

FY2006 Results and FY2007 Forecasts

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First Section of the Tokyo Stock Exchange, TSE Code 4555

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I -1. FY2006 Earnings Results (Consolidated)

Year ended March 31, 2007	FY2006 Results		Difference between FY2005 and FY2006		Difference between Results and Forecasts
	Millions of yen	Proportion of Sales (%)	Millions of yen	Change(%)	Millions of yen
Net Sales	34,316	—	7,700	28.9	16
Cost of Sales	17,356	50.6	4,091	30.8	-34
Gross Profit	16,960	49.4	3,608	27.0	50
SG&A Expenses	12,267	35.7	3,215	35.5	707
Operating Income	4,692	13.7	393	9.2	-658
Ordinary Income	4,331	12.6	290	7.2	-719
Extraordinary Income	194	—	-934	-82.8	4
Extraordinary Loss	358	1.0	232	184.1	48
Net Income	2,259	6.6	-750	-24.9	-531

I -2. FY2006 Earnings Results (Quarterly)

Year ended March 31, 2007	FY2006							
	1Q		2Q		3Q		4Q	
	Millions of yen	Proportion of Sales(%)	Millions of yen	Proportion of Sales(%)	Millions of yen	Proportion of Sales(%)	Millions of yen	Proportion of Sales(%)
Net Sales	8,647	—	8,163	—	9,589	—	7,917	—
Cost of Sales	4,527	52.4	4,078	50.0	4,634	48.3	4,118	52.0
Gross Profit	4,120	47.6	4,085	50.0	4,955	51.7	3,800	48.0
SG&A Expenses	2,874	33.2	2,626	32.2	3,084	32.2	3,684	46.5
Operating Income	1,247	14.4	1,459	17.9	1,871	19.5	115	1.5
Ordinary Income	1,243	14.4	1,380	16.9	1,728	18.0	-20	-0.3
Net Income	538	6.2	882	10.8	987	10.3	-147	-1.9

I-3. Summary of FY2006 Earnings Results

- Increased Sales: growth in generic (GE) drug market due to changes with prescription forms
 - (1) Sharp surge in number of client dispensing pharmacies. Earnings were boosted considerably in the first quarter, in particular.
 - (2) Increased wholesale transactions
 - (3) Huge growth in products launched between 2002 and 2005
- Increased Cost of sales ratio: lower unit market prices due to NHI price revision, higher expenses such as subcontracted processing fees
- Increased SG&A expenses: upfront investments on anticipation of corporate growth. Significant rise compared with previous fiscal year and budget

Expenses / Amount	Difference	Major Reason for the Difference
R&D Expenses / 3,085 million yen	844 million yen more than FY2005 265 million yen more than forecast	<ul style="list-style-type: none"> ● Higher outsourcing expenses due to shift to new laboratories ● Accelerated applications for approval for developed products to respond to twice yearly listing of GE drugs
Advertising Expenses / 1,275 million yen	571 million yen more than FY2005 25 million yen more than forecast	<ul style="list-style-type: none"> ● Aggressively aired TV commercials due to a change in rules last April (Program sponsorship and spot advertising in April and January)
Personnel Expenses / 3,778 million yen	675 million yen more than FY2005 158 million yen more than forecast	<ul style="list-style-type: none"> ● Increased number of medical representatives and increased personnel, including rising number of group subsidiaries
Others		<ul style="list-style-type: none"> ● Business Commission Fees (for promotions) (roughly 100 million yen more than forecast) : <ul style="list-style-type: none"> - Lifted information royalties to agencies in order to cover their market price information - Increased financial aid to boost MS personnel at sales agencies ● Supplies Expenses (60 million yen more than forecast) : <ul style="list-style-type: none"> - Made one-off depreciation of small-cost fixed assets of equipment at new facilities for taxation purposes

I-4. Consolidated Balance Sheet

Year ended March 31, 2006 and 2007 (Millions of yen)	FY2005 (A)	FY2006 (B)	Increase (B) - (A)	Major Reason for Increase
Assets	51,997	67,827	15,829	<ul style="list-style-type: none"> ▪ Increased Sales <ul style="list-style-type: none"> ⇒ Uptick in notes and accounts receivable-trade (up 4,503 million yen on the year) ※Effect from holidays was around 1,100 million yen ▪ Improved output due to increased sales and stable supply <ul style="list-style-type: none"> ⇒ Inventories of 13,767 million yen (up 4,158 million yen on the year) ▪ Completion of new headquarters and laboratories, the Kanto Factory's syringe facility <ul style="list-style-type: none"> ⇒ Rise in property, plant and equipment (up 6,258 million yen on the year)
Liabilities	23,163	28,506	5,342	<ul style="list-style-type: none"> ▪ Greater capital spending and demand for working capital <ul style="list-style-type: none"> ⇒ Increased loans payables (up 7,386 million yen on the year)
Net Assets	28,833	39,321	10,488	<ul style="list-style-type: none"> ▪ Boosted shareholders' equity through capital increase by public offering (up 8,958 million yen on the year)

