sawai

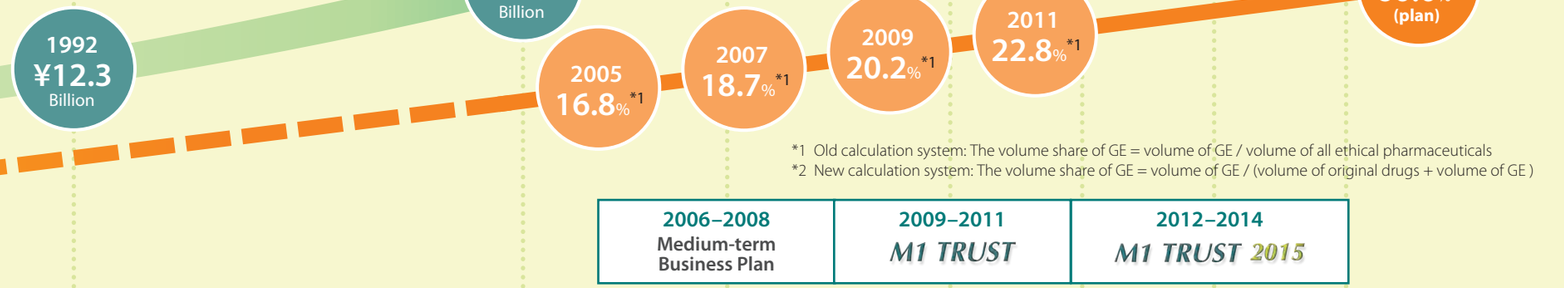
Annual Report 2013

For the year ended March 31, 2013

Keeping Sawai the **Top Leader** in Japan's Generic Industry

Fostering Growth of Japan's Generics Market

Founded in 1929, Sawai Pharmaceutical has established a position for itself as a leading company in the Japanese generic drug manufacturing industry by consistently applying management policies that combine a focus on long-term growth with evolution in step with changing needs. Today the efforts of our entire corporate organization are focused on the achievement of further growth under our medium-term business plan, M1 Trust 2015, through activities that reflect a management philosophy expressed in the words "Patients First."



*1 Old calculation system: The volume share of GE = volume of GE / volume of all ethical pharmaceuticals
*2 New calculation system: The volume share of GE = volume of GE / (volume of original drugs + volume of GE)

2006–2008	2009–2011	2012–2014
Medium-term Business Plan	*M1 TRUST*	*M1 TRUST 2015*

From pharmacy, to OTC pharmaceutical manufacturer | Entry into ethical pharmaceutical business, evolution as a generic drug manufacturer | Expansion of generic drug business | Profile-raising initiatives | Emergence as top generic brand | Capture of leading position in GE business | Further expansion of GE business and investment for the future | Realization of explosive growth

1929–1964

1929:
- Sawai Pharmacy, the forerunner of Sawai Pharmaceutical, established in Asahi-ku, Osaka.

1948:
- Sawai Pharmaceutical Co., Ltd. incorporated in Asahi-ku, Osaka with a capital of 195,000 yen for the purpose of manufacturing and selling pharmaceuticals.

1955:
- Tokyo Branch Office (Now Tokyo Daiichi Branch) opened.

1961:
- Production lines at the main plant automated.

1962:
- Process patent on the extraction of garlic acquired and "YORON P" and " ARIARON" launched.

Former Head Office and Factory

1965–1984

1965:
- Sawai shifts from the manufacture of OTC drugs to the manufacture of ethical pharmaceuticals.

1968:
- Second Osaka Factory (now Osaka Factory) completed.

1974:
- Former company head office building completed and head office relocated.

1981:
- The Kyusyu Factory completed in Fukuoka Prefecture.

1984:
- The Osaka Laboratory opened to expand and improve research facilities.

1985–1994

1985:
- Medisa Shinyaku Inc. incorporated.

1987:
- The Medisa Shinyaku Inc. Kyusyu Factory (now the Second Kyusyu Factory) completed.

1990:
- The Research & Development Center established

1991:
- Medisa Shinyaku Inc. becomes a subsidiary.

1992:
- The Sanda Factory completed in Hyogo Prefecture.

1994:
- The Pharmaceutical Research Center opened

1995–2000

1995:
- Sawai lists on the OTC stock market.

1997:
- Sawai commences newspaper advertising.

1999:
- Sawai awarded for its contribution to tuberculosis control.

2000:
- Sawai lists on the second section of the Tokyo Stock Exchange.

Citation from Princess Kiko

2001–2005

2003:
- Sawai lists on the first section of the Tokyo Stock Exchange.

2004:
- Nationwide television advertising begins.

2005:
- The Mobara Factory (now the Kanto Factory) acquired from Nihon Schering K.K. (now Bayer Yakuhin Ltd.)

Listing in the First Section of TSE

2006–2011

2006:
- Sawai relocates to its present address in Yodogawa-ku, Osaka, following completion of new building to house both the head office and research laboratories.
- Sawai acquires a majority shareholding in Kaken Shoyaku Inc., which becomes a subsidiary.

2007:
- Sawai adopts a corporate philosophy and code of conduct.
- The 07-09 medium-term business plan launched.

2008:
- Hiroyuki Sawai appointed to chairman and Mitsuo Sawai appointed to president.

2009:
- The Research Center (now the Pharmaceutical Technology Center) opened.
- The 09-11 medium-term business plan, M1 Trust, launched.

Current Head Office

2012–2015

2012:
- The manufacturing operations of Medisa Shinyaku Inc. absorbed through a spin-off process.
- The Medium-term business plan, M1 Trust 2015, launched.
- SAP introduced as the main corporate system.
- The annual meeting of IGPA,which Hiroyuki Sawai, Chairman of JGA, participated as Secretariat, held for the first time in Japan.

2013:
- A new pharmaceutical plant completed at the Kanto Factory, increasing annual capacity to eight billion tablets.

The Kanto Factory

Patients First

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

The Japanese government has expressed its strong desire to raise the market share of generic drugs, and backed it with regulations to support such a change.

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

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.

- Around 600 Ethical Drugs through Various Formulations
- Creativity and Strong R&D Capabilities Leading to Innovation
- Stable Supply of High-Quality and Safe Products

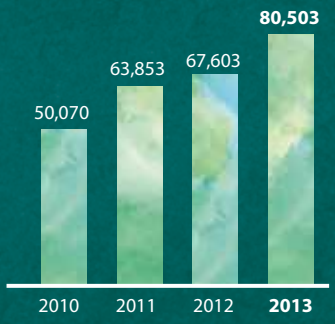
Generics **Driven** by Patient Needs

Contents

Financial Highlights

For the Years Ended March 31

Net sales (Millions of yen)



Net income (Millions of yen)

Net income per share (basic) (Yen)

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	2013	2012	2013
Net sales	¥ 80,503	¥ 67,603	$ 854,686
Operating income	17,385	15,004	184,570
Net income	12,022	9,026	127,639
Net assets	61,480	58,575	652,718
Total assets	127,843	123,400	1,357,286
Research and development (R&D) expenses	4,551	4,317	48,316
Capital expenditures	4,599	4,599	48,831
Depreciation and amortization	3,793	3,389	40,269
	%		
Ratio of R&D expenses to sales	5.7	6.4	
Return on equity	20.1	16.5	
Shareholders' equity to total assets	48.0	47.4	
	Yen		U.S. dollars
Amounts per common share:			
Net income—basic	¥ 773.42	¥ 570.49	$ 8.21
Net income—diluted	636.35	470.13	6.76
Cash dividends applicable to period	170.00	140.00	1.80
Net assets	4,054.29	3,693.68	43.04

Note: 1. The U.S. dollar amounts represent translation of Japanese yen amounts for convenience only and are translated at the rate of ¥94.19 to $1.00, the rate prevailing on March 31, 2013.

2. Minority shareholders' interests are included in net assets due to the application of the Japanese Corporate Law.

To Our Shareholders

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

I would like to begin this report by thanking our shareholders for their continuing support.

In fiscal 2012, the Japanese economy was underpinned by reconstruction demand following the Great East Japan Earthquake. However, uncertainties continued to impact on the economic environment, including economic instability in Europe and slowing growth in emerging economies. It was not until the final months of the fiscal year that signs of improvement emerged amid growing expectations toward the economic policies introduced by the new LDP administration established under Prime Minister Shinzo Abe in December.

For the generic drug industry, fiscal 2012 was significant as the final year of a plan launched by the government five years earlier with the aim of increasing the use of generic drugs used to at least 30% of total pharmaceuticals used*1. In April 2012 a range of measures were introduced to encourage the use of generic drugs with the aim of achieving this target. Further attention was focused on generics in fiscal 2012 when the International Generic Pharmaceutical Alliance (IGPA) held its annual general meeting in Japan for the first time in December.

Competition also intensified in fiscal 2012. Major foreign-owned manufacturers reacted to the prospect of growth in the generic drug market by forming business alliances with the aim of securing market share. There were also moves toward consolidation among Japanese manufacturers, as well as increased efforts to produce generic anticancer drugs and biogenerics.

The Sawai Group implemented a variety of measures based on the M1 Trust 2015 medium-term business plan announced in May 2012, always guided by our "Patients First" corporate philosophy. A key event in relation to our production and supply systems was the completion of a new drug manufacturing plant in the grounds of the Kanto Factory. Output from this new facility, which became operational in March 2013, will enable us to keep pace with the expanding demand for generic drugs.

These initiatives were reflected in our financial results for the year ended March 2013. We set new records for both sales and income, with net sales increasing by 19.1% year on year to ¥80,503 million, operating income by 15.9% year on year to ¥17,385 million, and net income by 33.2% year on year to ¥12,022 million.

Demand for generic drugs can therefore be expected to expand still further. In April 2013, the Japanese Ministry of Health, Labour and Welfare released its "Roadmap for further promotion of the use of generic drugs," one of the goals of which is to increase the volume share of generic drugs to at least 60% by the end of March 2018*2. We will continue our efforts to achieve further improvement in our financial performance by combining sustained efforts under the M1 Trust 2015 medium-term business plan with a timely response to this market expansion.

We look forward to the continuing support of our shareholders.

H. Sawai

Hiroyuki Sawai, Chairman

M. Sawai

Mitsuo Sawai, President

*1 This figure is based on the old formula, which calculated the use of generic products as a percentage of total consumption of new drugs, long-listed drugs, generics, Chinese herbal medicines and natural medicines. Under the new formula, calculations are based on original drugs for which generic drugs can be substituted plus generic drugs. This change was made to facilitate international comparisons.

*2 Volume share of generic drugs = (Volume of generic drugs)/(Volume of original drugs for which generic drugs exist)+(Volume of generic drugs)

An Interview with the President

Q.1

What are the main features of the M1 Trust 2015 medium-term business plan, and how would you sum up your financial results for the year ended March 2013?

The Sawai Group announced the M1 Trust 2015 medium-term business plan ("the medium-term plan") in May 2012. Our targets under the medium-term plan are net sales of ¥104,000 million, operating income of ¥21,000 million, ordinary income of ¥21,000 million, net income of ¥13,500 million and ROE of 16.7% in the year ending March 2015. Our medium/long-term vision calls for the achievement of net sales of ¥200,000 million by fiscal 2020. Our basic policies and specific strategies for the realization of this vision are (1) the establishment of an overwhelming position of leadership in the generic market, (2) the achievement of excellent earning performance through the development of a business structure geared toward superior cost competitiveness, and (3) expansion into other business fields and overseas markets through business portfolio expansion based on the realization of synergy benefits. Our entire corporate organization is working toward these goals.

In the year ended March 2013, these efforts resulted in record net sales and income. Although our financial results fell short of the targets in the medium-term plan, we reached the goals in the amended plan, and net sales were 19.1% higher at ¥80,503 million. The policy introduced in April 2012 ultimately failed to produce market growth because the pace of expansion slowed in the second half of the year. However, there was 230% year-on-year growth in sales of new products released in fiscal 2011, mainly led by the hypolipidemic drug ATORVASTATIN, which was listed in fiscal 2011. In addition, growth in sales of new products was largely in line with our targets in the year ended March 2013, with the result that sales of new products introduced since 2009 reached ¥24,057 million, or approximately 30% of total net sales. This growth was aided by dynamic sales promotion efforts based on closer collaboration with wholesalers and agencies.

Income was affected by a rise in the cost of sales ratio following the reduction of drug prices as a result of the April 2012 revision of prices under the national health insurance system. However, our efforts to control selling, general and administrative expenses helped to lift operating income by 15.9% year on year to ¥17,385 million, which is over ¥800 million above the target in the plan. Net income was further boosted by profit on share sales and exceeded the target by over ¥1,700 million with a 33.2% year on year increase to ¥12,022 million.

Overview of Financial Results

	FY2011 Full Year Result		FY2012 Full Year Result		Year on Year (Growth)	
	Millions of yen	Sales (%)	Millions of yen	Sales (%)	Millions of yen	(%)
Net Sales	¥67,603	100.0	¥80,503	100.0	¥12,899	19.1
Operating Income	15,004	22.2	17,385	21.6	2,380	15.9
Net Income	9,026	13.4	12,022	14.9	2,996	33.2

"In the year ended March 2013, these efforts resulted in record net sales and income. We reached the goals in the amended plan, and net sales were 19.1% higher at ¥80,503 million."

