

ANNUAL REPORT 2003



For the year ended March 31, 2003



Sawai Pharmaceutical Co., Ltd.

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Financial Highlights

For the Years ended March 31, 2003, 2002 and 2001

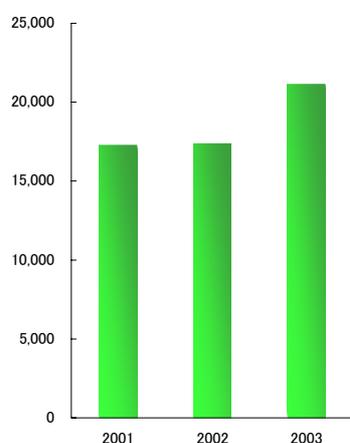
Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Net sales	¥ 21,166	¥ 17,399	¥ 17,302	\$ 176,090
Operating income	3,032	2,079	2,005	25,225
Net income	1,600	1,434	766	13,311
Total shareholders' equity	18,702	15,428	14,254	155,590
Total assets	33,218	30,349	26,609	276,356
Research and development (R&D) expenses	1,908	1,577	1,593	15,873
Capital expenditures	1,214	3,031	1,241	10,100
Depreciation and amortization	1,222	1,019	926	10,166
		%		
Ratio of R&D expenses to sales	9.0	9.1	9.2	
Return on equity	9.4	9.3	5.4	
Shareholders' equity to total assets	56.3	50.8	53.6	
Amounts per common share:		Yen		U.S. dollars
Net income-basic	¥ 140.81	¥ 135.58	¥ 72.41	\$ 1.17
Net income-diluted	140.18	135.58	72.41	1.17
Cash dividends applicable to period	35.00	30.00	25.00	0.29
Shareholders' equity	1,568.90	1,458.26	1,347.27	13.05

Note: 1. The U.S. dollars amounts represent translation of Japanese yen, for convenience, at the rate of ¥ 120.20=\$1, the rate prevailing on March 31, 2003.

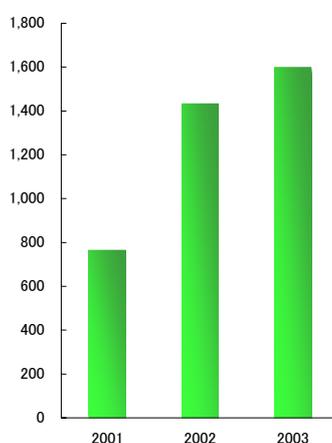
2. Although the Company issued bonds with detachable stock purchase warrants in 2000, there was no dilutive effect of the stock purchase rights.

3. Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). The effect of adopting of the new standard and guidance is disclosed in the note for earning per share.

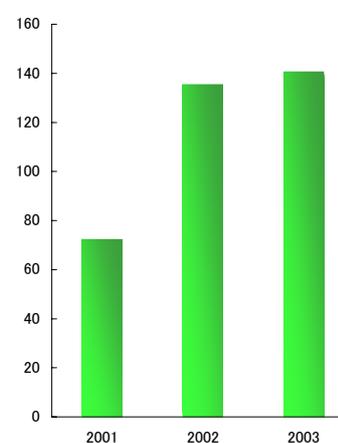
Net Sales (Millions of yen)



Net Income (Millions of yen)



Net Income Per Share (Yen)



“Patients first” is the first step to providing quality products and services.

Our goal is to provide the highest-quality medicines
to as many people as possible.
Japanese society is faced with a decreasing birth rate
and increasing average age,
as well as with the serious problems
this has brought about in costs for medical treatment.

Since long before this, however,
Sawai Pharmaceutical has been developing safe and effective generic drugs
that aim to reduce medical expenses for individual patients.

We will continue in our challenge
to open new frontiers for the betterment of society,
for the future of medicine, and above all, for the patient.



Sawai listed its stock on the First Section of the Tokyo Stock Exchange on March 3, 2003. Everyone at Sawai is grateful for the support of our shareholders. It is our dedicated goal going forward to bring about remarkable results and enhance the value of the enterprise.

Generic drugs have become the subject of intense interest in the medical community during the past several years in Japan. Several factors have been behind this: the government's policy initiative of April 2002 to encourage the use of generic drugs, and the April 2003 raising of the patient-paid portion of medical expenses from 20% to 30% in the case of salaried employees.

