply with the corporate philosophy, the code of conduct, and the law. Under these three policies, we conduct activities of every individual employee actively aware of the Sawai brand.

We will uphold the corporate governance system that has already been formed and announced to the public, and will work without pause to perfect it. To monitor and verify compliance, we are enhancing the Internal Inspection Section for internal control audits. To forestall improper conduct by the Board of Directors, we are setting up a reporting mechanism from individuals to the direct audit office (currently a corporate auditor), as stated in regulations pertaining to the corporate ethics help line.

The Company takes a two-pronged approach to its business execution. First, in compliance, it convenes periodic and ad hoc meetings of the Compliance Committee, which is conducted by the Compliance Section and composed of the directors, the standing statutory auditors, and members of the Corporate Administration Division departments. The Committee deliberates compliance-related matters and educates and promotes awareness among both directors and employees about compliance. Second, in the area of risk management, the Reliability Assurance Division holds responsibility for rigorously supervising product quality and safety based on GQP and GVP standards (Good Quality Practice and Good Vigilance Practice). In conformance with the Risk Management Rules, the Director for the Corporate Administration Division executes overall responsibility for monitoring the state of risk in all business operations and for accident and disaster prevention measures, while the General Affairs Department carries out direct supervision.

In the area of information control, we expect to keep critical company matters and confidential information acquired during the course of work under absolute control, covering both internal company and personal information. Externally, the Company endeavors to make proper and timely disclosure of important communications, with emphasis on investor relations information for analysts and investors.

Communication with Shareholders and Investors

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

Introduction of Takeover Defense Measures

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

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

The Plan was approved at the 60th Ordinary General Meeting of Shareholders held on June 24, 2008.

Five-Year Summary

Years ended March 31	2009	2008	2007	2006	2005
	Millions of yen				
Net sales	**¥ 44,284**	¥ 37,631	¥ 34,317	¥ 26,616	¥ 23,277
Cost of sales	**25,156**	20,130	17,357	13,265	12,317
Gross profit	**19,128**	17,501	16,960	13,351	10,960
Selling, general and administrative expenses	**14,461**	13,453	12,267	9,052	9,016
Operating income	**4,668**	4,048	4,693	4,299	1,944
Income before income taxes and minority interests	**4,320**	3,129	4,166	5,043	(379)
Net income	**2,439**	1,739	2,260	3,010	(349)
Total assets	**¥ 72,320**	66,295	67,827	51,997	42,009
Inventories	**13,588**	13,500	13,768	9,609	7,019
Total current liabilities	**20,911**	17,152	18,525	18,352	13,461
Total long-term liabilities	**9,703**	8,938	9,981	4,811	3,579
Shareholders' equity	**—**	—	—	27,543	24,969
Net assets	**41,706**	40,205	39,321	—	—
Net cash provided by (used in) operating activities	**¥ 3,169**	9,549	(4,370)	1,884	2,120
Net cash provided by (used in) investing activities	**(3,037)**	(6,562)	(10,551)	(2,313)	(1,803)
Net cash provided by (used in) financing activities	**1,027**	(4,958)	15,449	2,022	451
Cash and cash equivalents at end of year	**6,548**	5,389	7,360	6,832	5,239
Research and development (R&D) expenses	**3,409**	3,222	3,085	2,241	2,524
Capital expenditures	**5,469**	4,336	6,887	5,359	2,764
Depreciation and amortization	**2,709**	2,575	1,964	1,640	1,329
	%				
Ratio of R&D expenses to sales	**7.7**	8.6	9.0	8.4	10.8
Return on equity	**6.2**	4.6	6.9	11.5	(1.4)
Shareholders' equity to total assets	**55.4**	58.3	55.8	53.0	59.4
	Yen				
Amounts per common share:					
Net income—basic	**¥ 155.32**	¥ 110.73	¥ 157.67	¥ 217.08	¥ (27.80)
Net income—diluted	**—**	—	—	—	—
Cash dividends applicable to period	**55.00**	55.00	55.00	50.00	40.00
Net assets	**2,551.06**	2,460.17	2,408.42	2,014.11	1,826.76

Note: 1. Diluted net income per common share is not disclosed in 2009, 2008, 2007 and 2006 because there were no outstanding convertible securities.
2. Net assets as of 2009 and 2008 included minority shareholders' interest due to the application of the Japanese Corporate Law.

Management Discussion and Analysis

Business Environment

In fiscal 2008, the year ended March 31, 2009, the Japanese economy felt the grip of the recession tighten. The turmoil in the financial and capital markets stemming from the subprime loan problem caused stock prices to plunge, and adding to these troubles, yen appreciation together with the sudden slowdown in the U.S. economy pulled down exports. These forces combined to bring about rapid deterioration in corporate earnings. Meanwhile, on the consumer side, unemployment concerns put consumers in a defensive mood, dampening personal consumption.

