



Mitsuo Sawai, *President*



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

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

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

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

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

Overview of Financial Results

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



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

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

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

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

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

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

Business Policy of 2011

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

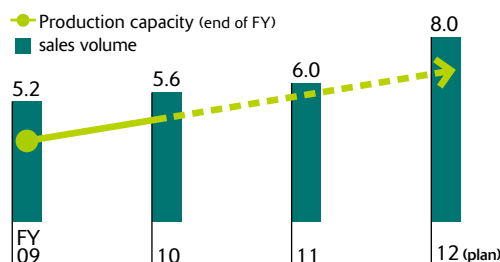
- I. Sales growth far exceeding market growth rate
- II. Further strengthening of management structure by thorough cost control and effective strategic investment
- III. Establish robust SAWAI brand

Business plan and its progress in FY2011

- 1. Improve “Quality of sales promotion” by strengthening the marketing function
 - Sales growth in hospital market and in the area of oncology GE drugs
 - Further cultivation in NHI pharmacy market and sales increase of focused drugs (life style related disease drugs, etc.)
- 2. Build up Sawai’s “Trust of its stable supply” and reduce costs of production
 - Strengthening the “stable supply capability” responding to sudden increase of demand
 - Reducing the cost of raw materials and fixed expenses
- 3. Enhance development of value-added GE drugs meeting market needs

Build the stable supply system

8 billion tablets production capacity by the end of FY2012



New Factory in Chiba Prefecture (Artist's impression)

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

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

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

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



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

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

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

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

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

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



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

The Company considers profit distribution to shareholders one of our most important management priorities. Our policy concerning profit distribution is to maintain sufficient internal reserves to prepare for future business development and continue to pay stable dividends, taking into consideration business performance each year, the dividend payout ratio and other factors.

This year, in view of our favorable business performance and to reward our shareholders for their support, we in-

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

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

Mitsuo Sawai, President