Mitsuo Sawai, *President*

Q.2

What specific initiatives are you implementing under your medium-term plan?

One of our key initiatives under the medium-term plan focuses on the steady release of new products and the capture of market share. Our three-year target is to bring 45 active ingredients to market in 98 dosage forms. In the year ended March 2013, which was the first year under the medium-term plan, we aggressively released new products. Five active ingredients in 15 products were launched in June 2012, followed by nine active ingredients in 12 products in December of that year. Two of the most important of these products are the osteoporosis drug RISEDRONATE Na tablets 17.5mg, which is marketed solely by Sawai, and the neurological drug ZOLPIDEM TARTRATE OD tablets, which was marketed in a dosage form that was not available for the original product. These products are indicative of the major contribution made by our development capabilities to the expansion of new product sales.

From a marketing perspective, we used the introduction of the government's policy of promoting the use of generic drugs to target further growth in our sales in the health insurance pharmacy market. The various measures adopted by the government appear to be producing composite benefits. Judging from the fact that we recorded relatively large increases in deliveries of products for which it is easier to accumulate additional points under the generic prescription premium system, we believe that this system has a major effect. As a result, sales to pharmacies increased by 32.2% year on year based on the value of drugs delivered to 68.8% of total net sales.

We also continued to improve our production and supply systems. Our efforts to strengthen our ability to supply high-quality products reliably through the expansion of production capacity included the construction of a new pharmaceutical plant at the Kanto factory in Mobara City, Chiba Prefecture. The newly competed facility, which became operational on March 1, 2013, has an annual production capacity of 2 billion tablets. This brings our total capacity to 8 billion tablets annually, which is the biggest in the Japanese generic pharmaceutical industry. Efforts to promote the use of generic drugs are continuing, and we therefore designed the new plant so that its capacity could eventually be increased to 4 billion tablets annually, taking our total capacity to 10 billion tablets. Work has already started on the second phase of construction, and we plan to establish production capacity for 10 billion tablets by mid-2014.

As this outline shows, we are making steady progress under our medium-term plan.

Q.3

How do you expect the generic drug market to evolve in the future, and how will you respond to changes in the market?

*1 Old calculation: see page 3.
*2 New calculation: see page 3.

The government's target was to increase the volume share of generic drugs to 30% or higher*1 by March 2013. Based on estimates by the Ministry of Health, Labour and Welfare, it appears that this target was unfortunately not achieved. In April 2013, the government responded by releasing the "Roadmap for further promotion of the use of generic drugs," which includes a new government target calling for the achievement of a volume share of 60% or higher*2 by March 2018. The expansion of the Japanese generic drug market is likely to continue under these government policies. However, competition is also expected to intensify due to an influx of Japanese and foreign capital into the industry, including companies from other industries. Industry consolidation through mergers and acquisitions is also expected to accelerate.

As a specialist manufacturer of generic drugs, our survival in the face of this competition depends on our ability to establish an unrivalled brand value by consistently maintaining the highest standards of product quality, reliability of supply and information sharing. Our six top priorities from this perspective are as follows.

1) Maintaining and Ensuring Reliable Supplies

We will maintain and ensure reliability of supply by sourcing high-quality raw materials worldwide, by investing appropriately and continuously in plant and facilities, and by applying production and quality control systems based on our own rigorous standards. Under our business continuity plan (BCP), we are

also taking steps to ensure reliable supplies even in disaster situations, including the establishment of multiple sources of raw materials.

2) Improvement of Confidence

In addition to our quality assurance systems and post-market safety measures, we are also working under the "Roadmap for further promotion of the use of generic drugs" to build confidence by complying with high voluntary quality standards, by inspecting factories in Japan and overseas, by complying with the Risk Management Plan for pharmaceuticals, and by strengthening our systems for compliance with the Pharmaceutical Affairs Act and other regulatory requirements.

3) Enhancement of Marketing Capabilities

We will build a competitive advantage by enhancing our marketing capabilities, including the use of market analyses to select appropriate items for development, the adoption of marketing strategies for priority items, and the management of product portfolios based on product lifecycles.

4) Enhancement of Information Sharing

We will continue to improve customer satisfaction by promptly supplying medical professionals with accurate information about our products, including effects, benefits, administration methods, dosage and side-effects.

5) Continual Development and Marketing of High-Added-Value Generic Drugs

We will differentiate ourselves from our competitors and strengthen our competitiveness by being the first to develop and market high-added-value generic drugs to meet the needs of patients and medical professionals as soon as patents expire.

6) Reinforcement of Corporate Fundamentals and Management

We will reinforce our corporate fundamentals and management in such areas as cost reduction, operating efficiency, management systems and human resource development and utilization, by ensuring the assimilation of our corporate philosophy, strengthening compliance systems, enhancing risk management, and developing and improving internal control systems, while also working to speed up decision-making and business development.

Q.4

What are your forecasts for the year ending March 2014?

As I stated earlier, although the government has formulated the "Roadmap for further promotion of the use of generic drugs," it has not yet announced any specific measures to encourage use of generic drugs. Because no new measures are likely to be implemented for this purpose in the year ending March 2014, we cannot rely on any additional impetus from government policy. The year ending March 2014 will be an important phase in our progress toward the realization of our target of net sales of ¥104,000 million in the year ending March 2015. However, we are aware that any growth will need to be achieved through our own efforts, and in this sense we face a real test of our fundamental strength as a company. Our progress toward the expansion of our sales and the achievement of our target will be driven by the efforts of all of our employees to convince our customers of the quality of the generic drugs that we develop, and about the added value that they provide for both patients and medical professionals. Based on these efforts, we aim to achieve net sales of ¥87,000 million, operating income of ¥18,000 million and net income of ¥11,600 million in the year ending March 2014.

In the previous year manufacturers of generic pharmaceuticals, including Sawai, caused concern to users as a result of problems affecting the reliability of raw material supplies. Priority policies for the year ending March 2014 include the establishment of relationships with multiple suppliers of raw materials, and the reinforcement of inspection activities by our quality assurance staff. As the leading company in this industry, we will continue our efforts to enhance the reliability of generic pharmaceuticals.

Q.5

At the regular general meeting of shareholders in June 2013, you abolished bonuses for retiring directors and introduced a remuneration system based on stock options. What were the reasons for this change?

Management based on medium/long-term perspectives is vital for any company committed to long-term continuity "Going Concern". For this reason, for many years we provided bonuses for retiring directors as a way of complementing assessments based on short-term contributions to financial performance with assessments based on medium/long-term perspectives. However, this system has been strongly criticized as having much in common with long-service payments, and we therefore decided to abolish it as part of a review of directors' remuneration.

Medium/long-term factors also play a role in determining the share price. We therefore decided to introduce a directors' remuneration system based on stock options. (External directors are not eligible. The same applies to subsequent references to this system.) The purpose of this change was to give directors an additional incentive to contribute to future improvement in our financial performance and corporate value by ensuring that they share the same exposure to the benefits and risks of share price movements as shareholders. Our goal is to achieve sustainable improvement in corporate value by balancing remuneration based on short-term performance during the tenure of each director with medium/long-term incentives provided by stock options that cannot be exercised until after retirement.

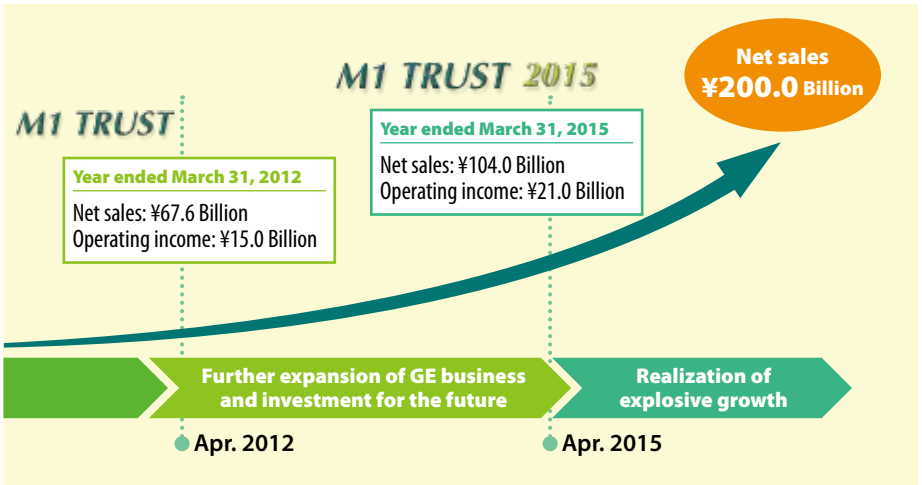
Q.6

Finally, what is your policy on the distribution of earnings?

We regard the distribution of income to shareholders as one of our most important management priorities. Our policy is to provide reliable dividends based on a target payout ratio of 30%, while also actively providing funds for investment in future growth and strengthening the company's capital structure to improve financial soundness. We aim to maintain an ROE of 16% or higher while also taking into account the need to balance internal reserves with shareholder returns.

In the year ended March 2013, we increased the annual dividend by ¥30 over the previous year's level to ¥170, both to reflect a healthy trend in our financial performance, and also to acknowledge the loyal support of our shareholders. In the year ending March 2014, we plan to pay an annual dividend of ¥180, consisting of interim and year-end dividends of ¥90 each. The return of income to shareholders through reliable dividends remains one of our most important management priorities, and we will continue our efforts to maximize our financial performance. We look forward to the continuing support of our shareholders.

Medium-to Long-term Vision



Japan's market for generic drugs can be expected to expand following the government's announcement, in April 2013, of the "Roadmap for further promotion of the use of generic drugs," one of the goals of which is to increase the volume share of generic drugs to 60% or higher*1 by the end of March 2018.

Strong and Growing Stronger

In fiscal 2010, national health expenditure in Japan increased by 3.9% year on year to ¥37.4 trillion. Expenditure on prescription medicines also continues to expand, increasing by 5.5% to ¥6.1 trillion in 2010. Health expenditure has become a major burden on household finances. Per capita health expenditure rose by 3.5% to ¥292,200 in 2010, while the ratio of health expenditure to gross domestic product (GDP) rose from 7.6% in fiscal 2009 to 7.8%, and the ratio to national income from 10.5% to 10.7%*1.

In response to this situation, the government implemented a variety of measures designed to limit this continuing rise in health expenditure without compromising on the quality of health care. Its goal was to increase the volume share of generic drugs to 30% by the end of March 2013*2. New measures introduced as part of the revision of medical service fees in April 2012 included the use of drug information sheets to evaluate the provision of information about generic drugs, and the promotion of generic prescriptions.

These measures were expected to accelerate growth in the use of generic drugs. However, the expansion of the market leveled out in the second half of fiscal 2012, and a mid-range estimate produced by the Ministry of Health, Labour and Welfare suggests that the target was not reached, and that the volume share of generic drugs was still around 25.6% at the end of March 2013.

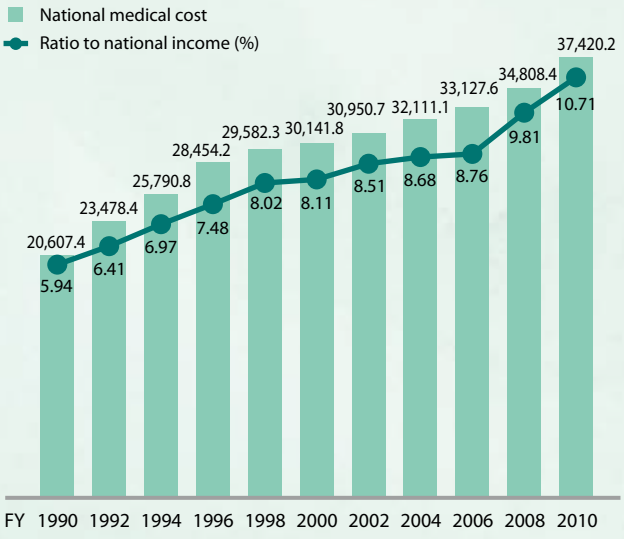
In other major countries, notably the United States, Canada, the United Kingdom and Germany, the volume share of generic drugs is already over 50%. By comparison, the volume share of the Japanese market remains low.

In April 2013, the Ministry of Health, Labour and Welfare responded to this situation by adopting and announcing the "Roadmap for further promotion of the use of generic drugs," in which it sets the new target of increasing the volume share of generic drugs to 60% or higher*1 by the end of March 2018. The entire country, including government agencies, medical professionals and the pharmaceutical industry, will work toward the achievement of this goal.

As the leading company in the generic pharmaceutical industry, Sawai will actively pursue initiatives based on the Roadmap. In keeping with our "Patients First" philosophy, we will work to ensure that patients and medical professionals can use generic drugs with confidence by ensuring reliability of supply backed by the largest production capacity in the industry, by building an R&D organization capable of developing quality generic drugs with high added value, and by focusing on information-sharing and educational activities.