In the ethical drugs industry, the generics market is expanding, particularly in NHI pharmacies. In April 2008, reformation of the health care system to promote the use of generic drugs went into effect, including the modified prescription form and the additional medical service fees for dispensing of generic drugs resulting from medical fee revisions.

Also, consideration of adopting low-cost generic drugs for in-patient treatment is expected to increase hand-in-hand with the growth in hospitals introducing the DPC system (comprehensive payments for acute hospitalization). On the downside, patients are increasingly cutting back on visits to medical practitioners, and competition has continued to heat up between originator and rival generic drug manufacturers.

In these circumstances and in accordance with the Medium-term Business plan for 07–09, the Sawai Group has undertaken to establish the Sawai brand as the top brand and Sawai as the “Brand of choice.” We have reinforced sales with DPC hospitals and NHI pharmacies and augmented the production system to meet the anticipated sharp increase in demand. At the same time, we have focused on quality control, information provision, and stable supply to further increase reliability.

Income and Expenses

The Company achieved FY 2008 net sales of ¥44,284 million under these conditions, 17.7% growth from the previous year, driven by initiatives to boost NHI pharmacy and DPC hospital sales.

Sales growth by channel showed healthy expansion of generic drugs to NHI pharmacies and hospitals, generating 32% growth through wholesalers and 9% growth through regional sales agencies, which showed a particularly strong increase for wholesaler channels.

Cost of sales rose 25% year on year to ¥25,156 million. Although gross profit showed a 9.3% increase to ¥19,128 million, the gross margin to sales ratio slipped 3.3 points to 43.2%. This slippage in the ratio can be attributed to recording inventory valuation losses and losses on disposal of inventory in cost of goods sold in conjunction with the application of the ASBJ Accounting Standard for Measurement of Inventories, starting in fiscal 2008. The change in accounting standards generated additional recorded losses of ¥1,547 million versus fiscal 2007.

Selling, general and administrative expenses increased 7.5% year on year to ¥14,461 million as a result of an additional ¥355 million in personnel expenses, ¥168 million in advertising expenses, and ¥186 million in R&D expenses. R&D expenses were up 5.8% year on year to ¥3,408 million while the ratio of R&D expenses to sales fell to 7.7%, a 0.9 point drop.

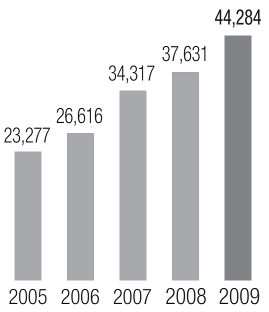
Overall operating income increased 15.3% over the previous year to ¥4,668 million, but the operating margin to sales ratio fell 0.3 points year on year to 10.5%

After the recording of a ¥77 million loss on disposal of buildings and structures for the year under review, net income came to a 40.3% year-on-year increase to ¥2,439 million. Net income per share (basic) was ¥155.32, a ¥44.59 gain over the previous year.

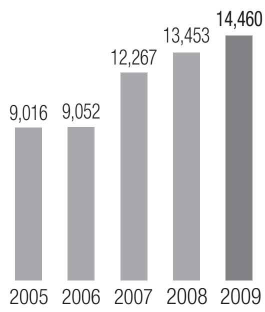
Financial Position

Total assets at the end of the consolidated accounting period stood at ¥72,320 million, a 9.1% increase of ¥6,025 million. Current assets grew by ¥3,613 million to ¥38,954 million on increases of ¥1,159 million in cash and cash equivalents and ¥1,978 million in trade notes and accounts receivable. Inventories also increased by ¥89 million over the end of the previous year to ¥13,589 million.

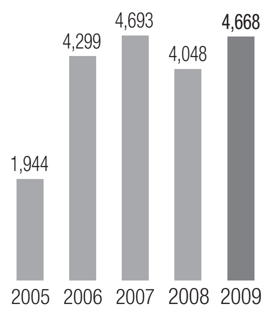
Net Sales
(Millions of yen)



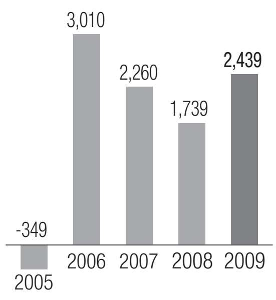
Selling, General and Administrative Expenses
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Production-related investment, including the sixth-stage expansion of Medisa Shinyaku's Kyushu Factory and the third-stage expansion of the Sanda Factory, pushed up property, plant and equipment by ¥2,967 to ¥31,822 million. Accumulated depreciation also rose, adding on ¥2,016 million for a total of ¥22,314 million.

Capital expenditures were ¥1,132 million higher than at the end of the previous term, reaching a total of ¥5,468 million.