This favorable environment has prompted the Company to place an even greater focus on quality, drug information, and stable supply. Sawai's mission is to operate efficiently, and to provide patients with the best-quality drugs at more affordable prices.

Everyone at the Company looks forward to receiving the continued support of our shareholders as we will make efforts to enhance earnings and enterprise value.

June 25, 2003



Hiroyuki Sawai
President

Market and Strategy

Our goal is to develop the market for generic drugs and expand demand for Sawai products

Japan has conventionally used many drugs that remain expensive even after patent expiration. The market share of low-priced generic drugs has been just 10% of all drugs prescribed. This changed in 2002, with the government's policy initiative to encourage the use of generic drugs. As a consequence of this, major hospitals, including nationally founded, university, and local government-run institutions began to use generic drugs produced by Sawai.

Recent years have also seen ongoing efforts to reform the medical insurance system to resolve *the finance crisis in Japan*. This has resulted in an increased percentage of medical costs being paid by patients. In response, hospitals that were existing customers of Sawai Pharmaceutical are now making increasing use of our generic drug products.

System reforms since April 2002

■ April 2002

Introduction of incentives for use of generic drugs as part of reforms to the medical reimbursement system (additional points for prescribing the use of generics)

■ June 2002

Government notice that the use of generics is encouraged at national hospitals, etc.

■ October 2002

Implementation of 10% (in some cases 20%) patient cost in the case of Elderly Health Care Insurance

■ April 2003

Patient-paid portion of medical expenses rises from 20% to 30% in the case of salaried employees.

Sawai Pharmaceutical will continue to lead the market for generic drugs

Despite these gradual changes in the administration of the domestic medical system, it will take some time before Japan approaches the level of the most advanced nations. Further advances will require not just top-down changes in the regulatory structure, but determined efforts by individual corporations to create a new market environment.

Sawai is working to achieve this through national advertising campaigns in Yomiuri, Asahi, Nikkei, and other nationwide and specialist publications, and is putting efforts into enlightening medical professionals and the public about generic drugs. In February 2002, we established the Japan Generic Drug Research Group in partnership with Nippon Hexal, Merck Hoesi, and Morishita Jintan. The aim of the group is to study a range of systems in the most medically advanced nations and to propose reforms that will expand the use of generic drugs in Japan. We believe that raising public awareness of generic drugs will lead directly to increased sales at Sawai, the leading company in the sector.

We are working actively to ensure that we remain the leading manufacturer of generic drugs in Japan

As the regulatory reforms continue and the generic drug market changes, hospitals considering the use of generic drugs have a range of requirements. These include:

- Timely and full response to calls for information about quality and equivalence
- Immediate, stable supplies of ordered products
- Regular MR visits
- Ability to develop new products
- Dosage form improvement
- High profile and reliability

Corporate advertising

We have responded to the increased percentage of medical costs paid by salaried employees with a nationwide newspaper advertising campaign.

The campaign features Salary-man Kintaro, a well-known cartoon character, to inform the public about the effectiveness of generic drugs.



Symposium on, "Our Aging Society and the Costs of Medical Care"
Presented by: The Yomiuri Shimbun
Presented under the auspices of: The Ministry of Health, Labour and Welfare,
The Japan Medical Association, The Japan Pharmaceutical Association
Sponsored by: Sawai Pharmaceutical Co., Ltd.

We regard an ability to meet these needs as the key to expanding business. Our aim is to build on our position as the leading company in the generic drug market to create a strategic structure that drives demand expansion.

Sawai group strategy

- Expand staffing in our medical information department and deploy drug information personnel in marketing offices
- Increase the number of MRs from 200 to 250, and make use of contract MRs
- Expand nationwide, strengthen ties with leading wholesalers
- Invest ¥6.5 billion over three years on R&D
- Reduce manufacturing cost and shorten lead times through use of systems that link manufacture and sales
- Invest ¥1.6 billion over three years on active advertising plan



April, 2003
National and local newspapers' advertisement for causing attention to generic drugs

I. Operating results

The Japanese economy during the year April 1, 2002 to March 31, 2003 benefited from a recovery in exports and a short-lived improvement in production levels. However, export growth slowed from the summer, as the economies of North America and Europe lost speed. Other negative factors for the economy overall included weak levels of capital spending by industry, sluggish personal consumption due to the difficult employment situation and concerns about incomes, and strengthened deflationary pressure as the economy stalled.