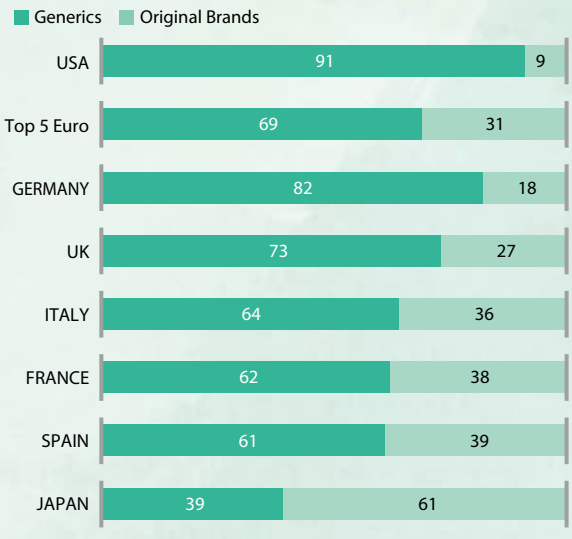
*1 This is equivalent to 34.3% based on the old calculation formula.
*2 See "Measures for Promoting Generic Drug Use in Japan" on Page 9.

Growth of National Medical Costs (Billions of yen)



Source: the Ministry of Health, Labour and Welfare

Generics vs Original Brands (CY2010/%)



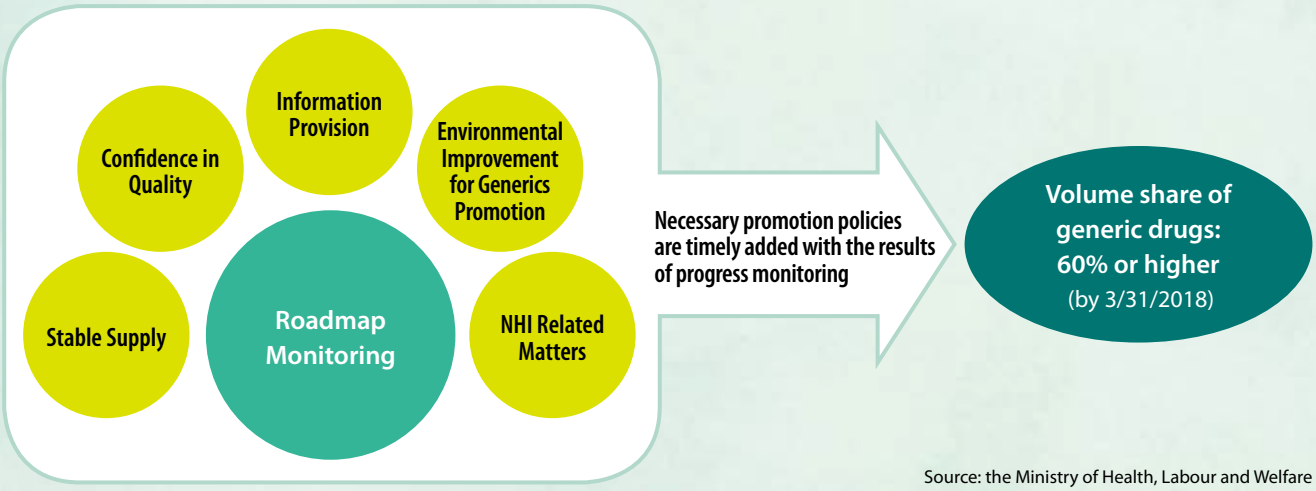
Source: the Ministry of Health, Labour and Welfare

Measures for Promoting Generic Drug Use in Japan

Fiscal 2002	Changes in medical service fees and dispensing fees, including an additional fee for dispensing generic drugs, a fee for generic drug information provision and a fee for prescriptions that include generic drugs
Fiscal 2003	Introduction of the DPC flat-fee payment system
Fiscal 2006	Revision of the prescription form to include physician signature authorizing substitution of generic drugs
Fiscal 2008	Full-scale implementation of generic drug dissemination promotion measures, including the revision of the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities, premiums for generics dispensing systems, further revision of the prescription form (physician signature required to prohibit substitution of generic drugs) and abolition of the fee for prescriptions that include generic drugs
Fiscal 2010	Implementation of additional measures to increase the share of generic drugs, including introduction of quantity-based staged incentives, change in the calculation basis from the number of prescriptions to the quantity of drugs prescribed and an increase in the number of additional points
Fiscal 2012	Revision of medical service fees, including evaluation of the generic drug information provided by drug information sheets, Review of Premiums for Generic Dispensing Systems at Pharmacies, Promotion of Generic Name Prescriptions, and further revision of the prescription form, etc.
Fiscal 2013	Announcement of "Roadmap for further promotion of the use of generic drugs"
Fiscal 2014	Revision of medical service fee (planned)

Source: the Ministry of Health, Labour and Welfare

Roadmap for Further Promotion of the Use of Generic Drugs



Source: the Ministry of Health, Labour and Welfare

Research and Development

Our "Patients First" philosophy is reflected in our use of innovative drug formulation technology to develop products that meet the needs of healthcare professionals and patients.

Industry Leader in R&D

Sawai maintained its active commitment to drug development in the year ended March 2013. Successes included the release of 15 products based on five active ingredients in June 2012, and 17 products based on nine active ingredients in December 2012. Our product line-up, which includes over 600 items, is among the biggest in the Japanese generic drug industry. In June 2013, we launched another nine products based on five active ingredients. We maintain our leadership over our competitors by monitoring market needs, the status of patents and other factors over a period of years, by developing products with great care, and by ensuring that we are first to bring new products to market. We further differentiate ourselves from other manufacturers by using our advanced drug formulation technology to introduce unique innovations.

In the year ended March 2013, we were the only company to market RISEDRONATE Na tablets 17.5mg, which are used to treat osteoporosis.

We also take great care to meet the needs of medical professionals and patients. For example, we have improved the identifiability of our products by using laser technology to print product names and strength on pills, and by printing drug administration methods on backing papers.

Sawai also supplies 30 types of orally disintegrating (OD) tablets, which can be administered without water. This is the biggest range of OD products in the Japanese generic drug industry. We developed an OD tablet version of the neurological drug ZOLPIDEM TARTRATE, even though the original product was not available in that format. New products introduced in the year ended March 2013 also included the antiplatelet drug CILOSTAZOL OD, which is supplied by only one other company apart from Sawai, and the metabolic antagonist (anticancer drug) ESUEEWAN® combination capsules. Because ESUEEWAN® combination capsules include multiple active ingredients, it was difficult to achieve the same elution properties and blood concentration patterns as the original product. The fact that we were able to develop and market this product is indicative of our advanced R&D capabilities.

We anticipate further intensification of competition in the Japanese generic drug industry. To survive against this competition, we need to strengthen our differentiation from other manufacturers while further enhancing our R&D capabilities so that we can continue to provide an effective response to the needs of patients and healthcare professionals. We will achieve this by investing aggressively in R&D. In the year ended March 2013, our R&D expenditure was the highest in the Japanese generic drug manufacturing industry at ¥4,551 million. During the three-year period covered by our medium-term plan, we plan to spend ¥17,300 million on R&D. We will continue to invest in the development of highly sophisticated drugs, compound drugs and drugs with high added value. Other ongoing priorities include the acquisition of approval in overseas markets, and the improvement of existing products. We are determined to maintain our overwhelming leadership in the generic pharmaceutical market by bringing a steady stream of new products to market.

Major Products

Trade Name	Active Ingredient	Dosage Form	Strength
AMLODIPINE	Amlodipine Besilate	Tablets	5mg
ATORVASTATIN	Atorvastatin Calcium Hydrate	Tablets	10mg
CARVEDILOL	Carvedilol	Tablets	10mg
CEFCAPENE PIVOXIL HYDROCHLORIDE	Cefcapene Pivoxil Hydrochloride Hydrate	Tablets	100mg
CILNIDIPINE	Cilnidipine	Tablets	10mg
CLARITHROMYCIN	Clarithromycin	Tablets	200mg (potency)
DONEPEZIL HYDROCHLORIDE OD	Donepezil Hydrochloride	Orally Disintegrating Tablets	5mg
EPINASTIND HYDROCHLORIDE	Epinastine Hydrochloride	Tablets	20mg
ETHYL ICOSAPENTATE	Ethyl Icosapentate	Seamless Capsules	900mg
FAMOTIDINE D	Famotidine	Orally Disintegrating Tablets	20mg
ITORAT®	Itraconazole	Capsules	50mg
LANSOPRAZOLE OD	Lansoprazole	Orally Disintegrating Tablets	15mg
LIMARMONE®	Limaprost Alfadex	Tablets	5μg
METHYCOOL	Mecobalamin	Tablets	500μg
PRAVASTATIN Na	Pravastatin Sodium	Tablets	10mg
RABEPRAZOLE Na	Sodium Rabeprazole	Tablets	10mg
REBAMIPIDE	Rebamipide	Tablets	100mg
TAMSULOSIN HYDROCHLORIDE OD	Tamsulosin Hydrochloride	Orally Disintegrating Tablets	0.2mg
TEPRENONE	Teprenone	Capsules	50mg
VOGLIBOSE OD	Voglibose	Orally Disintegrating Tablets	0.3mg

Major New Products Listed in Dec. 2012 - June 2013

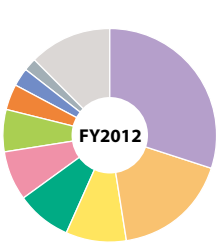
Trade Name	Active Ingredient	Dosage Form	Strength
ALENDRONATE	Alendronate Sodium Hydrate	Tablets	5mg / 35mg
ANASTROZOLE	Anastrozole	Tablets	1mg
CILOSTAZOL OD	Cilostazol	Orally Disintegrating Tablets	50mg / 100mg
ESUEEWAN®	Tegafur / Gimeracil / Oteracil potassium	Capsules	T20(20mg / 5.8mg / 19.6mg) T25(25mg / 7.25mg / 24.5mg)
LAFUTIDINE	Lafutidine	Tablets	5mg / 10mg
LORATADINE	Loratadine	Dry Syrups	10mg/1g
MOSAPRIDE CITRATE	Mosapride Citrate Hydrate	Tablets	2.5mg / 5mg
OLOPATADINE HYDROCHLORIDE	Olopatadine Hydrochloride	Tablets	2.5mg / 5mg
PRAMIPEXOLE HYDROCHLORIDE	Pramipexole Hydrochloride Hydrate	Tablets	0.125mg / 0.5mg
QUETIAPINE	Quetiapine Fumarate	Tablets / Fine Granules	25mg / 50mg / 100mg / 200mg / 500mg / 1g
RISEDRONATE Na	Sodium Risedronate Hydrate	Tablets	17.5mg

DONEPEZIL HYDROCHLORIDE

ATORVASTATIN

ESUEEWAN®

Sales by Therapeutic Category (%)



Cardiovascular drugs	30.1%
Gastro-intestinal drugs	17.6%
Blood/body fluid pharmaceutical products	9.0%
Other metabolic drugs	8.4%
Antibiotics	7.5%
Central nervous system	6.5%
Antiallergic drugs	3.8%
Chemotherapeutic drugs	2.8%
Vitamins	2.0%
Others	12.3%

Representative Sawai Pharmaceutical Value-added Innovations

Easy-to-administer, enhanced drugs

Capsules in tablet form	Large, hard-to-swallow capsules made into tablet form
Miniaturized tablets	Miniaturization of large, hard-to-swallow tablets
Improved taste	Sugar and film coatings to mask bitter taste

Enhancements that facilitate prescription and dispensing for healthcare providers

Easy to split	Tablets with cut lines that make them easy to split
Improved safety	Improved safety against humidity, temperature, sunlight and other conditions

Safety improvements linked to reducing medical errors

Better containers	New, high-safety containers that protect against breakage
Pre-filled syringes	Switch to syringes with solution filled in advance
Clear displays	Clear descriptions of drug names, standards and effects included in packaging

Production Facilities

As the leading company in the Japanese generic pharmaceutical industry, we believe that we have a social responsibility to supply high-quality products reliably. We are building production capacity for 10 billion tablets annually.

Expanding Reliable Supply Capacity to 10 Billion Tablets

The most important mission for a drug manufacturer is the reliable supply of high-quality drugs. Sawai has built a reputation for reliability of supply by actively investing in the expansion of its production capacity. Today we boast the highest supply capacity in the Japanese generic pharmaceutical industry, and we have earned the confidence of wholesalers and healthcare professionals. The Sawai Group already has the capacity to supply around 6 billion tablets annually from its five plants in Japan. In March 2013, a new drug manufacturing plant built in the grounds of the Kanto Factory in Mobara City, Chiba Prefecture became operational, increasing our capacity to around 8 billion tablets.

We used advanced production engineering technology in this highly automated plant, including the separation of flows of personnel and products. This is reflected in high standards of productivity and quality control. The plant was designed to comply not only with the Japanese good manufacturing practice (GMP) standards for pharmaceutical manufacturing and quality control, but also with the standards of the U.S. Food and Drug Administration (FDA) and the European Union.