The total of intangible assets and investments and other assets dropped ¥555 million to ¥1,544 million as a result of goodwill amortization and a loss on devaluation of investments in securities, net.

Total liabilities increased versus the end of the previous term to ¥30,614 million, representing a 17.3% increase of ¥4,524 million. The increase was primarily associated with current liabilities including bank loans and other accounts payable. Interest bearing debt increased from the end of the previous period by 16.5%, or ¥1,917 million, to ¥13,551 million.

Net assets were 3.7% higher from the end of the previous year, a ¥1,500 million increase to ¥41,706 million, while the equity ratio decreased 2.9 points to 55.4%

Cash Flows

Cash flows from operating activities

Cash flows from operating activities declined by ¥6,380 million from the previous year to a net inflow of ¥3,169 million. Primary components were ¥4,320 million in income before income taxes and minority interests, ¥2,709 million in depreciation and amortization, ¥449 million from the decrease in trade notes and accounts payable, ¥1,978 million for the increase in trade notes and accounts receivable, and a ¥1,456 million outflow for income taxes paid.

Cash flows from investing activities

Cash flows used in investment activities fell to a net outflow of ¥3,037 million, consisting mainly of payments for purchase of property, plant and equipment, which represents a year-on-year fall of ¥3,526 million.

Cash flows from financing activities

Cash flows from financing activities amounted to a net inflow ¥1,027 million. The primary item was proceeds from long-term debt.

As a result, cash and cash equivalents at end of year increased by ¥1,159 million from the previous fiscal year to ¥6,548 million.

Dividend Policy

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

For the year under review, Sawai stressed shareholder returns and paid an annual dividend of ¥55 per share, consisting of an interim dividend of ¥30 per share and a year-end dividend of ¥25. The consolidated dividend ratio was 35.4%.

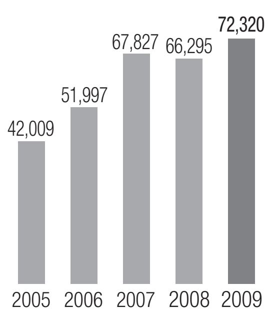
Outlook for Fiscal 2009

We expect that the Japanese economy will continue to face a challenging environment, characterized by a drastic drop in exports and depressed domestic demand for both personal consumption and business investment. We further believe that this period will be a favorable one for promoting the use of generic drugs, and expect to see market expansion.

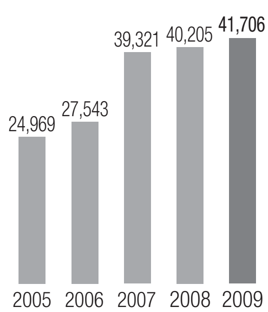
The Sawai Group will augment its business performance by making further inroads in developing new markets through vigorous sales activities while championing the excellence of our products on the basis of quality, information provision, and stable supply. In fiscal 2009, we will execute numerous measures designed to fulfill the M1 TRUST Medium-term Business Plan as we embark on the first year of the plan.

We forecast net sales of ¥49,000 million, operating income of ¥5,800 million, and net income of ¥3,150 million in FY2009 by engaging in business operations according to the policies outlined above.

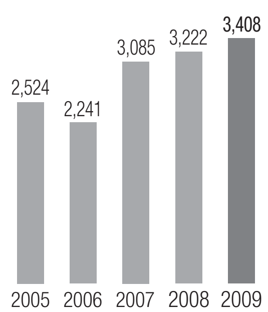
Total Assets
(Millions of yen)



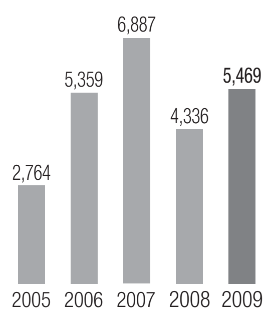
Net Assets
(Millions of yen)