The government continued to initiate a series of medical and drug cost cutting measures to address the funding crisis of the Japanese medical insurance system against a demographic backdrop of declining birth rates and an increase in the elderly. In April 2002, reimbursement drug prices were reduced by an average 6.3%, including new rules for calculating the reimbursement prices of long-term profit generators that are no longer patented. The GE rule, which had supported reimbursement prices of generic drugs, was abolished, exposing the generic drug market to deeper price cuts. This was offset by the adoption of incentives to encourage generic drug prescription, dispensing, and information provision, which created a favorable environment for the generic drug sector. In October 2002, all elderly patients became liable for a fixed percentage of medical costs, increasing the burden on individuals. These moves raised expectations for generic products.

In this environment, Sawai Pharmaceutical worked through a broad range of channels to minimize the personal cost burden on individual patients, and to assist the government in reducing overall medical expenses through the increased use of generic drugs. We also publicized the quality, availability of drug information, and stable supply of Sawai products as part of an active marketing strategy.

The development of new sales channels, coupled with strong sales of new and seasonal product, contributed to 21.6% growth in sales during the term, to ¥21,166 million.

The Company was successful in offsetting the impact of lower reimbursement prices and higher research and development expenses through increased sales and efforts to reduce manufacturing and materials costs. Operating income advanced 45.8% over the previous year, to ¥3,032 million. Net income increased only 11.6%, to ¥1,600 million, due to a special gain in the previous year.

Sales by Therapeutic Category

Years ended March 31	Millions of yen				Change (%)	
	2003		2002			
Cardiovascular drugs	¥	3,957	(18.7%)	3,215	(18.5%)	123.1
Gastro-intestinal drugs		2,950	(13.9%)	1,923	(11.1%)	153.4
Antibiotics		2,255	(10.7%)	2,173	(12.5%)	103.8
Other metabolic drugs		1,946	(9.2%)	1,722	(9.9%)	113.0
Central nervous system drugs		1,766	(8.3%)	1,440	(8.3%)	122.6
Chemotherapeutic drugs		1,365	(6.5%)	867	(5.0%)	157.5
Vitamins		1,208	(5.7%)	1,239	(7.1%)	97.5
Blood/body fluid pharmaceutical products		1,165	(5.5%)	887	(5.1%)	131.3
Others		4,551	(21.5%)	3,927	(22.6%)	115.9
Total		¥ 21,166	(100.0%)	¥ 17,399	(100.0%)	121.7

II. Cash flows

Cash flows from operating activities declined ¥861 million from the previous year, to ¥1,412 million. The principal reasons were an increase in accounts receivable due to the sales growth and the introduction of a new selling - collection system (SAN system), and a rise in corporation tax payments due to the large extraordinary gains booked in the previous year.

Cash flows from investing activities increased ¥268 million, to ¥2,271 million. The principal cause was an increase in payments for facilities, mainly the payment of outstanding charges related to the fifth phase of the Kyushu plant, which had been completed at the end of the previous term.

Cash flows from financing activities expanded ¥380 million, to ¥1,355 million. Long-term debt repayments were ¥1,646 million, offset by ¥2,021 million from the issue of new shares through a third-party allocation (as approved by the Board of Directors on September 20, 2002) and the issue of warrants as part of a group director incentive plan. Long- and short-term borrowings at the end of the term totaled ¥7,743 million, a decline of ¥346 million from the previous term.

The balance of cash and equivalents at the end of the term was ¥2,899 million, an increase of ¥496 million over the previous term.

Consolidated Balance Sheets

March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current Assets:			
Cash and time deposits (Note 12)	¥ 3,330	¥ 2,833	\$ 27,704
Trade notes and accounts receivable	8,512	6,857	70,815
Allowance for doubtful receivables	(52)	(35)	(432)
	8,460	6,822	70,383
Inventories (Note 5)	6,295	5,536	52,371
Deferred income taxes (Note 10)	337	245	2,804
Other current assets	111	91	923
Total current assets	18,533	15,527	154,185
Investments and Long-term Receivables:			
Investment securities (Note 4)	399	444	3,319
Other investments and long-term receivables	323	418	2,687
Allowance for doubtful receivables	(36)	(95)	(299)
	287	323	2,388
Total investments and long-term receivables	686	767	5,707
Property, Plant and Equipment (Note 6) :			
Land	3,420	3,420	28,453
Buildings and structures	12,778	12,611	106,306
Machinery and equipment	7,902	7,108	65,740
Construction in progress	-	84	-
Other	1,982	1,817	16,489
	26,082	25,040	216,988
Accumulated depreciation	(12,538)	(11,411)	(104,309)
Net property, plant and equipment	13,544	13,629	112,679
Intangible assets	53	57	441
Deferred income taxes (Note 10)	402	369	3,344
	¥ 33,218	¥ 30,349	\$ 276,356