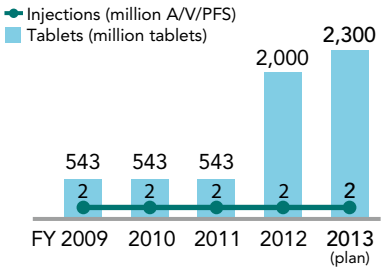
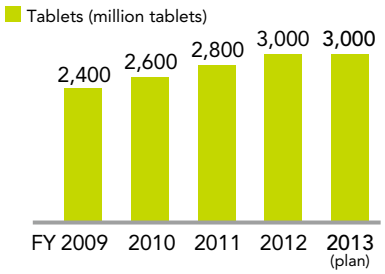
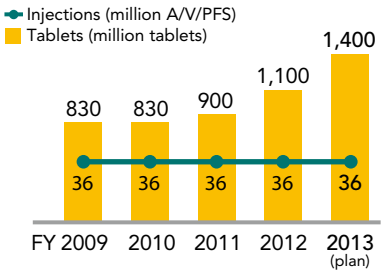
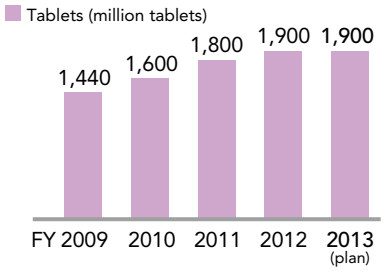
The plant also has many environment-friendly features, including energy-efficient facilities and manufacturing equipment, and green areas in the factory grounds.

We plan to invest ¥26,000 million in plant and facilities during the three-year period covered by the medium-term business plan. However, demand for generic drugs is now expected to expand more rapidly than was initially anticipated, and we will therefore implement investment ahead of schedule. The Kanto Factory currently has capacity for approximately 2 billion tablets per year, but the second phase of construction will increase this to 4 billion tablets per year, bringing our total capacity to 10 billion tablets.

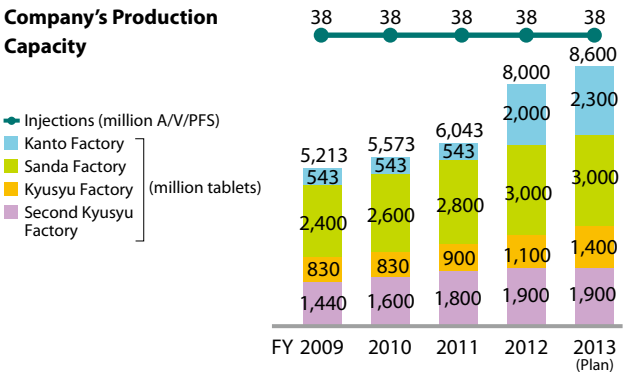
With the exception of the Yasato Factory of our subsidiary, Kaken Shoyaku, all of the Sawai Group's production plants have been integrated under the parent company, and all are maintaining high levels of productivity. Our Production Division is leading our efforts to ensure reliable supplies of high-quality products through the ongoing expansion of our production capacity.

We remain committed to the maintenance of reliability of supply and the group-wide optimization of our production systems through worldwide procurement of high-quality raw materials, continuing effective investment in plant and facilities, and production management and quality control based on our own stringent standards. Under our business continuity plan (BCP), we are also taking steps to ensure reliability of supply even in disaster situations, including the establishment of multiple sources for key raw materials, standardization of production equipment, the training of personnel with multiple skills, personnel sharing between factories, and technology standardization.

Major Factories of Sawai Pharmaceutical

	Factory Outline	Special Features	Production Capacity
Kanto Factory (Chiba Prefecture) 	**Site Area:** 87,478m² **Total Floor Area:** 27,949m² **Production Capacity:** 2,000 million tablets, 2 million V/A/PFS **Dosage Forms Handled:** Tablets, capsules, granules, injection, other	• Includes Sawai's own syringe plant, a rarity among drug manufacturers • A new manufacturing plant became operational in March 2013. Production capacity increased 2 billion tablets.	
Sanda Factory (Hyogo Prefecture) 	**Site Area:** 37,822m² **Total Floor Area:** 21,830m² **Production Capacity:** 3,000 million tablets **Dosage Forms Handled:** Tablets	• Dedicated tablet factory • Features production facilities for special drugs like hormone solutions.	
Kyusyu Factory (Fukuoka Prefecture) 	**Site Area:** 70,351m² **Total Floor Area:** 21,077m² **Production Capacity:** 1,100 million tablets, 36 million V/A/PFS **Dosage Forms Handled:** Injection, granules, capsules, tablets, ointments	• The historical center of the Sawai Pharmaceutical Group • Handles a broad spectrum of dosage forms • Includes production facilities for injection solutions	
Second Kyusyu Factory (Fukuoka Prefecture) 	**Site Area:** 34,102m² **Total Floor Area:** 17,557m² **Production Capacity:** 1,900 million tablets **Dosage Forms Handled:** Tablets, granules, other	• Large facilities for special drugs like OD tablets	

Company's Production Capacity



Production Facilities

Marketing and Sales Operations

We are preparing for further expansion of the generic drug market by actively marketing our products through a balanced mix of wholesale and agency channels.

Raising the Profile of the Sawai Brand

Sawai is actively marketing its products in anticipation of increased use of generic products, especially by insurance pharmacies and hospitals operating under the diagnosis procedure combination (DPC) system. Of particular significance is the fact that actual deliveries of drugs to pharmacies in the year ended March 2013 increased by 32.2% year on year.

We have established an excellent reputation for quality, information-sharing and reliability of supply with wholesalers that supply products to both insurance pharmacies and DPC hospitals. Our efforts to strengthen links with wholesalers under our medium-term business plan are resulting in steady growth in sales through wholesale channels. Sales via wholesalers in the year ended March 2013 amounted to ¥41,597 million. This is 23.2% above the previous year's level and is equivalent to 51.7% of consolidated net sales, compared with 50.0% in the previous year.

In addition, we have established sales channels through regionally based agencies capable of providing a fine-tuned response to local needs. Sales through agencies increased by 17.4% year on year to ¥34,792 million in the year ended March 2013. The contribution to consolidated net sales was 43.2% (43.8% in the previous year).

The market environment for generic pharmaceuticals continues to change. More than ever, success depends on the development of stronger relationships, not only with our traditional customers, but also with the head offices of pharmacy chains in the insurance pharmacy segment, and with major regional hospitals in the hospital market.

In this changing market environment, we will focus primarily on the expansion of sales in the pharmacy market because of our strength in that segment. At the same time, we will work to build relationships with major hospitals, expand sales, especially of anticancer drugs, and raise the profile of the Sawai brand. Our aim is to build an overwhelming presence as the number one company in the generic drug market.

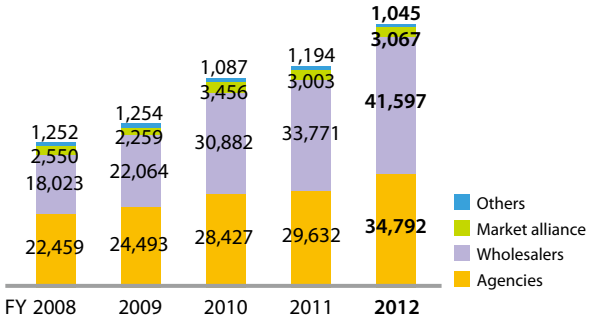
Specifically, we use the qualities that differentiate us from our competitors, including our extensive product line-up, our high-added-value products, and our reliability of supply, to expand our relationships with our existing customers in the pharmacy market. At the same time, we will expand and strengthen our customer base by devising and implementing strategies in response to change in the pharmacy market.

We will develop and expand our relationships with major hospitals by focusing on key target and expanding our sales force, including medical representatives (MRs) specializing in the hospital market and specialists in the oncology field. In addition, we will raise the profile of the Sawai brand through increased collaboration between hospital market MRs and regional MRs.

In addition, we aim to expand sales through closer collaboration with wholesalers and agencies, by increasing the number of staff assigned to wholesalers in our head office and branches, by increasing the frequency of communication between MRs and wholesaler MSs (Marketing Specialists) in order to build and strengthen trust, and by fostering closer communication in relation to customer information by expanding departments dedicated to distributors.

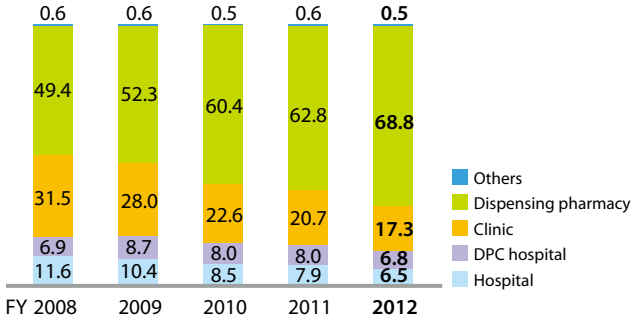
Sales by Market Channel

(Millions of yen)

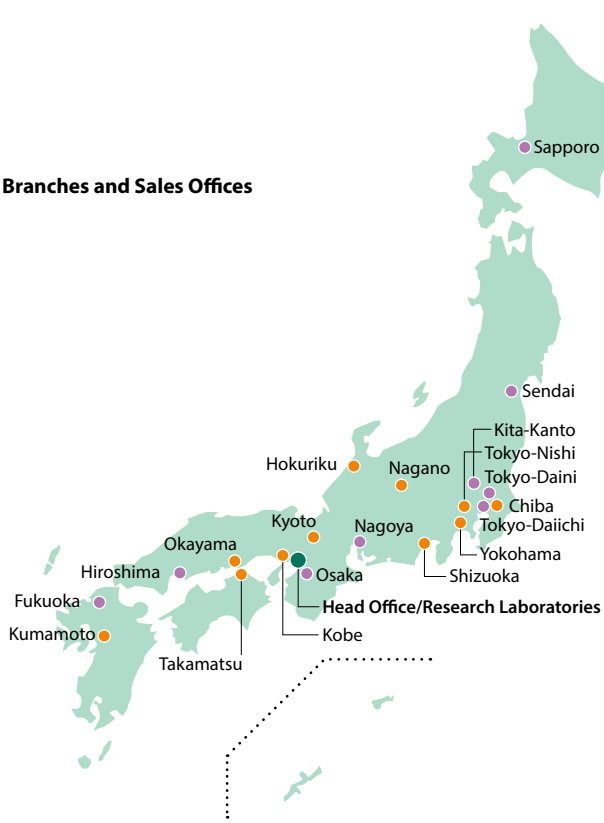


Sales Composition by Medical Institution Types

(Non-Consolidated/%)



Branches and Sales Offices



9 Branches

- Sapporo Branch
- Sendai Branch
- KIta-Kanto Branch
- Tokyo-Daiichi Branch
- Tokyo-Daini Branch
- Nagoya Branch
- Osaka Branch
- Hiroshima Branch
- Fukuoka Branch

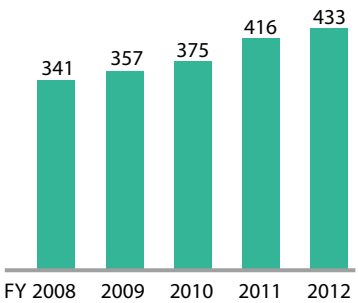
11 Sales Offices

- Nagano Sales Office
- Tokyo-Nishi Sales Office
- Yokohama Sales Office
- Chiba Sales Office
- Shizuoka Sales Office
- Kyoto Sales Office
- Kobe Sales Office
- Hokuriku Sales Office
- Takamatsu Sales Office
- Okayama Sales Office
- Kumamoto Sales Office

Head Office

Meeting

Number of MRs



The M1 Project

Our aim under the M1 Project, which includes internal branding activities, is to raise the profile of the Sawai brand and build trust in our products. Under this program, we are working to raise the awareness of every individual employee while strengthening our corporate fundamentals and our total capabilities as a group.

Trust is the foundation stone of the Sawai brand. We believe that trust must be built through the efforts of each and every employee. This concept led to the launch of the M1 Project in October 2006. The guiding principle for the M1 Project, which is based on total participation, is that by working together we can become No. 1. Phase 7 of the project was completed at the end of March 2013, and we are now working on Phase 8 in fiscal 2013. Activities include a program designed to encourage people in all areas of our organization to go back to basics and think about how they can apply our corporate philosophy to their work activities. Another focus is the improvement of manners.