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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Current Assets:			
Cash and cash equivalents	**¥ 6,548**	¥ 5,389	**$ 66,640**
Trade notes and accounts receivable	**17,290**	15,312	**175,962**
Allowance for doubtful receivables	**(26)**	(22)	**(265)**
	23,812	20,679	**242,337**
Inventories (Note 3)	**13,588**	13,500	**138,286**
Deferred income taxes (Note 8)	**1,322**	710	**13,454**
Other current assets	**232**	452	**2,361**
Total current assets	**38,954**	35,341	**396,438**
Property, Plant and Equipment (Note 5) **:**			
Land	**5,140**	4,862	**52,310**
Buildings and structures	**28,212**	24,805	**287,116**
Machinery and equipment	**16,894**	14,429	**171,932**
Lease assets (Note 2)	**34**	—	**346**
Construction in progress	**31**	1,564	**315**
Other	**3,825**	3,493	**38,927**
	54,136	49,153	**550,946**
Accumulated depreciation	**(22,314)**	(20,298)	**(227,091)**
Net property, plant and equipment	**31,822**	28,855	**323,855**
Intangible Assets	**598**	763	**6,086**
Investments and Other Assets:			
Investment securities (Note 4)	**544**	821	**5,536**
Long-term receivable	**99**	216	**1,008**
Deferred income taxes (Note 8)	**32**	—	**326**
Long-term deposits	**71**	90	**723**
Other investments and long-term receivables	**229**	262	**2,330**
	975	1,389	**9,923**
Allowance for doubtful receivables	**(29)**	(53)	**(295)**
Net investments and other assets	**946**	1,336	**9,628**
	¥ 72,320	¥ 66,295	**$ 736,007**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2009**	2008	**2009**
Current Liabilities:			
Bank debt (Note 5)	**¥ 2,530**	¥ 2,000	**$ 25,748**
Current portion of long-term debt (Note 5)	**2,550**	2,144	**25,952**
Current portion of lease obligation (Note 2)	**11**	—	**112**
Trade notes and accounts payable	**6,528**	6,904	**66,436**
Other accounts payable	**6,076**	3,799	**61,836**
Accrued bonuses to employees	**872**	814	**8,874**
Accrued bonuses to directors and corporate auditors	**48**	45	**488**
Income taxes payable	**1,587**	821	**16,151**
Reserve for sales returns (Note 2)	**128**	154	**1,303**
Reserve for sales rebates (Note 2)	**345**	263	**3,511**
Other current liabilities	**236**	208	**2,402**
Total current liabilities	**20,911**	17,152	**212,813**
Long-Term Liabilities:			
Long-term debt (Note 5)	**8,471**	7,490	**86,210**
Long-term lease obligation (Note 2)	**20**	—	**203**
Employees' retirement benefits (Note 6)	**116**	169	**1,180**
Directors' and corporate auditors' retirement benefits	**207**	387	**2,107**
Deferred tax liabilities (Note 8)	**139**	207	**1,415**
Negative goodwill	**39**	42	**397**
Other long-term liabilities	**711**	643	**7,236**
Total long-term liabilities	**9,703**	8,938	**98,748**
Net Assets:			
Shareholders' Equity (Note 7) **:**			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding			
15,702,000 shares in 2009 and 2008	**11,502**	11,502	**117,057**
Capital surplus	**11,825**	11,825	**120,344**
Retained earnings	**16,644**	15,069	**169,387**
Treasury stock 549 shares in 2009			
282 shares in 2008	**(2)**	(1)	**(20)**
Valuation and translation adjustments			
Net unrealized holding gains on securities	**87**	234	**885**
Subscription rights to shares	**82**	—	**835**
Minority Interests	**1,568**	1,576	**15,958**
Net assets	**41,706**	40,205	**424,446**
	¥72,320	¥66,295	**$736,007**

Consolidated Statements of Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net Sales	**¥44,284**	¥37,631	**$450,682**
Cost of Sales	**25,156**	20,130	**256,015**
Gross Profit	**19,128**	17,501	**194,667**
Selling, General and Administrative Expenses	**14,460**	13,453	**147,160**
Operating Income	**4,668**	4,048	**47,507**
Other Income (Expenses):			
Interest and dividend income	**17**	17	**173**
Interest expense	**(164)**	(192)	**(1,669)**
Subsidy income	**24**	10	**244**
Compensation income	**25**	12	**254**
Expenses for loan commitment agreements	**(98)**	—	**(997)**
Loss on disposal of inventories	**—**	(508)	**—**
Gain on sale of fixed assets	**1**	—	**10**
Loss on disposal of buildings and structures	**(77)**	(25)	**(784)**
Loss on sale of fixed assets, net	**(4)**	(3)	**(41)**
Reserve for sales rebates for the previous period	**—**	(207)	**—**
Loss on devaluation of investments in securities	**(78)**	(50)	**(794)**
Reversal of allowance for doubtful receivables	**9**	21	**92**
Amortization of negative goodwill	**12**	12	**122**
Provision of allowance for doubtful accounts of golf club membership	**(2)**	—	**(20)**
Other, net	**(13)**	(6)	**(132)**
	(348)	(919)	**(3,542)**
Income Before Income Taxes And Minority Interests	**4,320**	3,129	**43,965**
Provision for Income Taxes:			
Current	**2,211**	1,380	**22,501**
Deferred	**(611)**	(164)	**(6,218)**
Minority Interests	**281**	174	**2,860**
Net Income	**¥ 2,439**	¥ 1,739	**$ 24,822**