II -1. FY2007 Earnings Forecasts

Year ended March 31, 2006 and 2007	FY2006 Results		FY2007 Forecasts		Difference	
	Millions of yen	Proportion of Sales(%)	Millions of yen	Proportion of Sales(%)	Millions of yen	Change(%)
Net Sales	34,316	—	40,300	—	5,984	17.4
Cost of Sales	17,356	50.6	20,600	51.1	3,244	18.7
Gross Profit	16,960	49.4	19,700	48.9	2,740	16.2
SG&A Expenses	12,267	35.7	13,900	34.5	1,633	13.3
Operating Income	4,692	13.7	5,800	14.4	1,108	23.6
Ordinary Income	4,331	12.6	5,300	13.2	969	22.4
Net Income	2,259	6.6	2,800	6.9	541	23.9

II -2. FY2007 Earnings Forecasts vs. Previous Forecasts

Year ended March 31, 2008	FY2007 Forecasts		FY2007 Prev. Forecasts (Mid-term plan)		Difference
	Millions of yen	Promotion of Sales(%)	Millions of yen	Promotion of Sales(%)	Millions of yen
Net Sales	40,300	—	39,400	—	900
Cost of Sales	20,600	51.1	20,000	50.8	600
Gross Profit	19,700	48.9	19,400	49.2	300
SG&A Expenses	13,900	34.5	13,250	33.6	650
Personnel Expenses	4,400	10.9	4,090	10.4	310
Overhead	9,500	23.6	9,160	23.2	340
(R&D Expenses)	3,497	8.7	3,160	8.0	337
(Advertising Expenses)	918	2.3	1,540	3.9	-622
Operating Income	5,800	14.4	6,150	15.6	-350
Ordinary Income	5,300	13.2	6,000	15.2	-700
Net Income	2,800	6.9	3,440	8.7	-640

II -3. Outlook for FY2007

External Environment

- Increased demand for even higher level of quality, information and steady supplies
- More pressure from authorities to improve proportion of generic drugs supplied to dispensing pharmacies
- The use of generic drugs will be included in government's basic policy as part of the funding for slashing costs by 1.1 trillion yen over 5 years.
 - Market Share (volume) – As of 2004: 16.8% ⇒ Target for 2012: at least 30%
 - ◎Further changes with prescription form
 - ◎Healthcare system for the late elderly