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current Liabilities:			
Bank loans (Note 6)	¥ 2,000	¥ 1,700	\$ 16,639
Current portion of long-term debt (Note 6)	2,332	1,351	19,401
Trade notes and accounts payable	3,120	2,544	25,957
Accrued expenses	466	398	3,877
Income taxes payable	1,036	988	8,619
Stock purchase warrants (Note 8)	28	51	233
Other current liabilities	1,181	1,985	9,825
Total current liabilities	10,163	9,017	84,551
Long-Term Liabilities:			
Long-term debt, due after one year (Note 6)	3,411	5,038	28,378
Employees' retirement benefits (Note 7)	387	347	3,220
Directors' and corporate auditors' retirement benefits	318	330	2,645
Other long-term liabilities	237	189	1,972
Total long-term liabilities	4,353	5,904	36,215
Shareholders' Equity (Note 9) :			
Common stock;			
Authorized 38,800,000 shares,			
Issued and outstanding:			
-11,898,500 shares in 2003	4,411	3,400	36,697
-10,580,000 shares in 2002			
Capital surplus	4,708	3,675	39,168
Retained earnings	9,601	8,343	79,875
Net unrealized holding gains (losses) on securities	(18)	10	(150)
Total shareholders' equity	18,702	15,428	155,590
	¥ 33,218	¥ 30,349	\$ 276,356

Consolidated Statements of Income

For the Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Net Sales	¥ 21,166	¥ 17,399	¥ 17,302	\$ 176,090
Cost of Sales	10,997	9,356	9,665	91,489
Gross Profit	10,169	8,043	7,637	84,601
Selling, General and Administrative Expenses	7,137	5,964	5,632	59,376
Operating Income	3,032	2,079	2,005	25,225
Other Income (Expenses):				
Interest and dividend income	7	7	10	58
Interest expense	(113)	(110)	(124)	(940)
Gain on sale of securities, net	2	-	-	17
Compensation for damages	16	-	26	133
Loss on disposal of inventories	(94)	(120)	(99)	(782)
Unrealized loss on deposits for golf club memberships	-	-	(73)	-
Net transition obligation of retirement plans	-	-	(358)	-
Amortization of design cost of laboratory	-	(68)	-	-
Gains from the transfer of commercial rights (Note 14)	-	919	-	-
Unrealized loss on investment securities	(17)	(107)	-	(141)
Stock issuance expenses	(30)	-	-	(250)
Gains from grants of distributorships (Note 17)	30	-	-	250
Other, net	13	(15)	(17)	108
	(186)	506	(635)	(1,547)
Income before Income Taxes	2,846	2,585	1,370	23,677
Provision for Income Taxes:				
Current	(1,351)	(1,344)	(684)	(11,239)
Deferred	105	193	80	873
Net Income	¥ 1,600	¥ 1,434	¥ 766	\$ 13,311

Per Share of Common Stock:

	Yen			U.S. dollars (Note 1)
Net income -basic (Note 16)	¥ 140.81	¥ 135.58	¥ 72.41	\$ 1.17
Net income -diluted (Note 16)	140.18	135.58	72.41	1.17
Dividends	35.00	30.00	25.00	0.29

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Shareholders' Equity

For the Years ended March 31, 2003, 2002 and 2001

	Number of shares of common stock	Millions of yen			Net unrealized holding gains (losses) on securities
		Common stock	Capital surplus	Retained earnings	
Balance at March 31, 2000	10,580,000	¥ 3,400	¥ 3,675	¥ 6,665	¥ -
Net income for the year				766	
Cash dividends paid at ¥20.00 per share				(211)	
Bonuses to directors and corporate auditors				(23)	
Net unrealized holding losses on securities					(18)
Balance at March 31, 2001	10,580,000	3,400	3,675	7,197	(18)
Net income for the year				1,434	
Cash dividends paid at ¥25.00 per share				(264)	
Bonuses to directors and corporate auditors				(24)	
Net unrealized holding gains on securities					28
Balance at March 31, 2002	10,580,000	3,400	3,675	8,343	10
Exercise of stock purchase warrants	218,500	175	198		
Allocation of new shares to a third party	100,000	76	76		
Public stock offering	1,000,000	760	759		
Net income for the year				1,600	
Cash dividends paid at ¥30.00 per share				(319)	
Bonuses to directors and corporate auditors				(23)	
Net unrealized holding losses on securities					(28)
Balance at March 31, 2003 (Note 9)	11,898,500	¥4,411	¥4,708	¥9,601	¥(18)