Per Share of Common Stock:	Yen		U.S. dollars (Note 1)
Net income – basic	**¥155.32**	¥110.73	**$ 1.58**
Net income – diluted	**—**	—	**—**
Dividends	**55.00**	55.00	**0.56**

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

Consolidated Statements of Changes in Net Assets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen									
	Shareholders' equity					Valuation and translation adjustments		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 valuation and translation adjustments			
Balance at March 31, 2007	¥11,502	¥11,825	¥14,194	¥(1)	¥37,520	¥ 297	¥ 297	—	¥1,504	¥39,321
Changes of items during the year										
Cash dividends			(864)		(864)					(864)
Net income for the year			1,739		1,739					1,739
Acquisition of treasury stock				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(63)	(63)		72	9
Total increase/decrease during the year	—	—	875	(0)	875	(63)	(63)		72	884
Balance at March 31, 2008	¥11,502	¥11,825	¥15,069	¥(1)	¥38,395	¥ 234	¥ 234	—	¥1,576	¥40,205
Cash dividends										
Cash dividends			(864)		(864)					(864)
Net income			2,439		2,439					2,439
Net increase in treasury stock				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(147)	(147)	82	(8)	(73)
Total changes of items during the period	—	—	1,575	(1)	1,574	(147)	(147)	82	(8)	1,501
Balance at March 31, 2009 (Note 7)	**¥11,502**	**¥11,825**	**¥16,644**	**¥(2)**	**¥39,969**	**¥ 87**	**¥ 87**	**¥82**	**¥1,568**	**¥41,706**

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Valuation and translation adjustments		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 valuation and translation adjustments			
Balance at March 31, 2008	$117,057	$120,344	$153,358	$(10)	$390,749	$ 2,382	$ 2,382	—	$16,039	$409,170
Changes of items during the year										
Cash dividends			(8,793)		(8,793)					(8,793)
Net income for the year			24,822		24,822					24,822
Acquisition of treasury stock				(10)	(10)					(10)
Net changes of items other than shareholders' equity						(1,497)	(1,497)	835	(81)	(743)
Total increase/decrease during the year	—	—	16,029	(10)	16,019	(1,497)	(1,497)	835	(81)	15,276
Balance at March 31, 2009 (Note 7)	**$117,057**	**$120,344**	**$169,387**	**$(20)**	**$406,768**	**$ 885**	**$ 885**	**$835**	**$15,958**	**$424,446**

Note: These are items concerning the appropriation of earnings are resolved at the general shareholders meeting held on June 2009 and 2008.

Consolidated Statements of Cash Flows

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 4,320**	¥ 3,129	**$ 43,965**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**2,709**	2,575	**27,570**
Amortization of negative goodwill	**(12)**	(12)	**(122)**
Reserve for sales rebates for the previous period	**—**	207	**—**
Increase in reserve for sales rebates	**81**	57	**824**
Decrease in allowance for doubtful receivables	**(21)**	(24)	**(214)**
Increase in accrued bonuses to employees	**58**	106	**590**
Increase (decrease) in accrued bonuses to directors and corporate auditors	**3**	(3)	**31**
Increase (decrease) in reserve for loss on sales returns	**(26)**	77	**(265)**
Decrease in employees' retirement benefits	**(53)**	(17)	**(539)**
Increase (decrease) in retirement benefits to directors and corporate auditors	**(181)**	6	**(1,842)**
Interest and dividend income	**(17)**	(17)	**(173)**
Interest expense	**164**	192	**1,669**
Loss on devaluation of investments in securities	**78**	50	**794**
Loss on disposal of buildings and structures	**77**	25	**784**
Decrease (increase) in trade notes and accounts receivable	**(1,978)**	1,271	**(20,130)**
Decrease (increase) in inventories	**(88)**	267	**(896)**
Increase (decrease) in trade notes and accounts payable	**(449)**	2,420	**(4,570)**
Increase (decrease) in long-term deposits	**20**	(35)	**204**
Increase (decrease) in other accounts payable	**(362)**	838	**(3,684)**
Other	**454**	226	**4,620**
Sub total	**4,777**	11,338	**48,616**
Interest and dividends received	**17**	17	**173**
Interest paid	**(169)**	(189)	**(1,720)**
Income taxes paid	**(1,456)**	(1,617)	**(14,818)**
Net cash provided by operating activities	**3,169**	9,549	**32,251**
Cash Flows from Investing Activities:			
Payments for purchase of securities	**(5)**	(2)	**(51)**
Proceeds from sale of securities	**4**	7	**41**
Payments for purchase of property, plant and equipment	**(2,721)**	(6,286)	**(27,692)**
Payments for purchase of intangible assets	**(120)**	(281)	**(1,221)**
Payments for purchase of investment securities	**(50)**	—	**(509)**
Payments of long-term debts	**(70)**	—	**(712)**
Proceeds from collection of long-term debts	**188**	20	**1,913**
Payment for additional acquisition of subsidiary's securities	**(264)**	(21)	**(2,686)**
Other	**1**	1	**10**
Net cash used in investing activities	**(3,037)**	(6,562)	**(30,907)**
Cash Flows from Financing Activities:			
Net increase (decrease) in bank debt	**530**	(2,000)	**5,394**
Proceeds from long-term debts	**3,550**	1,150	**36,129**
Repayment of long-term debts	**(2,163)**	(3,168)	**(22,013)**
Payments for purchase of treasury stock	**(1)**	0	**(10)**
Cash dividends paid	**(864)**	(864)	**(8,793)**
Cash dividends paid to minority shareholders	**(17)**	(78)	**(173)**
Other	**(8)**	2	**(82)**
Net cash provided by (used in) financing activities	**1,027**	(4,958)	**10,452**
Net increase in cash and cash equivalents	**1,159**	(1,971)	**11,796**
Cash and cash equivalents at beginning of year	**5,389**	7,360	**54,844**
Cash and cash equivalents at end of year	**¥ 6,548**	¥ 5,389	**$ 66,640**