Progress under the M1 Project

Phase	Concept	Key Themes	Common Themes
Phase 1 (Fiscal 2006)	Unification of values	• Drawing up and inculcation of the corporate philosophy • Training system development • Facilitation of information sharing	•M1 Committee •M1 Club activities •Corporate philosophy inculcation activities •Employee awareness survey
Phase 2 (Fiscal 2007)	Awareness raising	• Drawing up and inculcation of the corporate philosophy (continued) • Training system development (continued) • Facilitation of information sharing (continued) • Inventory adjustment • Change management improvement	
Phase 3 (Fiscal 2008)	Delivery of business results	• Performance management system development • Development investment process development • Drawing up and inculcation of a medium-term business plan	
Phase 4 (Fiscal 2009)	Improvement of corporate fundamentals	• Off-site meetings	
Phase 5 (Fiscal 2010)	Strengthening of the basis for competitiveness	• The Five Years-After Committee • Direct materials purchase cost reduction • Indirect materials purchase cost reduction *(Treasure Hunters)* • Management skills development program • Off-site meetings	
Phase 6 (Fiscal 2011)	Corporate philosophy inculcation	• Indirect materials purchase cost reduction *(Treasure Hunters)*	
Phase 7 (Fiscal 2012)	Reinforcement of corporate philosophy inculcation	• Drawing up and inculcation of a medium-term business plan • Indirect materials purchase cost reduction *(Treasure Hunters)*	
Phase 8 (Fiscal 2013)	Realization of corporate philosophy	• Indirect materials purchase cost reduction *(Treasure Hunters)* • Improvement of manners • Clarification of management philosophy for each segment	

Publicity Activities

Through its publicity activities, Sawai is helping to raise awareness of generic drugs and promote their use.

In 1997, when there was little awareness of generic drugs among the general public and even among medical professionals, Sawai became the first generic drug manufacturer to place advertisements in specialist medical journals. That was the beginning of our efforts to promote understanding about and increased use of generic pharmaceutical products. In the same year, we also began to place newspaper advertisements targeted toward the general public, and in 2004 we launched TV commercials designed to raise awareness of generic drugs. Through initiatives such as these, we have consistently played a pioneering role in advertising by the generic drug industry.

We will continue to use dynamic advertising activities to promote increased use of generic drugs, and build solid trust in the Sawai brand.

TV Commercial:
Innovation in drug manufacturing

TV Commercial:
Our factories

A website for medical professionals
(redesigned in March 2013)

Newspaper advertising in the Yomiuri Shimbun and Asahi Shimbun in July 2013

An advertisement for ESUEEWAN® in a specialist journal for medical professionalss

Generics Handbook

Health Bookkeeping

Sole Sponsorship of TV Series

Sawai is the sole sponsor of a TV series called "Dr. Rakuchou Warai no Shindanshitsu" (Dr. Rakuchou's Laughter Clinic), which has been broadcast on the BS Nippon channel since October 2012. The program centers on Dr. Rakuchou Tatekawa, who in addition to being a physician is also a rakugoka, or traditional teller of comic stories. The purpose of the program, which is based on health-related proverbs, is to entertain viewers while informing them about health. By watching this program, many people have expanded their knowledge about diseases and become more aware of health, as well as gaining an increased understanding about generic drugs.

CSR Activities

As a pharmaceutical manufacturer, we aim to benefit our patients, medical professionals and society through wide-ranging initiatives.

Sawai contributes to society by supplying generic drugs. As part of that role, we actively disseminate information to medical professionals and the general public by co-sponsoring medical conferences and hosting seminars. As a corporate citizen dedicated to growth in partnership with society, we also aim to contribute to communities through relationship-building activities, including the arrangement and co-sponsorship of various events.

Living with Breast Cancer—Cancer Therapy and Generic Drugs for You and Your Family

(March 30, 2013, Sapporo, Hokkaido)

As co-sponsor of this seminar, we gave participants an opportunity to learn about breast cancer while encouraging people to have examinations and seek treatment, and raising awareness of generic anticancer drugs.

When a Family Member is Diagnosed with Dementia—Changing Approaches to the Treatment of Alzheimer's Disease and the Role of Generic Drugs

(March 24, 2013, Sendai, Miyagi Prefecture)

Current estimates indicate that there are now 2.5 million dementia sufferers in Japan. Generic drugs for the treatment of Alzheimer's disease, which is believed to be the most common form of dementia, first appeared in December 2011. At this seminar, medical professionals involved in the actual treatment of dementia patients were invited to speak about Alzheimer's disease and the use of generic drugs now and in the future.

Let's Make Osaka Healthier!—Sawai Day

Held on May 31, 2013, this event centered on a game between Orix Buffaloes and the Hanshin Tigers from the Central and Pacific Leagues. Children were invited to watch the match as part of a baseball tour program that also included photo opportunities with players and other memorable activities, such as throwing the first pitch and presenting flowers to the teams.

World Heart Day—Health Walk

World Heart Day on September 29 2012 was part of an international campaign to prevent cardiovascular disease. Sawai supports this campaign, the aim of which is to educate the public about the prevention of cardiovascular disease and lifestyle diseases through a healthy diet and exercise. The main event on World Heart Day was the Heart Health Walk . As a special co-sponsor, Sawai organized various healthcare educational events.

"Generics and Me" Story Campaign

Sawai runs campaigns under which patients and the general public are invited to send in stories about their experiences with generic drugs. Last year's campaign during July and August, 2012 attracted 1,355 entries, of which 24 were selected for inclusion in a booklet. This booklet is used to raise awareness of the significance and advantages of generic drugs and promote increased use of these products by informing medical professionals about the feelings of happiness and gratitude experienced by patients after being treated with generic products.

Corporate Governance

Sawai Pharmaceutical is developing a fair and highly transparent management structure based on the recognition that corporate governance is the management platform for the fulfillment of corporate social responsibility.

Basic Policy on Corporate Governance

The Company values a management system that can both ensure prompt decision-making leading to appropriate business execution in response to changes in the external environment and discharge good corporate governance through the practice of highly fair and transparent management. The Company considers the ongoing development of such a system to be one of the most important management priorities for the realization of the basic management policy of maximizing shareholder interests.

To cultivate and maintain high ethical standards as a company that affects people's lives through the provision of medical drugs, in keeping with the "Patients first" corporate philosophy, Sawai will engage in business activities in accordance with the Company's standards of behavior toward shareholders and other stakeholders and internal regulations.

Description of Management Organization

The best policy for pursuing efficiency and legality in management is for directors knowledgeable about the ethical drugs industry and Sawai's internal circumstances to maintain high ethical standards and engage in business management by paying careful attention to circumstances within the Company. Sawai considers the corporate auditor system, under which corporate auditors monitor business management, to be optimal in view of its size and management style and has adopted this system.

Sawai has also introduce the external director system for the purpose of reinforcing the supervisory function over overall management and the supervisory function over conflict of interest, and adoption of the system. The appointment of an external director with voting rights on proposals considered at meetings of the Board of Directors is expected to bring useful advice and insights to the Company's management. Sawai will strive to further increase management transparency and activate discussion at meetings of the Board of Directors.

In addition, the business decision-making function and the operation-execution function are separated. The company employs an executive officer system for clearly defining responsibilities for operation execution and intends to enhance this function in accordance with the business strategy.

In addition, Sawai considers it effective for the external corporate auditors to exercise a supervisory function over the Board of Directors. Although the external corporate auditors do not have voting rights on proposals before the Board of Directors, they have necessary legal oversight authority, such as the right to demand cessation of activities outside the purposes of the Company on the part of directors. External corporate auditors also have the obligation to attend meetings of the Board of Directors and express their opinions as necessary, and Sawai believes that supervision by the external corporate auditors has a similar effect to the supervisory function expected of external directors.

The Company's external corporate auditors are specialists in accounting, taxation, legal affairs and other disciplines. They attend meetings of the Board of Directors and express necessary opinions from an objective perspective. The Company has prepared Board of Auditors Regulations and Internal Audit Regulations. It encourages close collaboration between the Board of Auditors and the Internal Inspection Section and is undertaking reinforcement of the corporate audit function. In addition, the standing statutory auditor shares information with the external corporate auditors by attending the Management Conference and other important meetings and reporting to the Board of Auditors.

The Company has nine directors (including one external director) and four corporate auditors (including two external corporate auditors).

The Board of Directors convened for a total of sixteen regular monthly meetings and extraordinary meetings in the year under review, and the Company has a small management organization that allows for a close exchange of views and reciprocal checks on a regular basis. In addition, the Company seeks to ensure rigorous auditing and supervision company-wide through means including business site audits conducted by the Board of Auditors and the Internal Inspection Section.

The Company obtains advice concerning issues related to corporate management and day-to-day business operation as necessary from several attorneys and other specialists, and refers to the advice when making business decisions.

Decisions on directors' remuneration are made principally by the Board of Directors in accordance with internal regulations, within the total amount determined by a resolution of the General Meeting of Shareholders.

External Directors and External Corporate Auditors

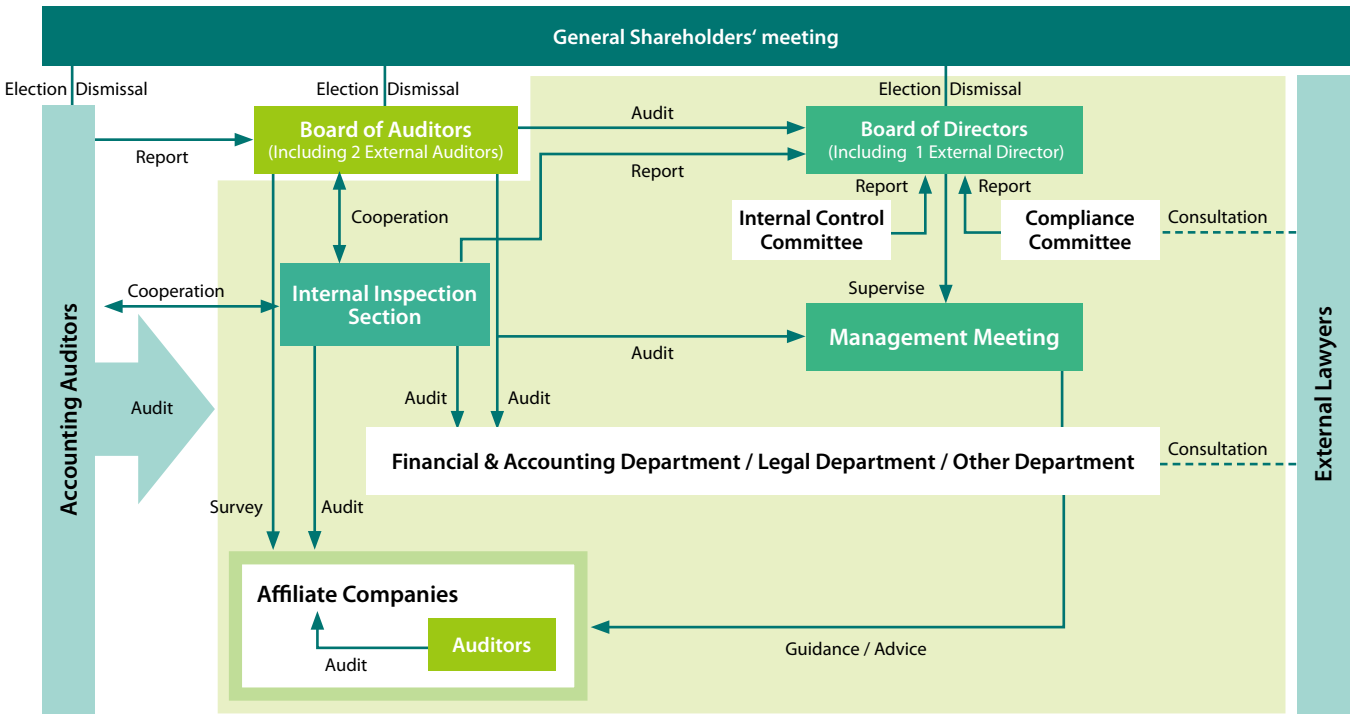
The Company's external director and external corporate auditors are not now and have never been officers, principal shareholders or investors, major business counterparts, or consultants, accounting professionals or legal professionals receiving a large amount of money or other assets from the Company, nor are they persons who previously met any of these criteria or close relatives of any of the above persons. Furthermore, the Company has determined that there is no potential conflict of interest with general shareholders.

The Company makes reference to the concept of the independent director/auditor system stipulated by the Tokyo Stock Exchange

Board of Directors, Auditors and Corporate Officers (As of June 25, 2013)

Chairman, Representative Director	Hiroyuki Sawai
President, Representative Director	Mitsuo Sawai
Directors	Takashi Iwasa, Ph.D. Harumasa Toya, Ph.D. Keiichi Kimura Shigeharu Yokohama, Ph.D. Minoru Kodama Kenzo Sawai
External Director	Hidefumi Sugao
Standing Statutory Auditor	Hidetsugu Matsunaga
Statutory Auditor	Takekiyo Sawai
External Auditors	Takashi Takahashi Toshiaki Kobayashi
Managing Executive Officers	Takashi Iwasa, Ph.D. Harumasa Toya, Ph.D. Keiichi Kimura Shigeharu Yokohama, Ph.D. Minoru Kodama Kenzo Sawai
Senior Executive Officers	Kyozo Inari Shinichi Tokuyama Yoshiteru Takahashi, Ph.D.
Executive Officers	Makio Sakaki Yuji Tokunaga, Ph.D. Kazuhiko Sueyoshi

Corporate Governance Structure



concerning the criteria or policy concerning independence from the Company of external directors or external corporate auditors and has determined that independence of the external director and external corporate auditors has been ensured. The Company has designated and registered the external director and external corporate auditors as independent officers in accordance with the regulations of the Tokyo Stock Exchange. The Company selects candidates who can perform the roles expected of external directors and external corporate auditors, making reference to the concept of the independent director system stipulated by the Tokyo Stock Exchange. The Board of Directors deliberates on and decides the appointment of independent officers after obtaining the opinion of the Board of Auditors, and a proposal is submitted to the General Meeting of Shareholders. The Company has determined that the check function by these organizations operates effectively.