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities
Balance at March 31, 2002	\$28,286	\$30,574	\$69,409	\$83
Exercise of stock purchase warrants	1,456	1,647		
Allocation of new shares to a third party	632	632		
Public stock offering	6,323	6,315		
Net income for the year			13,311	
Cash dividends paid at \$0.25 per share			(2,654)	
Bonuses to directors and corporate auditors			(191)	
Net unrealized holding losses on securities				(233)
Balance at March 31, 2003	\$36,697	\$39,168	\$79,875	\$(150)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Cash Flows from Operating Activities:				
Income before income taxes	¥ 2,846	¥ 2,585	¥ 1,370	\$ 23,677
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	1,221	1,019	926	10,158
Interest and dividend income	(7)	(7)	(10)	(58)
Interest expense	113	110	124	940
Decrease (increase) in trade notes and accounts receivable	(1,656)	25	(846)	(13,777)
Increase in inventories	(759)	(438)	(65)	(6,314)
Increase (decrease) in trade notes and accounts payable	587	(444)	90	4,883
Payment of bonuses to directors and corporate auditors	(24)	(24)	(23)	(199)
Increase (decrease) in other accounts payable	330	(53)	151	2,745
Other	183	319	436	1,522
Sub-total	2,834	3,092	2,153	23,577
Interest and dividends received	7	6	10	58
Interest paid	(127)	(113)	(117)	(1,056)
Income taxes paid	(1,302)	(712)	(721)	(10,832)
Net cash provided by operating activities	1,412	2,273	1,325	11,747
Cash Flows from Investing Activities:				
Proceeds from time deposits	-	-	60	-
Payments for purchase of property, plant and equipment	(2,243)	(2,001)	(1,111)	(18,661)
Payments for purchase of securities	(82)	(27)	(54)	(682)
Proceeds from sale of securities	64	33	57	532
Other	(10)	(8)	(15)	(83)
Net cash used in investing activities	(2,271)	(2,003)	(1,063)	(18,894)
Cash Flows from Financing Activities:				
Net increase (decrease) in bank loans	300	(100)	(500)	2,496
Proceeds from long-term debt	1,000	3,020	2,490	8,319
Repayment of long-term debt	(1,646)	(1,679)	(1,921)	(13,694)
Proceeds from issuance of subscription warrants	-	-	22	-
Redemption of subscription warrants	(1)	(1)	(1)	(8)
Proceeds from issuance of stock	2,021	-	-	16,814
Cash dividends paid	(319)	(265)	(211)	(2,654)
Net cash provided by (used in) financing activities	1,355	975	(121)	11,273
Net increase in cash and cash equivalents	496	1,245	141	4,126
Cash and cash equivalents at beginning of year	2,403	1,158	1,017	19,992
Cash and cash equivalents at end of year (Note 12)	¥ 2,899	¥ 2,403	¥ 1,158	\$ 24,118

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years ended March 31, 2003, 2002 and 2001

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 and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities 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 the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥ 120.20 to U.S.\$ 1. The convenience 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 fully owned subsidiaries, MEDISA SHINYAKU INC. and ACTIVE WORK CO., LTD. that 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 subsidiaries are evaluated using the fair value at the time the Company acquired control of respective subsidiaries.

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

(b) Cash and time deposits

Cash and time deposits in the consolidated balance sheets include cash on hand, readily-available deposits and deposits with a maturity of one year or less.

(c) Allowance for doubtful receivables

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

(d) Marketable and investment securities

The Companies classify securities into the following categories: (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies have no 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 shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

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

(e) Inventories

Inventories are stated at moving average cost, except for supplies, which are stated at average cost.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method over estimated useful lives. Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to expense when incurred.

(g) Stock issuance costs

Stock issuance costs are charged to income as incurred.

(h) Income taxes

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

(i) Retirement benefits

(i) Employees:

The Companies' non-contributory pension plans cover substantially all employees. The provision is determined actuarially and funded currently through outside trustees. The Companies also have unfunded lump-sum retirement benefit plans which cover certain employees who are not covered by the funded pension plan.

