

## A Message from the 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

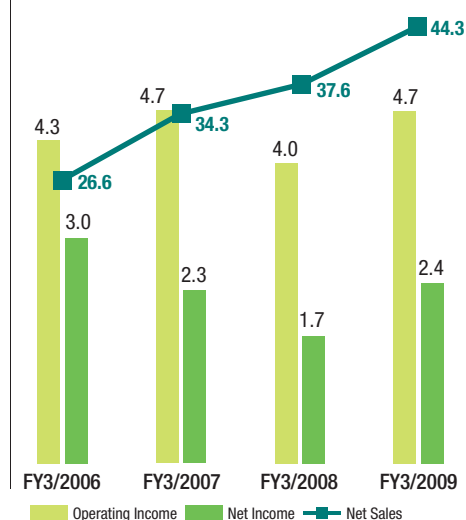
The Japanese generic drug (“generics”) market is looking at the government’s target of a 30% market share by fiscal 2012. It has shown moderate-but-steady growth since measures to promote the use of generics, such as the revised prescription form, took effect in April 2008. However, competition is growing 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	—	<b>44,284</b>	—	6,653	17.7%
Cost of Sales	20,130	53.5%	<b>25,156</b>	<b>56.8%</b>	5,026	25.0%
Gross Profit	17,501	46.5%	<b>19,128</b>	<b>43.2%</b>	1,627	9.3%
SG&A Expenses	13,453	35.7%	<b>14,460</b>	<b>32.7%</b>	1,008	7.5%
Operating Income	4,048	10.8%	<b>4,668</b>	<b>10.5%</b>	619	15.3%
Net Income	1,739	4.6%	<b>2,439</b>	<b>5.5%</b>	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.

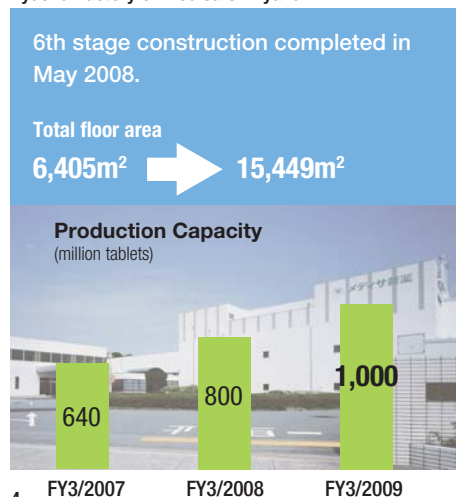
Our financial results, however, were significantly below our profit targets, owing not only to moderation in the growth rate of the generics market compared with the initial forecasts, but also to increased costs in conjunction with medical regulations and thorough enforcement of action programs. Changes 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

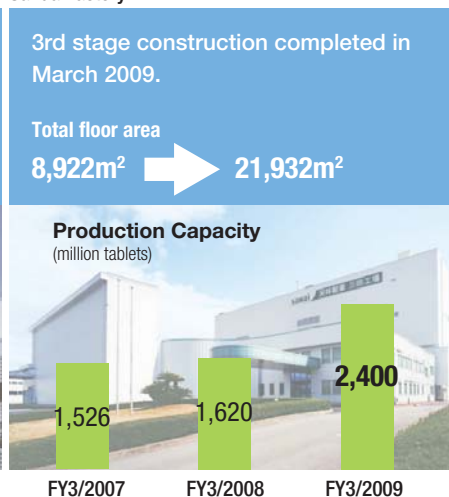
While tackling these challenges, we have laid out the route for our upward climb—the “M1 TRUST” concept from the new Medium-term Business Plan for 09–11. The Medium-term

#### Enhancement of Production Capacity in Previous Business Plan

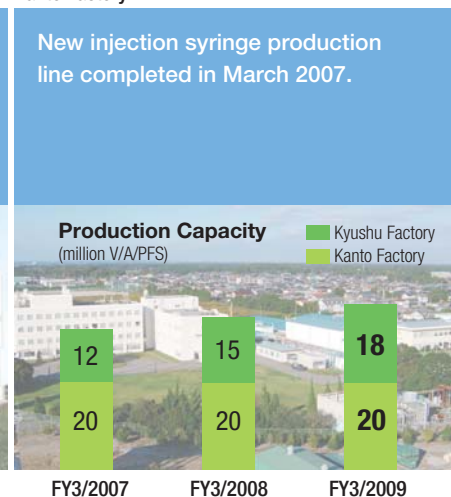
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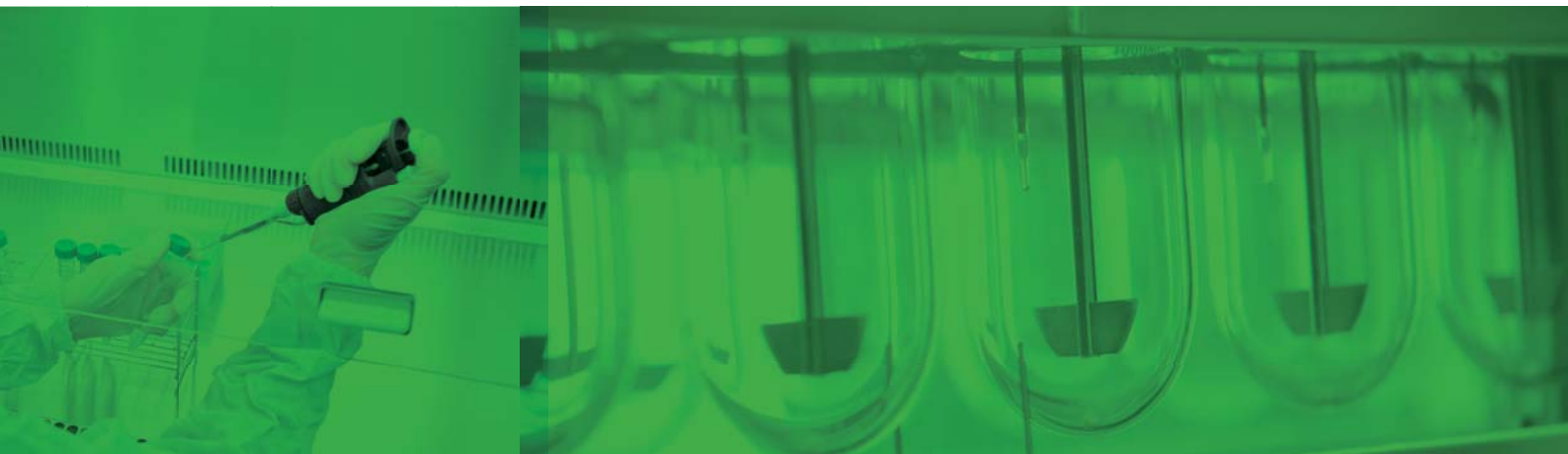


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Business Plan envisions a generics market that will expand by ¥190.0 billion over the fiscal 2009–2011 period (April 2009 to March 2012) premised on the government target of a 30% market share for generics by volume one year later in 2013. We expect 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.

*M. Sawai*  
Mitsuo Sawai, *President*