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

1 Basis of Financial Statements

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

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

The 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, 2009, which was approximately ¥98.26 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, MEDISA SHINYAKU INC. and KAKEN SHOYAKU CO., LTD., 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 evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

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

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

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

(b) Cash and Cash Equivalents

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

(c) Allowance for Doubtful Receivables

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

(d) Investment Securities

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

The Company does not have any trading securities, held-to-maturity debt securities or equity securities in unconsolidated subsidiaries and affiliates. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

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

(e) Inventories

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

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

As a result of this change, operating income decreased by ¥1,547 million ($15,744 thousand) and income before income taxes decreased by ¥1,076 million ($10,951 thousand) for the year ended March 31, 2009 compared with the corresponding amounts which would have been recorded under the previous method.

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

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

The Company and its consolidated subsidiaries have extended the useful life of machinery and equipment as per revisions on or after April 1, 2008 to the Japanese Corporate Tax Law. As a result of this change, gross profit increased by ¥121 million ($1,231 thousand), operating income and ordinary income and income before income taxes both increased by ¥124 million ($1,262 thousand) for the year ended March 31, 2009 compared with the corresponding amounts which would have been recorded under the previous method.

The Company and its consolidated subsidiaries have changed their method of depreciation for all tangible fixed assets acquired on or after April 1, 2007 to reflect the revisions to the Japanese Corporate Tax Law. As a result of this change, gross profit decreased by ¥21 million , operating income and income before income taxes and minority interests both decreased by ¥24 million for the year ended March 31, 2008 compared with the corresponding amounts which would have been recorded under the previous method.

Prior to March 31, 2007 according to Japanese Corporate Tax Law, tangible fixed assets were depreciated up until to 95 percent of the acquisition cost had been recognized. However due to an amendment to the Japanese Corporate Tax Law in fiscal 2008, tangible fixed assets are to be amortized over a 5 year period. For tangible fixed assets acquired prior to March 31, 2007, the Company will depreciate the remaining 5 percent of the acquisition cost using the straight-line method over 5 years, beginning in the year following the date when the tangible fixed asset net book value reaches 5 percent of acquisition cost. The Company will include these expense amounts in “Depreciation and amortization”. As a result of the change, for the year ended March 31, 2008, gross profit decreased by ¥78 million, operating income and income before income taxes and minority interests both decreased by ¥89 million compared to what they would have been using the previous method.

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

(g) Intangible Assets (excluding leases)

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

(h) Leases

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

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

Prior to the year ended March 31, 2009, finance leases which do not transfer ownership or which do not have bargain purchase option provisions were accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(i) Accrued Bonuses

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

(j) Bonuses to Directors and Corporate Auditors

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

(k) Reserve for Sales Returns

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

For the year ended March 31, 2008, the Company changed the accounting standards for the reserve for sales returns. This resulted in gross profit, operating income and income before income taxes and minority interests to be all decreased by ¥87 million.

(l) Reserve for Sales Rebates

The Company calculated the reserve for sales rebates by multiplying accounts receivable by the estimated rebate rates at the end of the fiscal year in order to provide for future estimated sales rebates.

Net sales and operating income decreased by ¥57 million and income before income taxes and minority interests decreased by ¥263 million due to the change in the provision for sales rebates for the year ended March 31, 2008.

(m) Pension and Other Post Retirements Obligations

(i) Employees

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

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

(ii) Directors and Corporate Auditors

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

(n) Research and Development

Research and development expenses for the improvement of existing products and the development of new products, including basic research and fundamental development costs, are expensed in the period incurred and amounted to ¥3,409 million ($34,694 thousand) and ¥3,222 million for the years ended March 31, 2009 and 2008, respectively.