Focus for FY2007

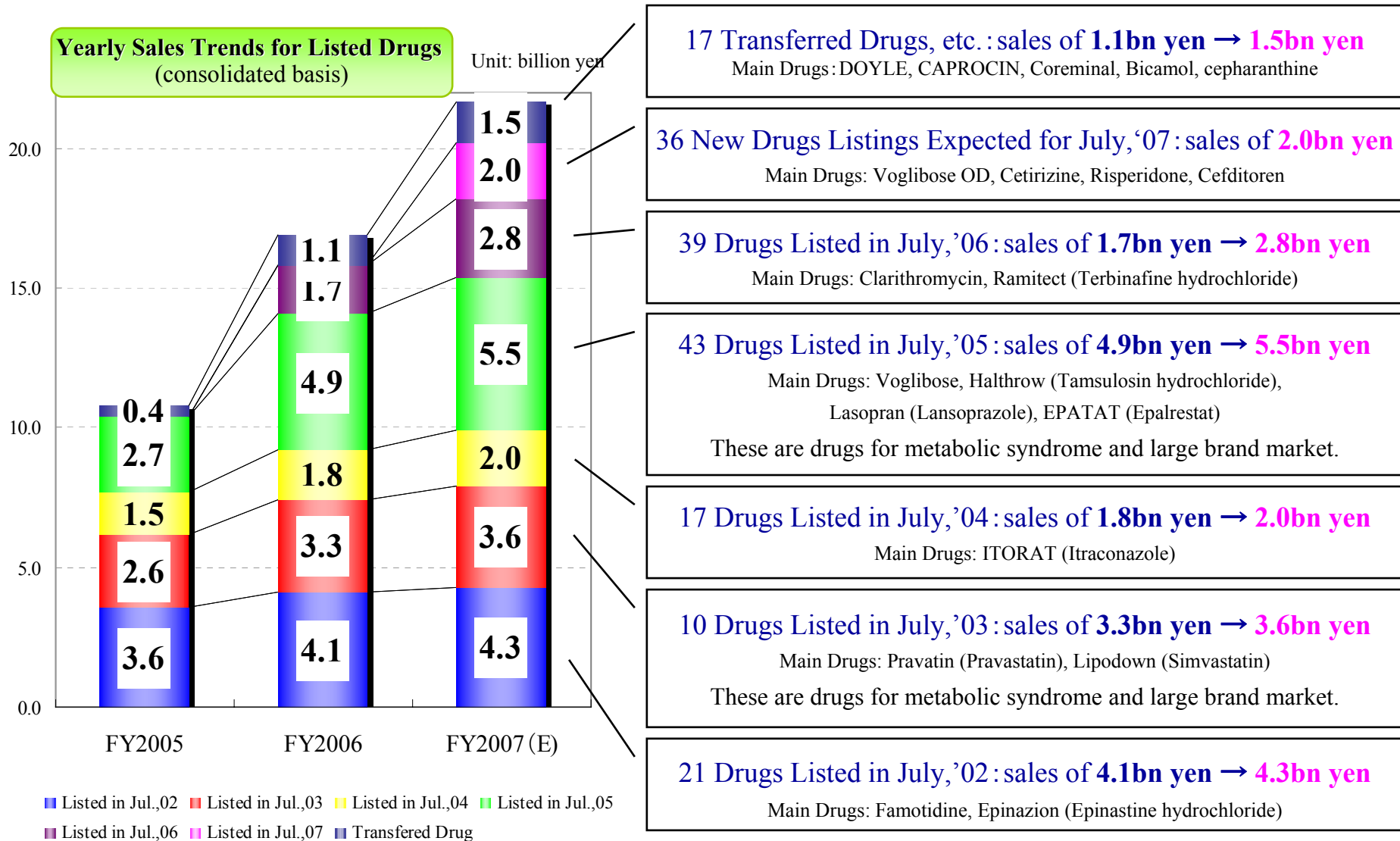
- **Targeting Generic Drug Market at Large Hospitals and Dispensing Pharmacies**
 - ✓ Establishing hospital sections, bolstering assistance for medical representative operations (providing information)
 - ✓ Thoroughly develop relationship with new clients from last fiscal year and tap an additional 10,000 dispensing pharmacies
- **Pursuing even higher quality**
 - ✓ Providing the high-quality injections demanded by Diagnosis Procedure Combination (DPC) hospitals
- **Establishing Stable Supplies to Respond to Demand**
 - ✓ Add production equipment to lift output (at Sanda Factory in Hyogo Pref.)
 - ✓ Ensure appropriate inventory levels by streamlining production and marketing
- **Continue Raising Profile and Strengthening Corporate Brand (M1 Project)**

II-4. Trends in Sales Shares per Medical Institution Type

Institution Type	FY2004		FY2005		FY2006	
	Sales Share	Growth Rate	Sales Share	Growth Rate	Sales Share	Growth Rate
Hospitals	24%	6.7%	25%	21.0%	22%	11.5%
Clinics	48%	-0.3%	43%	1.9%	37%	11.6%
Dispensing Pharmacies	25%	5.9%	29%	31.2%	39%	75.4%
Others	3%	0.0%	3%	-11.5%	2%	-11.0%
Total	100%	2.8%	100%	13.3%	100%	29.3%

※Excludes sales from marketing alliances, materials and processing, along with other sources.

II -5. Breakdown of Sales Forecasts



Overview — Achieving 30% Share of Generic Drug Market

Mid-term Business Plan for FY2006-FY2008

- Put “Patients First” and become Top Brand Generic Drug Company
- Target DPC hospitals
- Strengthen manufacturing system
- Beef up R&D to develop high-quality GE drugs

In FY2008 (final year of the Mid-term Plan)

Aiming to achieve

Consolidated Sales of 45 billion yen

and Consolidated Ordinary Income of 7 billion yen

Disclaimer

- The plans, forecasts, strategies and other information about the Sawai group contained in this presentation involve certain risks and uncertainties, except for historical facts. Therefore, there is no guarantee to the accuracy of the information.
- Risks and uncertainties may include, but are not limited to, the economic environment for prescription drugs, which is the main operating domain of the Sawai group, market competition and services offered by the Group.