To perform their supervisory function over management on the basis of objectivity, independence, and fairness, the Company's external director and external corporate auditors periodically exchange information with the Internal Inspection Section and the independent accounting auditors, receive reports on the status of auditing, conduct their own examinations as necessary, offer opinions, and otherwise collaborate and contribute to improvement of the audit function. Although the external director and external corporate auditors do not directly offer advice to the departments responsible for internal control, the audit function operates indirectly through the standing statutory auditor or the Internal Inspection Section. In addition, the Company promotes information sharing, strengthening of the supervisory and audit functions, and efficiency by assigning members of the General Affairs Department to assist the external director and members of the Internal Inspection Section to assist the external corporate auditors to ensure that the external director and external corporate auditors can pay undivided attention to the fulfillment of their functions. In accordance with Article 427, Paragraph 1 of the Companies Act, agreements have been concluded that limit the liability for damages for negligence of duties between the Company and its external directors and between the Company and its external corporate auditors to the amounts stipulated in the law.

Status of an Internal Control System

The Company, through its Board of Directors, has resolved to establish a "system to ensure the appropriateness of operations" as prescribed in the Companies Act and Ordinance for Enforcement of the Companies Act. A summary is presented below.

(a) Operation and maintenance of a system to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation.

1. In the M1 Project, a set of activities for all Group employees to ensure inculcation of the corporate philosophy and code of conduct, the Company implements corporate-wide Group activities and training and makes clear to all executives and employees their thorough responsibility to pursue business operations that conform to the corporate philosophy and code of conduct and comply with laws and regulations and internal Company regulations.
2. Sawai has established a Compliance Committee as it strives to improve awareness of compliance through education and awareness activities for executives and employees
3. Through appropriate operation of regulations pertaining to the corporate ethics help line, the Company prevents scandals arising from violations of laws and regulations and encourages their early discovery and remediation.
4. In addition to the conduct of internal audits by the Internal Inspection Section under the direct control of the President, the Company undergoes rigorous audits by the Corporate Auditors and audit company.
5. Sawai endeavors to provide timely and appropriate disclosure of corporate information to earn consistent trust both inside and outside the Company.

(b) System for retention and control of information pertaining to execution of directors' duties

1. The Company has prepared the Document Management Regulations and appropriately retains for the prescribed retention periods documents whose retention is prescribed by law, as well as minutes of important meetings, approval documents pertaining to important matters, important contracts and other information pertaining to the directors' execution of duties (including electronic records) whose retention is prescribed by regulations
2. The Company takes all possible measures to keep critical company matters and confidential information acquired during the course of business under perfect control in accordance with Insider Trading Control Rules and Information Security Control Rules, and to provide full protection to personal information in accordance with the Personal Information Protection Regulations.

(c) Regulations pertaining to managing the risk of loss and other systems

1. The Reliability Assurance Division holds responsibility for rigorous supervision of product quality and safety in accordance with the GQP (Good Quality Practice) and GVP (Good Vigilance Practice) standards. Through close coordination with government agencies, domestic and overseas research organizations, and raw materials producers, the Company has an accurate grasp of information related to pharmaceutical quality and safety and takes steps for the prompt application of necessary countermeasures to prevent accidents before they occur based on scientific analysis and evaluation.
2. In pursuit of a higher level of risk management, each department in charge of managing risks that arise in the course of business execution has primary responsibility for risk management, and each department prepares regulations and manuals related to risk management.
3. Risk management related to emergency conditions conforms to the Crisis Management Regulations and the Business Continuity Plan (BCP). The Company seeks to minimize the damage when danger arises and to ensure prompt restoration of business activities.
4. In risks related to financial reporting, the Internal Control Committee presents issues and determines policy, and supervises operation and maintenance pertaining to the internal controls of the process owners from each division, while the Internal Inspection Section evaluates these actions.
5. In thorough pursuit of open and fair business operation and the elimination of non-transparent business dealings, the Company works closely with the police and other concerned public authorities and consulting attorneys to form a resolute stance against antisocial forces and other groups that threaten the safety and order of civil society.

(d) System to ensure that directors' duties are effectively executed

1. The Board of Directors convenes its regular meeting on a monthly basis and holds extraordinary meetings as necessary. In addition, the Management Meeting convenes once or more per month to deliberate execution plans related to important matters.
2. In accordance with the medium term business plan, business plans are formulated for each business segment and progress is managed at committees composed primarily of board members.
3. The Regulations on Division of Duties and the Management Authority Regulations have been established in order to clearly define authority and responsibility. In addition, the Company strives for a clear and prompt decision-making process through the adoption of an approval system.
4. The Company obtains advice concerning issues related to corporate management, as necessary, from a set of attorneys and other specialists, and refers to this advice in its business decisions.

(e) A system to ensure the appropriateness of operations in the Group

1. Each Group company conducts its business according to a common corporate philosophy and code of conduct.
2. The company seeks rigorous business operations through the Subsidiary and Affiliate Management Regulations.
3. The Internal Inspection Section conducts regular audits of subsidiaries.
4. The standing statutory auditor endeavors to collect information on subsidiary companies and monitor the appropriateness of their transactions with the parent company.

(f) Matters related to the corresponding employees when corporate auditors request employees for assistance in the corporate auditors' business duties

1. When the corporate auditors request an assistant (on an as-needed basis), a member of the Internal Inspection Section will serve concurrently.
2. The work done by the assistant as specified by the corporate auditors is independent of the directors' reporting structure and resides with the corporate auditors.

(g) System to submit reports to the corporate auditors

1. The corporate auditors attend other major meetings in addition to the Board of Directors Meeting in order to grasp the major decision-making processes and status of business execution.
2. The corporate auditors review important documents related to business execution and can make requests as necessary to directors and employees for explanation of these documents.
3. When a director discovers any fact or circumstance at the Company that may cause appreciable damage, the director reports this matter without delay to the corporate auditors.
4. Notification of any wrongful conduct by a director is directly reported by employees to the corporate auditors.

(h) Other systems to ensure that audits by the corporate auditors are conducted in a practical and effective manner

1. The Internal Inspection Section maintains a close working relationship with the corporate auditors through such actions as reporting the plans and results for internal audits to the corporate auditors in a timely manner in order to make improvements for effective audits by the corporate auditors.
2. Through periodic arrangements with accounting auditors, the corporate auditors strive to grasp the activities of the accounting auditors and to exchange information with them. In addition, they attend audit review meetings held by the accounting auditors and observe the physical inventory audits in their aim to improve the work of corporate auditors in pursuit of greater effectiveness and quality.

FIVE-YEAR SUMMARY

For the Years Ended March 31, 2013, 2012, 2011, 2010 and 2009

	Millions of yen				
Years ended March 31	**2013**	2012	2011	2010	2009
Net sales	**¥ 80,503**	¥ 67,603	¥ 63,853	¥ 50,070	¥ 44,284
Cost of sales	**42,511**	34,411	33,736	26,275	25,156
Gross profit	**37,992**	33,192	30,117	23,795	19,128
Selling, general and administrative expenses	**20,607**	18,188	16,531	15,276	14,460
Operating income	**17,385**	15,004	13,586	8,519	4,668
Income before Income Taxes and minority interests	**18,098**	14,928	12,289	8,372	4,320
Net income	**12,022**	9,026	7,183	4,982	2,439
Total assets	**127,843**	123,400	117,056	81,236	72,320
Inventories	**29,529**	25,780	21,218	18,081	13,588
Total current liabilities	**30,105**	26,932	25,811	25,441	20,911
Total long-term liabilities	**36,258**	37,893	40,382	9,537	9,703
Net assets	**61,480**	58,575	50,863	46,258	41,706
Net cash provided by operating activities	**12,256**	7,814	5,937	7,907	3,169
Net cash used in investing activities	**(1,373)**	(2,371)	(20,362)	(5,329)	(3,037)
Net cash provided by financing activities	**(10,970)**	(4,578)	24,756	348	1,027
Cash and cash equivalents at end of year	**20,584**	20,671	19,805	9,474	6,548
Research and development (R&D) expenses	**4,551**	4,317	3,902	3,593	3,409
Capital expenditures	**12,520**	6,906	2,805	5,370	2,841
Depreciation and amortization	**3,793**	3,389	3,066	3,025	2,709
			%		
Ratio of R&D expenses to sales	**5.7**	6.4	6.1	7.2	7.7
Return on equity	**20.1**	16.5	15.1	11.8	6.2
Shareholders' equity to total assets	**48.0**	47.4	43.4	54.5	55.4
			Yen		
Amounts per common share:					
Net income–basic	**¥ 773.42**	¥ 570.49	¥ 456.07	¥ 317.32	¥ 155.32
Net income–diluted	**636.35**	470.13	407.33	316.86	—
Cash dividends applicable to period	**170.00**	140.00	110.00	70.00	55.00
Net assets	**4,054.29**	3,693.68	3,210.32	2,817.65	2,511.06

Notes: 1. Diluted net income per common share is not disclosed in 2009.
2. Minority shareholders' interests are included in net assets due to the application of Japanese Corporate Law.
3. Capital expenditures are calculated on a cash flow basis.

Business Environment

In the generic drug industry in Japan in fiscal 2012, the government implemented new measures to promote the use of generic drugs, including "Review of Premiums for Generic Dispensing Systems at Pharmacies" and "Promotion of Generic Name Prescriptions" in April 2012. Additionally, in December 2012, the annual conference of the IGPA (International Generic Pharmaceutical Alliance) was held for the first time in Japan, increasing the attention inside and outside the country to the domestic generic drug industry.

Competition in the market intensified, on the other hand, due to factors including the acquisition of a Japanese generic drug manufacturer by one of the world's largest generic drug makers and a bid by Japanese and foreign original drug manufacturers to strengthen their marketing capabilities through the unification of their long-listed drug units and generic drug units.

In response to these events, the Sawai Group tackled specific measures, with each department guided by the corporate philosophy of "Patient's first," and the basic policy of the new medium term business plan, M1 TRUST 2015, released in May 2012.

Income and Expenses

Consolidated net sales in fiscal 2012 increased by 19.1% year on year to ¥80,503 million, reaching a record high following the previous fiscal year.
In the results for sales growth by channel, sales through the wholesaler channel increased by 23.2% year on year, while sales through regional sales agencies increased by 17.4%. The wholesaler channel accounted for 51.7% of net sales (50.0% in fiscal 2011), and the regional sales agency channel accounted for 43.2% (43.8%).

Cost of sales rose 23.5% year on year to ¥42,511 million, and gross profit rose 14.5% to ¥37,992 million. Accordingly, the gross profit to sales ratio decreased by 1.9 percentage points to 47.2%.

Selling, general and administrative expenses increased by 13.3% year on year to ¥20,607 million as a result of increases of personnel costs, advertisement expenses, depreciation costs and R&D expenses.

As a result, operating income increased by 15.9% over the previous year to ¥17,385 million. The operating income to sales ratio fell by 0.6 percentage point year on year to 21.6%.

Net income increased by 33.2% year on year to a record high of ¥12,022 million. Net income per share rose ¥202.93 from the previous year to ¥773.42.

The return on equity rose by 3.6 percentage points from the previous year to 20.1%.

R&D expenses

The Research and Development Division controls the Group's R&D system. In keeping with the Group's "Patients first" corporate philosophy, the Division engages in R&D activities focused on the development of pharmaceuticals that meet medical treatment needs, including the development of high value-added products requiring innovation in drug formulation. In fiscal 2012, the Group obtained approval for the manufacture and sale of 32 items.

R&D expenses increased by 5.4% from the previous year to ¥4,551 million, and the ratio of R&D expenses to sales was 5.7%.

Financial Position

Total assets at the end of fiscal 2012 were ¥127,843 million, an increase of ¥4,443 million, or 3.6%, from the previous year.

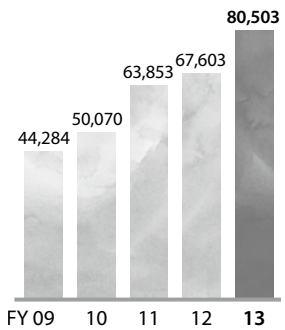
Current assets declined by ¥1,072 million to ¥79,436 million, primarily due to decreases of cash and deposits.

Fixed assets increased by ¥5,516 million to ¥48,407 million. The increase is attributable to increases of ¥10,378 million in property, plant and equipment, decreases of ¥4,805 million in investments and other assets. Capital expenditures were ¥12,520 million, ¥5,614 million higher than the previous year. The principal expenditures were for the upgrading and improvement of production facilities.