(o) Income Taxes

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

(p) Net Income per Share

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

(q) Consolidated Statements of Cash Flows

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

(r) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2009 presentation.

3 Inventories

Inventories at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Finished goods and merchandise	**¥ 6,704**	¥ 6,647	**$ 68,227**
Work-in-process	**3,033**	2,743	**30,867**
Raw materials and supplies	**3,851**	4,110	**39,192**
Total	**¥13,588**	¥13,500	**$138,286**

4 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, 2009.

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥174**	**¥333**	**¥159**	**$1,771**	**$3,389**	**$1,618**

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 77**	**¥ 75**	**¥ (2)**	**$ 784**	**$ 763**	**$ (21)**

(b) Total sales of available-for-sale securities in the year ended March 31, 2009 amounted to ¥4 million ($41 thousand), and the related losses amounted to ¥0 million ($2 thousand).

(c) Acquisition cost of securities with no available fair values as of March 31, 2009, are as follows:
Unlisted equity securities: ¥136 million ($1,384 thousand)

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

Securities with fair market values exceeding acquisition costs:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	**¥234**	**¥660**	**¥426**

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

(f) Acquisition costs of securities with no available fair values as of March 31, 2008 are as follows:
Unlisted equity securities: ¥136 million

5 Short-term Debt and Long-term Debt

Short-term debt consisted mainly of unsecured bank loans with weighted average interest rates of 0.777% per annum at March 31, 2009 and 1.059% per annum at March 31, 2008.

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

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2009 – 2016, interest 0.54% – 2.0%		
Secured	**¥ 915**	**$ 9,312**
Unsecured	**10,106**	**102,850**
	11,021	**112,162**
Current portion of long-term debt	**2,550**	**25,952**
	¥ 8,471	**$ 86,210**

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

	Millions of yen
Loans from banks and other public corporations, due 2008 – 2015, interest 0.54% – 2.0%	
Secured	¥ 471
Unsecured	9,163
	9,634
Current portion of long-term debt	2,144
	¥7,490

The aggregate annual maturities of long-term debt outstanding at March 31, 2009 are as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2010	**¥ 2,550**	**$ 25,952**
2011	**2,146**	**21,840**
2012	**1,832**	**18,644**
2013	**1,861**	**18,940**
2014	**1,529**	**15,561**
2015-2016	**1,103**	**11,225**
Total	**¥11,021**	**$112,162**

At March 31, 2009, assets pledged as collateral for secured long-term debt, including current portions, are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	**¥3,989**	**$40,596**

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

	Millions of yen
Property, plant and equipment, net of accumulated depreciation	¥4,372

6 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, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected retirement benefit obligation	**¥116**	¥169	**$1,180**
Liability for retirement benefits	**¥116**	¥169	**$1,180**

Retirement benefit expenses for the years ended March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 13**	¥ 12	**$ 132**
Payment of contribution to defined contribution pension plan	**373**	348	**3,796**
Retirement benefit expenses	**¥386**	¥360	**$3,928**

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

7 Shareholders' Equity

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

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

The proceeds received from the exercise of warrants included consideration for warrant rights, which should be included in capital surplus. This has resulted in the increase in capital surplus to be larger than the increase in common stock.

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

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

On June 24, 2009, the Company's shareholders approved the payment of year-end cash dividends of ¥25 ($0.25) per share, totaling ¥393 million ($4,000 thousand) to the Company's shareholders of record as of March 31, 2009.

8 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, 2009 and 2008.

Significant components of deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Unrealized gains on land	**¥ 29**	¥ 29	**$ 295**
Retirement benefits for directors and corporate auditors	**84**	158	**855**
Unrealized gains on inventories	**187**	130	**1,903**
Accrued bonuses to employees	**347**	326	**3,531**
Reserve for sales rebates	**141**	108	**1,435**
Amount in excess of depreciation and amortization	**131**	142	**1,333**
Loss due to impairment of fixed assets	**205**	205	**2,086**
Loss on disposal of buildings and structures	**147**	147	**1,496**
Enterprise taxes	**139**	81	**1,415**
Less valuation allowance	**(495)**	(520)	**(5,038)**
Loss on valuation of inventories	**439**	—	**4,468**
Other	**208**	161	**2,117**
Total deferred tax assets	**¥1,562**	¥967	**$15,896**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(136)**	(136)	**(1,384)**
Reserve for special depreciation	**(8)**	(25)	**(81)**
Net unrealized holding gains on securities	**(65)**	(165)	**(662)**
Unrealized gain on revaluation of land	**(138)**	(138)	**(1,404)**
Other	**(0)**	(0)	**(0)**
Total deferred tax liabilities	**(347)**	(464)	**(3,531)**
Net deferred tax assets	**¥1,215**	¥503	**$12,365**