Effective April 1, 2000, accrued retirement benefits were provided based on the projected retirement benefit obligations and fair value of pension plan assets at the end of the fiscal year. The net transition obligation of ¥358 million was fully expensed in the year ended March 31, 2001. Unrecognized actuarial differences are amortized over fixed years within the estimated average remaining service lives of the employees, which is 5 years for the current year, from the next fiscal year.

(ii) Directors and corporate auditors:

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

(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) Research and development

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, are charged to income in the period incurred and amounted to ¥ 1,908 million (US\$ 15,873thousand), ¥ 1,577 million and ¥ 1,593 for the years ended March 31, 2003, 2002 and 2001, respectively.

(l) Software costs

The Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful life of five years.

(m) Stock purchase warrants

In accordance with Japanese GAAP, the detachable stock purchase warrants issued with bonds are accounted for separately from the bonds and recorded in current liabilities. The bonds with warrants were issued by the Company, and purchased entirely by a consolidated subsidiary. The warrants were distributed as compensation to certain directors, corporate auditors and employees.

(n) Finance leases

Finance leases which do not transfer ownership or which do not have bargain purchase option provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(o) 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 of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(p) Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares of common stock outstanding during each year. Although the Company issued bonds with detachable stock purchase warrants in 2000, there was no dilutive effect of the stock purchase rights.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for

Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002)

The effect of adopting of the new standard and guidance is disclosed in Note 16.

(q) Accounting standard for treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The adoption of the new accounting standard had no impact on the financial statements.

(r) Reserve for sales returns

The reserve for sales returns is provided in the maximum amount (at the prescribed rate) permitted by Japanese tax laws.

3. Additional Information

(1) Financial instruments

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments. The adoption decreased income before income taxes by ¥11 million.

(2) Accounting for employees' retirement benefits

Effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and pension benefits. As a result, severance and retirement benefit expense increased by ¥ 304 million, and income before income taxes decreased by ¥ 305 million compared with what would have been recorded under the previous accounting standard.

4. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2003:

(a) Securities with book values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 123	¥ 187	¥ 64	\$ 1,023	\$ 1,555	\$ 532

(b) Securities with book 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	¥ 247	¥ 158	¥ (89)	\$ 2,055	\$ 1,315	\$ (740)
Other	25	20	(5)	208	166	(42)
Total	¥ 272	¥ 178	¥ (94)	\$ 2,263	\$ 1,481	\$ (782)

(2) Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥ 64 million (US\$ 532 thousand) and the related gains and losses amounted to ¥ 3 million (US\$ 25 thousand) and ¥ 1 million (US\$ 8 thousand), respectively.

(3) Book values of securities with no available fair values as of March 31, 2003 are as follows:

Unlisted equity securities ¥ 34 million (US\$ 283 thousand)

(4) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2002:

(a) Securities with book values exceeding acquisition costs:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 208	¥ 251	¥ 43
Other	10	11	1
Total	¥ 218	¥ 262	¥ 44

(b) Securities with book values not exceeding acquisition costs:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 170	¥ 143	¥ (27)
Other	5	5	-
Total	¥ 175	¥ 148	¥ (27)

(5) Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥ 33 million and the related gains and losses amounted to ¥ 2 million and ¥ 5 million, respectively.

(6) Book values of securities with no available fair values as of March 31, 2002 are as follows:

Unlisted equity securities ¥ 34 million

(7) Total sales of available-for-sale securities in the year ended March 31, 2001 amounted to ¥ 57 million and the related gains and losses amounted to ¥ 4 million and ¥ 7 million, respectively.

5. Inventories

Inventories at March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	
Finished goods and merchandise	¥ 3,851	¥ 3,345	\$ 32,038	
Work-in- process	1,159	1,192	9,642	
Raw materials and supplies	1,285	999	10,691	
Total	¥ 6,295	¥ 5,536	\$ 52,371	

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of unsecured bank loans with a weighted average interest rate of 0.847% per annum at March 31, 2003 and 2002.