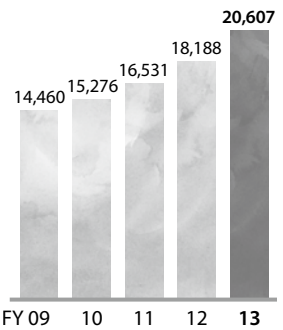
Total liabilities increased by ¥1,539 million, or 2.4%, from the end of the previous year to ¥66,363 million. Current liabilities increased by ¥3,174 million to ¥30,105 million. Principal factors were increases of ¥2,909 million in accounts payable. Long-term liabilities decreased by ¥1,636 million to ¥36,258 million due to factors including a decrease of ¥1,977 million in long-term debt.

Net assets were ¥61,480 million, an increase of ¥2,905 million, or 5.0%, from the end of the previous year. The equity ratio rose by 0.6 percentage points to 48.0%.

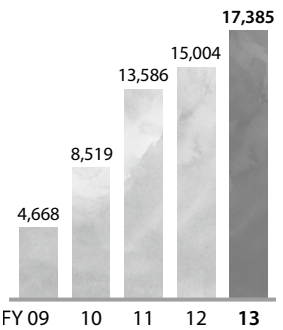
Net Sales
(Millions of yen)



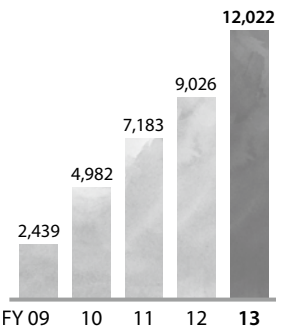
Selling, General and Administrative Expenses
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Cash Flows

■ Cash flows from operating activities

Cash provided by operating activities was ¥12,256 million. The principal items were ¥18,098 million in income before income taxes and minority interests, ¥3,793 million in depreciation and amortization, increases of ¥1,107 million in trade notes and accounts receivable and ¥3,749 million in inventories, and ¥6,675 million in income taxes paid.

■ Cash flows from investing activities

Cash used in investing activities was ¥1,373 million. The principal items were a net decrease of ¥6,000 million in payments for time deposits, payments of ¥4,004 million for the purchase of property, plant and equipment, payments of ¥7,921 million in connection with new plant construction.

■ Cash flows from financing activities

Cash used in financing activities was ¥10,970 million. The principal items included ¥2,815 million in repayment of long-term debts and ¥2,371 million in cash dividends paid.

As a result, cash and cash equivalents at end of year decreased by ¥87 million from the previous fiscal year to ¥20,584 million.

Dividend Policy

The Company considers profit distribution to shareholders one of its most important management priorities. The basic policy concerning profit distribution is to consider an appropriate balance between the maintenance of sufficient funds for active investment in preparation for future growth, enhancement of capital to increase financial soundness, and shareholder returns and to continue to pay stable dividends with a target dividend payout ratio of 30% while comprehensively taking into consideration factors such as consolidated business performance each year and the dividend payout ratio.

For fiscal 2012, the Company stressed shareholder returns and paid an annual dividend of ¥170 per share of common stock, consisting of an interim dividend of ¥70 per share and a yearend dividend of ¥100.

Outlook for Fiscal 2013

Expectations for the easing of deflation and an economic recovery in fiscal 2013 began emerging in the wake of the monetary easing measures by the Bank of Japan and the stimulative economic policies announced by the incoming Abe Administration in December 2012.

However, it is expected for the Sawai Group, the economic environment will grow a little more severe—considering that, one consequence of money market relaxation has been the rapid weakening of the yen, and with it, the prospective of rising material and energy costs.

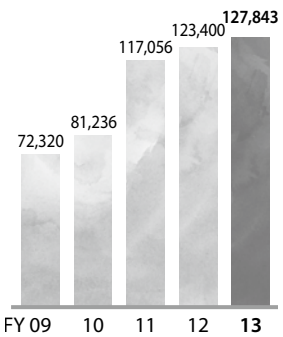
The generic drug industry in Japan will be strongly impacted by the "road map for further promotion of use of generic drugs" newly adopted by the government in April 2013, and the announced target to raise the volume share of generics to 60% or more by the end of March 2018.

While it was requested that a stable supply, the reliability reservation to quality, and the measure for information dissemination should have been further strengthened to the generic drug industry in this, performing monitoring for promotion of use as the government, and adding a required incentive suitably was specified.

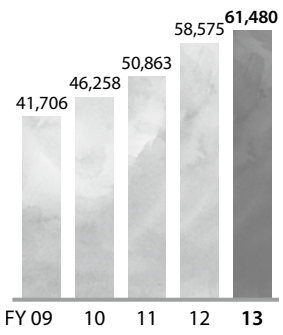
While we welcome the government's introduction of clear targets to promote the use of generics, the effects will be felt after the start of the next fiscal year and policy reflects an intention to strive for steady improvement. As such, we can expect no fair wind this term coming from the amended road map that would correspond to immediate transformation of our business environment. These effects form the backdrop for our steady implementation of the measures of the medium-term business plan M1 TRUST 2015 formulated in May last year.

Estimates for our achievements in the 2013 fiscal year include sales of ¥87 billion (an increase of 8.1% compared with the preceding fiscal year), operating profit of ¥18 billion (an increase of 3.5%), ordinary profit of ¥18 billion (an increase of 2.3%), and net profit of ¥11,600 million (a 3.5% decrease compared with the preceding fiscal year).

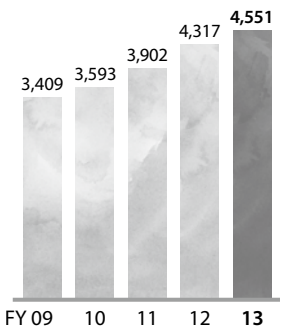
Total Assets
(Millions of yen)



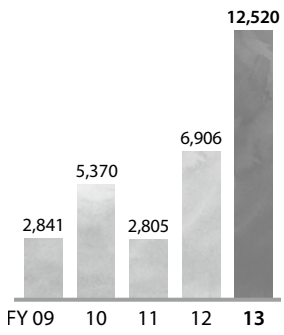
Net Assets
(Millions of yen)



Research and Development (R&D) Expenses
(Millions of yen)



Capital Expenditures
(Millions of yen)



CONSOLIDATED BALANCE SHEETS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2013**	2012	**2013**
Current Assets:			
Cash and deposits (Notes 7 and 8)	**¥ 20,584**	¥ 26,671	**$ 218,533**
Trade notes and accounts receivable (Note 8)	**26,594**	25,486	**282,341**
Allowance for doubtful receivables	**(13)**	(22)	**(135)**
	47,165	52,135	**500,739**
Inventories (Notes 3 and 9)	**29,529**	25,780	**313,505**
Deferred tax assets (Note 14)	**1,676**	1,975	**17,789**
Other current assets	**1,066**	618	**11,322**
Total current assets	**79,436**	80,508	**843,355**
Property, Plant and Equipment:			
Land	**6,303**	4,846	**66,917**
Buildings and structures	**35,645**	30,002	**378,438**
Machinery and equipment	**27,759**	20,544	**294,719**
Lease assets	**95**	36	**1,012**
Construction in progress	**60**	2,402	**633**
Other	**5,984**	5,290	**63,530**
	75,846	63,120	**805,249**
Accumulated depreciation	**(31,744)**	(29,395)	**(337,021)**
Net property, plant and equipment	**44,102**	33,725	**468,228**
Intangible Assets	**1,957**	2,013	**20,775**
Investments and Other Assets:			
Investment securities (Notes 8 and 10)	**1,998**	6,786	**21,211**
Long-term receivables	**—**	6	**—**
Long-term prepaid expenses	**32**	41	**335**
Deferred tax assets (Note 14)	**27**	—	**291**
Other assets	**317**	361	**3,365**
	2,374	7,194	**25,202**
Allowance for doubtful receivables	**(26)**	(40)	**(274)**
Net investments and other assets	**2,348**	7,154	**24,928**
	¥127,843	¥123,400	**$1,357,286**

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

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Current Liabilities:			
Current portion of long-term debt (Notes 8 and 11)	**¥ 2,451**	¥ 2,689	**$ 26,023**
Current portion of lease obligations	**19**	8	**196**
Trade notes and accounts payable (Note 8)	**11,942**	10,793	**126,786**
Other accounts payable (Note 8)	**9,582**	6,673	**101,737**
Accrued bonuses to employees	**1,304**	1,152	**13,844**
Accrued bonuses to directors and corporate auditors	**82**	79	**872**
Income taxes payable (Note 8)	**3,267**	4,039	**34,683**
Reserve for sales returns	**64**	65	**679**
Reserve for sales rebates	**723**	884	**7,683**
Other current liabilities	**671**	550	**7,120**
Total current liabilities	**30,105**	26,932	**319,623**
Long-Term Liabilities:			
Convertible bonds with subscription rights to shares (Notes 8, 11 and 17)	**30,362**	30,513	**322,354**
Long-term debt (Notes 8 and 11)	**3,504**	5,481	**37,200**
Long-term lease obligations	**62**	14	**662**
Retirement and severance benefits (Note 12)	**89**	93	**946**
Retirement allowances for directors and corporate auditors	**588**	425	**6,241**
Deferred tax liabilities (Note 14)	**76**	83	**804**
Other long-term liabilities	**1,577**	1,284	**16,738**
Total long-term liabilities	**36,258**	37,893	**384,945**
Net Assets (Note 13)**:**			
Shareholders' Equity:			
Common stock			
Authorized 38,800,000 shares			
Issued and outstanding			
15,856,900 shares in 2013 15,837,200 shares in 2012	**11,959**	11,901	**126,969**
Capital surplus	**12,294**	12,225	**130,523**
Retained earnings	**43,308**	33,657	**459,796**
Treasury stock (Note 4) 706,412 shares in 2013 712 shares in 2012	**(6,471)**	(3)	**(68,707)**
Total Shareholders' Equity	**61,090**	57,780	**648,581**
Accumulated Other Comprehensive Income			
Net unrealized holding gains on securities (Note 5)	**335**	715	**3,553**
Total accumulated other comprehensive income	**335**	715	**3,553**
Subscription Rights to Shares	**46**	71	**487**
Minority Interests	**9**	9	**97**
Net assets	**61,480**	58,575	**652,718**
	¥127,843	¥123,400	**$1,357,286**

CONSOLIDATED STATEMENTS OF INCOME

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net Sales (Note 15)	**¥80,503**	¥67,603	**$854,686**
Cost of Sales	**42,511**	34,411	**451,332**
Gross Profit	**37,992**	33,192	**403,354**
Selling, General and Administrative Expenses	**20,607**	18,188	**218,784**
Operating Income	**17,385**	15,004	**184,570**
Other Income (Expenses):			
Interest and dividend income	**362**	331	**3,844**
Gain on sales of investment securities	**654**	—	**6,941**
Interest expense	**(131)**	(164)	**(1,390)**
Subsidy income	**226**	43	**2,407**
Expenses for loan commitment agreements	**(27)**	(109)	**(292)**
Loss on disposal of fixed assets	**(358)**	(35)	**(3,799)**
Loss on impairment of fixed assets	**—**	(133)	**—**
Other, net	**(13)**	(9)	**(139)**
	713	(76)	**7,572**
Income Before Income Taxes and Minority Interests	**18,098**	14,928	**192,142**
Income Taxes:			
Current	**5,904**	6,166	**62,680**
Deferred	**172**	(264)	**1,823**
Income Before Minority Interests	**12,022**	9,026	**127,639**
Minority Interests	**0**	0	**0**
Net Income	**¥12,022**	¥9,026	**$127,639**
Per Share of Common Stock:	Yen		U.S. dollars (Note 1)
Net income–basic	**¥773.42**	¥570.49	**$8.21**
Net income–diluted	**636.35**	470.13	**6.76**
Dividends	**170.00**	140.00	**1.80**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Income Before Minority Interests	**¥12,022**	¥9,026	**$127,639**
Other Comprehensive Income (Note 5)			
Net unrealized holding gains (losses) on securities	**(381)**	605	**(4,042)**
Total other comprehensive income (loss)	**(381)**	605	**(4,042)**
Comprehensive Income	**¥11,641**	¥9,631	**$123,597**
Comprehensive income attributable to:			
Owners of the parent	**11,641**	9,631	**123,597**
Minority interests	**0**	0	**0**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2012