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

	2009
Statutory income tax rate	**40.87%**
Special tax credits	**(5.81)**
Permanently nondeductible expenses	**1.79**
Additions and reductions of valuation allowance	**(0.59)**
Other	**0.78**
Effective income tax rate	**37.04%**

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

9

Leases

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

Assumed amounts of acquisition cost and accumulated depreciation at March 31, 2009 and 2008 are as follows:

(a) Finance leases - lessee

At March 31, 2009 and 2008, lease obligations for machinery and equipment and other assets under non-capital finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Lease obligations, including finance charges	**¥650**	¥1,028	**$6,615**

Lease obligations under non-capital finance leases, including finance charges, remaining at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Payments due within one year	**¥130**	¥186	**$1,323**
Payments due after one year	**94**	229	**957**
Total	**¥224**	¥415	**$2,280**

Leases payments under such leases for the years ended March 31, 2009 and 2008 are ¥183 million ($1,862 thousand) and ¥232 million, respectively.

(b) Operating leases - lessee

Lease obligations under operating leases remaining at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Payments due within one year	**¥22**	¥22	**$224**
Payments due after one year	**53**	73	**539**
Total	**¥75**	¥95	**$763**

10

Segment Information

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

11

Stock Option Plan

Stock option expenses in the amounts of ¥83 million ($845 thousand) have been accounted for as "Selling, general and administrative expenses" on the consolidated statements of income for the year ended March 31,2009.

The details related to the stock option expenses at March 31,2009 are as follows:

	Fiscal year 2009 Stock options
Position and number of grantee	**Directors of the Company: 9** **Corporate auditors: 1** **Employees: 644** **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 31,2009 is as follows:

	Number of shares
Before Settlement of rights	
Beginning of year	**—**
Granted	**195,700**
Expired	**700**
Settled	**—**
End of year	**195,000**
After Settlement of rights	
Beginning of year	**—**
Settled	**—**
Exercised	**—**
Expired	**—**
End of year	**—**

Information per share price at March 31, 2009 is as follows:

	yen	U.S. dollars
	2009	**2009**
Exercise price	**¥4,650**	**$47.32**
Fair value at grant date	**1,257**	**12.79**

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

	Fiscal year 2009 Stock options
Method of estimation	**Black-Scholes model**
Volatility *1	**34.8%**
Expected remaining period *2	**4 years and 6 months**
Expected dividend *3	**¥55 ($0.56)**
Risk-free interest rate *4	**1.00%**

*1 Rate of variability, which is calculated based on the monthly closing prices of common stock of the Company for 4 years and 6 months from February 2004 to August 2008 for the 2009 stock options, respectively.
*2 Mid-term point between date of grant and estimated exercisable period.
*3 Actual dividend per share for the year ended March 31, 2008 for the stock options.
*4 Interest rate for a government bond with similar period as option vesting period as stock options.

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of SAWAI PHARMACEUTICAL CO., LTD. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAWAI PHARMACEUTICAL CO., LTD. and consolidated subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2(e) to the consolidated financial statements, for the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for Measurement of Inventories.

(2) As discussed in Note 2(k) to the consolidated financial statements, for the year ended March 31, 2008, the Company changed the accounting standards for the reserve for sales returns.

(3) As discussed in Note 2(l) to the consolidated financial statements, for the year ended March 31, 2008, the Company calculated the reserve for sales rebates.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 24, 2009

KPMG AZSA & Co.

Board of Directors (As of June 24, 2009)

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

(*Representative Director)

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

Corporate Data (As of March 31, 2009)

Sawai Pharmaceutical Co., Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥11,501 million
Number of Shares Outstanding:	15,702,000
Number of Shareholders:	10,105
Number of Employees:	834
Stock Listing:	Tokyo Stock Exchange 1st Section
Independent Public Accountant:	KPMG AZUSA & Co.
Transfer Agent:	The Chuo Mitsui Trust & Banking Co., Ltd.
Branches:	Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka
Area Offices:	Tokyo-Higashi, Tokyo-Nishi, Yokohama, Kita-Kanto, Jo-Shinetsu, Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu, Okayama, Kumamoto
Consolidated Subsidiary:	Medisa Shinyaku Inc. Kaken Shoyaku Co.,Ltd.
Factories:	Kyushu, Sanda, Osaka, Kanto, Kyusyu Factory of Medisa Shinyaku, Yasato Factory of Kaken Shoyaku

Stock Price Information

	Stock Price	
	High	Low
From April 1, 2008 to March 31, 2009	¥ 5,020	¥ 3,210
First Quarter	5,020	4,050
Second Quarter	4,890	4,150
Third Quarter	4,470	3,210
Fourth Quarter	4,860	4,060

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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