Long-term debt at March 31, 2003, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2003-2010, interest 0.7%-3.3%		
Secured	¥ 4,125	\$ 34,318
Unsecured	1,618	13,461
	5,743	47,779
Current portion of long-term debt	2,332	19,401
	¥ 3,411	\$ 28,378

Long-term debt at March 31, 2002, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2002-2010, interest 0.9%-6.2 %		
Secured	¥ 5,233	\$ 39,272
Unsecured	1,156	8,676
	6,389	47,948
Current portion of long-term debt	1,351	10,139
	¥ 5,038	\$ 37,809

The aggregate annual maturities of long-term debt outstanding at March 31, 2003, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 2,332	\$ 19,401
2005	1,548	12,879
2006	593	4,933
2007	344	2,862
2008	411	3,419
2009 and thereafter	515	4,285
Total	¥ 5,743	\$ 47,779

At March 31, 2003, assets pledged as collateral for secured long-term debt, including current portion are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ 7,413	\$ 61,672

At March 31, 2002, assets pledged as collateral for secured long-term debt, including current portion are as follows:

	Millions of yen
Property, plant and equipment, net of accumulated depreciation	¥ 7,771

7. Employees' Retirement Benefits

The liability for employees' retirement benefits at March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected retirement benefit obligation	¥ (2,599)	¥ (2,401)	\$ (21,622)
Plan assets	1,600	1,663	13,311
Unfunded retirement benefit obligation	(999)	(738)	(8,311)
Unrecognized actuarial differences	612	391	5,091
Liability for retirement benefits	¥ (387)	¥ (347)	\$ (3,220)

Retirement benefit expenses for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 306	¥ 279	\$ 2,545
Interest cost	72	66	599
Expected return on plan assets	(42)	(39)	(349)
Amortization of actuarial differences	91	63	757
Retirement benefit expenses	¥ 427	¥ 369	\$ 3,552

The assumptions and basis used for the calculation of the retirement benefit obligation are as follows:

Discount rate	2.5%(3.0% in 2002)
Expected return rate for plan assets	2.5%
Amortization period for actuarial differences	5 years

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

8. Stock Purchase Warrants

At March 31, 2003, a summary of the terms for the purchase of stock on exercise of warrants is as follows:

	Warrants 1	Warrants 2
Increase in capital if exercised	¥ 230,160,000 \$ 1,914,809	¥ 186,200,000 \$ 1,549,085
Exercise price per share of common stock	¥ 1,680.00 \$ 13.98	¥ 1,520.00 \$ 12.65
Number of shares of common stock reserved for exercise	137,000	122,500
Term of exercise	From April 3, 2000 To September 30, 2003	From February 5, 2001 To August 3, 2004

The exercise price is subject to adjustment under certain conditions.

9. Shareholders' Equity

Under the Commercial Code of Japan, 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 which is included in capital surplus. In conformity therewith, the Company has divided the principal amount of the convertible debentures converted into common stock and the proceeds 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.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 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 being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is 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 Commercial Code of Japan.

On June 25, 2003, the Company's shareholders approved the payment of year-end cash dividends of ¥25 (U.S.\$0.21) per share totaling ¥ 297 million (US\$ 2,471 thousand) to the Company's shareholders of record as of March 31, 2003 and the payment of bonuses to the Company's directors totaling ¥ 35 million (US\$ 291 thousand).

10. Income Taxes

The Companies are 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, 2003, 2002 and 2001.

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Unrealized gains on land	¥ 219	¥ 219	\$ 1,822
Retirement benefits for employees	158	139	1,314
Retirement benefits for directors and corporate auditors	130	135	1,081
Unrealized gains on inventories	113	72	940
Accrued bonuses to employees	134	101	1,115
Allowance for doubtful receivables	15	43	125
Enterprise taxes	83	77	691
Other	101	61	840
Total deferred tax assets	953	847	7,928
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	(166)	(167)	(1,381)
Reserve for special depreciation	(44)	(56)	(366)
Other	(4)	(10)	(33)
Total deferred tax liabilities	(214)	(233)	(1,780)
Net deferred tax assets	¥ 739	¥ 614	\$ 6,148

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rates for financial statement purposes for the years ended March 31, 2003, 2002 and 2001:

	2003	2002	2001
Statutory income tax rate	40.87 %	40.87 %	40.87 %
Non-deductible expenses	0.57	0.75	1.41
Non-taxable dividend income	(0.04)	(0.04)	(0.21)
Per capita inhabitant tax	1.12	1.15	2.26
Other	1.25	1.80	(0.26)
Effective income tax rate	43.77 %	44.53 %	44.07 %

11. Leases

(a) Finance leases as lessee

At March 31, 2003 and 2002, original lease obligations for machinery and equipment and other assets under non-capitalized finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Original lease obligations, including finance charges	¥ 300	¥ 220	\$ 2,496

Leases obligations under non-capitalized finance leases, including finance charges, remaining at March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Payments due within one year	¥ 64	¥ 36	\$ 532
Payments due after one year	143	60	1,190
Total	¥ 207	¥ 96	\$ 1,722

Leases payments under such leases for the years ended March 31, 2003, 2002 and 2001 are ¥ 54 million (US\$ 449 thousand), ¥ 48 million, and ¥ 62 million, respectively.

(b) Operating leases as lessee

Lease obligations under operating leases, remaining at March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Payments due within one year	¥ 40	¥ 48	\$ 333
Payments due after one year	72	67	599
Total	¥ 112	¥ 115	\$ 932

12. Cash Flow Information

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and time deposits	¥ 3,330	¥ 2,833	\$ 27,704
Deposits placed with banks with maturities of over three months	(431)	(430)	(3,577)
Cash and cash equivalents	¥ 2,899	¥ 2,403	\$ 24,118

13. Segment Information

The Companies operate primarily in the pharmaceutical supplies industry in Japan. Accordingly, segment information is not disclosed.

14. Gains from the Transfer of Commercial Rights

Gains from transfer of commercial rights are gains from the transfer of trade rights, trademark rights, etc. to Taiho Pharmaceutical Co., Ltd. for two anticancer drugs which the Company and Medisa Shinyaku Inc., a consolidated subsidiary, manufacture and sell.

15. Effect of Bank Holiday on March 31, 2002

As financial institutions in Japan were closed on March 31, 2002, ¥ 276 million of trade notes receivable and ¥12 million of trade notes payable maturing on March 31, 2002 were settled on the following business day, April 1, 2002 and accounted for accordingly.

16. Earning Per Share

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the year ended March 31, 2003 would be as follows if the prior accounting standard were applied.

	For the year ended March 31, 2003	
	Yen	U.S. dollars
Net income per share		
- Basic	¥ 143.96	\$ 1.20
- Diluted	143.48	1.19

17. Gains from Grants of Distributorships

Gains from grants of distributorships are gains from the grant of the distributorship of anti-inflammatory agents and so on which Medisa Shinyaku Inc., a consolidated subsidiary, manufactures and had sold formerly to Asahi Kasei Corporation.

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 subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Osaka, Japan
June 25, 2003



Asahi & Co.

Board of Directors / Corporate Data

Board of Directors (As of June 25, 2003)

Chairman

Jiro Sawai*

President

Hiroyuki Sawai*

Senior Managing Director

Nobuyuki Kitamori, Ph.D.

Managing Directors

Hiroyuki Sato

Takashi Iwasa, Ph.D.

Harumasa Toya, Ph.D.

Mitsuo Sawai

Directors

Takekiyo Sawai

Keiichi Kimura

Kazuichi Ishikawa

Standing Statutory Auditor

Mitsunori Watanabe

Statutory Auditors

Kazuo Ohishi, Attorney at Law

Arata Mano, Tax Accountant

*Representative Director

Corporate Data (As of March 31, 2003)

Head Office

4-25, Akagawa 1-chome, Asahi-ku,
Osaka 535-0005, Japan

Established

1929

Stated Capital

¥ 4,411 million

Number of Shares Outstanding

11,898,500

Number of Shareholders

2,509

Number of Employees

525

Independent Public Accountants

Asahi & Co.

3-6-5 Kawara-machi, Chuo-ku,
Osaka 541-0048, Japan

Transfer Agent

The Mizuho Trust & Banking Co., Ltd.

Liaison Office

Tokyo

Branches

Sapporo, Sendai, Tokyo, Nagoya, Osaka,
Hiroshima, Fukuoka

Area Offices

Tokyo, Utsunomiya, Saitama, Tachikawa,
Yokohama, Hokuriku, Shizuoka, Kyoto,
Kobe, Takamatsu, Matsuyama

Factories

Osaka, Sanda, Kyushu

Laboratories

Osaka Laboratory
Research and Development Center
Pharmaceutical Research Center

Consolidated Subsidiaries

Medisa Shinyaku Inc.
Active Work Co., Ltd.

URL

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

Sawai Pharmaceutical Co., Ltd.

4-25, Akagawa 1-chome, Asahi-ku, Osaka 535-0005, Japan

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