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2011 (Note 13)	¥11,814	¥12,138	¥26,687	¥ (3)	¥50,636	¥ 110	¥ 110	¥108	¥9	¥50,863
Changes in items during the year										
Stock issue (exercise of stock subcription rights)	87	87			174			(37)		137
Cash dividends			(2,056)		(2,056)					(2,056)
Net income			9,026		9,026					9,026
Net increase in treasury stock					—					—
Net changes in items other than shareholders' equity					—	605	605	(0)	0	605
Total changes in items during the period	87	87	6,970	—	7,144	605	605	(37)	0	7,712
Balance at March 31, 2012 (Note 13)	¥11,901	¥12,225	¥33,657	¥ (3)	¥57,780	¥ 715	¥ 715	¥ 71	¥9	¥58,575
Changes in items during the year										
Stock issue (exercise of stock subcription rights)	58	58			116			(25)		91
Cash dividends			(2,371)		(2,371)					(2,371)
Net income			12,022		12,022					12,022
Acquisition of treasury stock				(6,599)	(6,599)					(6,599)
Disposition of treasury stock		11		131	142					142
Net changes in items other than shareholders' equity					—	(380)	(380)	(0)	0	(380)
Total changes in items during the period	58	69	9,651	(6,468)	3,310	(380)	(380)	(25)	0	2,905
Balance at March 31, 2013 (Note 13)	**¥11,959**	**¥12,294**	**¥43,308**	**¥(6,471)**	**¥61,090**	**¥ 335**	**¥ 335**	**¥ 46**	**¥9**	**¥61,480**

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012 (Note 13)	$126,351	$129,787	$357,334	$ (37)	$613,435	$ 7,595	$ 7,595	$ 753	$97	$621,880
Changes in items during the year										
Stock issue (exercise of stock subcription rights)	618	618			1,236			(263)		973
Cash dividends			(25,177)		(25,177)					(25,177)
Net income			127,639		127,639					127,639
Acquisition of treasury stock				(70,061)	(70,061)					(70,061)
Disposition of treasury stock		118		1,391	1,509					1,509
Net changes in items other than shareholders' equity						(4,042)	(4,042)	(3)	0	(4,045)
Total changes in items during the period	618	736	102,462	(68,670)	35,146	(4,042)	(4,042)	(266)	0	30,838
Balance at March 31, 2013 (Note 13)	**$126,969**	**$130,523**	**$459,796**	**$(68,707)**	**$648,581**	**$ 3,553**	**$ 3,553**	**$ 487**	**$97**	**$652,718**

Note: Items concerning the appropriation of earnings were resolved at the general shareholders meeting held in June 2013 and 2012.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥18,098**	¥14,928	**$192,142**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**3,793**	3,389	**40,269**
Loss on impairment of fixed assets	**—**	133	**—**
Gain on sales of investment securities	**(654)**	—	**(6,941)**
Amortization of goodwill	**—**	65	**—**
Amortization of negative goodwill	**—**	(12)	**—**
Increase (decrease) in reserve for sales rebates	**(160)**	91	**(1,698)**
Decrease in allowance for doubtful receivables	**(24)**	(24)	**(250)**
Increase in accrued bonuses to employees	**152**	66	**1,612**
Increase in accrued bonuses to directors and corporate auditors	**3**	18	**37**
Decrease in reserve for sales returns	**(0)**	(61)	**(10)**
Increase (decrease) in retirement and severance benefits	**(4)**	3	**(43)**
Increase in retirement allowances for directors and corporate auditors	**162**	86	**1,725**
Interest and dividend income	**(362)**	(331)	**(3,844)**
Interest expense	**131**	164	**1,390**
Loss on disposal of fixed assets	**358**	30	**3,799**
Increase in trade notes and accounts receivable	**(1,107)**	(2,202)	**(11,755)**
Increase in inventories	**(3,749)**	(4,563)	**(39,800)**
Increase in trade notes and accounts payable	**1,618**	872	**17,183**
Increase in long-term prepayments	**12**	19	**126**
Increase in other accounts payable	**631**	20	**6,705**
Other	**(53)**	361	**(568)**
Subtotal	**18,845**	13,052	**200,079**
Interest and dividends received	**212**	181	**2,252**
Interest paid	**(126)**	(159)	**(1,342)**
Income taxes paid	**(6,675)**	(5,260)	**(70,870)**
Net cash provided by operating activities	**12,256**	7,814	**130,119**
Cash Flows from Investing Activities:			
Net decrease in time deposits	**6,000**	5,000	**63,701**
Payments for purchase of property, plant and equipment	**(4,004)**	(3,454)	**(42,509)**
Payments for purchase of intangible assets	**(595)**	(1,145)	**(6,322)**
Payments for purchase of investment securities	**(630)**	(460)	**(6,693)**
Proceeds from sales of investment securities	**5,771**	—	**61,274**
Proceeds from collection of long-term receivables	**6**	12	**62**
Payment for new factory construction	**(7,921)**	(2,307)	**(84,099)**
Other	**0**	(17)	**9**
Net cash used in investing activities	**(1,373)**	(2,371)	**(14,577)**
Cash Flows from Financing Activities:			
Proceeds from long-term debt	**600**	—	**6,370**
Repayment of long-term debt	**(2,815)**	(2,652)	**(29,881)**
Proceeds from disposition of treasury stock	**134**	—	**1,426**
Proceeds from issuance of stock resulting from exercise of stock subscription rights	**92**	137	**973**
Payments for purchase of treasury stock	**(6,599)**	—	**(70,062)**
Cash dividends paid	**(2,371)**	(2,056)	**(25,177)**
Other	**(11)**	(7)	**(113)**
Net cash used in financing activities	**(10,970)**	(4,578)	**(116,464)**
Net increase (decrease) in cash and cash equivalents	**(87)**	866	**(922)**
Cash and cash equivalents at beginning of year	**20,671**	19,805	**219,455**
Cash and cash equivalents at end of year (Note 7)	**¥20,584**	¥20,671	**$218,533**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

1 Basis of Financial Statements

SAWAI PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (together, 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 from the application and disclosure requirements required under 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, 2013, which was approximately ¥94.19 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., KAKEN SHOYAKU CO., LTD. and KM GODO KAISHA, 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 valued using the fair value at the time the Company acquired control of the respective subsidiaries.

The Company has no affiliates meeting the significant influence requirement for the application of equity method accounting required for such 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 the individually estimated uncollectable amounts of certain receivables 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 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

Inventories of the Company and its consolidated subsidiaries are stated at the lower of average cost or net realized value under "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9, revised on September 26, 2008).

(f) Property, Plant and Equipment (excluding leases)
Property, plant and equipment are stated at cost. Depreciation is calculated mainly using the straight-line method over the estimated useful life of the asset.

Expenditures for significant renewals and betterments are capitalized. 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 the costs using the straight-line method over the estimated useful life of five years.

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

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

(j) Accrued bonuses to directors and corporate auditors
The Company and its consolidated subsidiaries accrue amounts for bonuses to directors and corporate auditors based on estimated amounts to be paid in the subsequent period. The total amount of remuneration paid to directors and corporate auditors was recognized at the general meeting of shareholders.

(k) Reserve for sales returns
The reserve for sales returns provides for estimated future losses expected to be incurred from the return of products.

(l) Reserve for sales rebates
The reserve for sales rebates provides for estimated future sales rebates.

(m) Retirement and severance benefits
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.

(n) Retirement allowances for directors and corporate auditors
The liability for directors' and corporate auditors' retirement benefits is provided based on the Company's internally developed criteria. The Company has abolished the retirement benefit system for directors and corporate auditors at the Board of Directors meeting on March 26, 2013. The company has determined to pay the balance at the time of retirement.

(o) 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 ¥4,551 million ($48,316 thousand) and ¥4,317 million for the years ended March 31, 2013 and 2012, respectively.

(p) 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 loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes are recognized as deferred income taxes.

(q) Net Income per Share
Computations of basic net income per share of common stock are based on the weighted average number of

shares of common stock outstanding during each year.

Calculations of diluted net income per share of common stock are based on the weighted average number of shares outstanding after assuming the exercise of subscription rights to shares.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(r) 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.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2013 presentation.

3 Change in Accounting Policies

From April 1, 2012, the Company and some subsidiaries have prospectively changed the valuation method of their inventory (Finished goods, Work-in-process, Raw materials) from the moving average method to the weighted average method.

The change is intended to calculate more accurately profit and loss as a result of detailing the cost management and removing the temporary change of manufacturing costs incurred with the introduction of a new unification core computer system (ERP) in April 1, 2012.

Due to this change in the valuation method of the inventory, operating income, ordinary income and income before taxes have each increased by JPY ¥98 million ($1,045 thousand).

4 Additional Information

(Accounting policy on Trust-type employee stock ownership plan (ESOP))

To make good use of the employee shareholding association, to ensure the welfare and to improve the corporate value, the Company and its subsidiaries have introduced a trust-type ESOP. Under this plan, a trust-type ESOP that is established to transfer the Company's stocks to the trust will acquire in advance the number of shares that is to be acquired by the employee shareholding association within the period, and sell the shares to the employee shareholding association.

The Company guarantees the debts in the trust account resulting from the purchase and sale of the stocks of the company and accounts for the transactions involving the trust as its own.

Accordingly, stocks of the company held by the trust and the assets, liabilities, expenses and income of the trust were recorded in the accompanying consolidated financial statements. As of March 31, 2013, the number of shares of treasury stocks of the company held by the ESOP trust was 56,900 shares.

5 Other Comprehensive Income (Loss)

Amounts reclassified to net income in the current period that were recognized in other comprehensive income (loss) in the current or previous periods and the tax effects for each component of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unrealized holding gains on securities increase during the year	**¥ 360**	¥621	**$ 3,821**
Reclassification adjustments	**(654)**	—	**(6,941)**
Sub-total, before tax	**(294)**	621	**(3,120)**
Tax (expense) or benefit	**(87)**	(16)	**(922)**
Sub-total, net of tax	**(381)**	605	**(4,042)**
Total other comprehensive income (loss)	**¥(381)**	¥605	**$(4,042)**

6 Business Combinations

Transaction under common control

(1) Overview of the business combination

(i) Corporate name

Successor company: SAWAI PHARMACEUTICAL CO., LTD.

Splitting company split: MEDISA SHINYAKU INC.

(ii) The outline of the business combined

Production of pharmaceutical products of MEDISA SHINYAKU INC.

(iii) Date of completion of business combination

April 1, 2012

(iv) Legal form of business combination

MEDISA SHINYAKU INC. was split for absorption by SAWAI PHARMACEUTICAL CO., LTD. as the successor company. In accordance with the Companies Act, a resolution of the general meeting of shareholders was unnecessary.

(v) Name of the company after business combination

SAWAI PHARMACEUTICAL CO., LTD.

(vi) Deal summary including purpose of the transaction

In the generics market in Japan, various measures to promote the use of generic drugs are being implemented to achieve the government's goal of a 30% volume share for generic drugs by the end of March 2013. In this market environment, it is necessary to build a stable supply system and to improve production efficiency. We decided on this split to consolidate the production business of Sawai group, except the Yasato Factory of KAKEN SHOYAKU CO., LTD.

(2) Overview of applied accounting treatment

This transaction was accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" issued by the Business Accounting Council in Japan and "Guidance on Accounting Standard for Business Combinations" and "Accounting Standard for Business Divestitures" issued by the ASBJ.

7 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥20,584**	¥26,671	**$218,533**
Time deposits with maturities of over three months	**—**	(6,000)	**—**
Cash and cash equivalents	**¥20,584**	¥20,671	**$218,533**

8 Financial Instruments

(1) Qualitative information on financial instruments

(i) Policies for using financial instruments

The Companies' policy for the cash management is mainly to hold short-term deposits at banks with the funding of cash mainly sourced from bank loans.

(ii) Details of financial instruments used and the exposures to risks

Trade notes and accounts receivable are exposed to the credit risk of our customers. The Companies have management structures in place to check the term and balance outstanding for every customer.

Investment securities are exposed to the risk of market price fluctuations. The Companies policies for investment securities are mainly to invest in securities of counterparties with which the Companies conduct business. The Companies regularly report the investment securities held, to the management board.

Trade notes and accounts payable are due within one year. Short-term bank debts mainly for the purpose of providing operating funds are based on market prices. Long-term bank debts (as a rule within seven years) are for operating funds and capital investment funds and are based on fixed rates in order to minimize the risk of changing rates.

(iii) Supplemental information on fair values

The Companies used fair market values for the values of financial instruments but partially used rational estimations when no fair market values were determinable. In those estimations, there were some variable factors.

(2) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2013 and 2012 were as follows:

Millions of yen

	2013			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	**20,584**	**20,584**	**—**	26,671	26,671	—
Trade notes and accounts receivable	**26,594**	**26,594**	**—**	25,486	25,486	—
Investment securities: other securities	**1,910**	**1,910**	**—**	6,698	6,698	—
Total assets	**¥49,088**	**¥49,088**	**¥ —**	¥58,855	¥58,855	¥ —
Trade notes and accounts payable	**11,942**	**11,942**	**—**	10,793	10,793	—
Current portion of long-term debt	**2,451**	**2,458**	**7**	2,689	2,699	10
Other accounts payable	**9,582**	**9,582**	**—**	6,673	6,673	—
Income taxes payable	**3,267**	**3,267**	**—**	4,039	4,039	—
Convertible bonds	**30,362**	**37,549**	**7,187**	30,513	32,838	2,325
Long-term debt	**3,504**	**3,530**	**26**	5,481	5,517	36
Total liabilities	**¥61,108**	**¥68,328**	**¥7,220**	¥60,188	¥62,559	¥2,371

Thousands of U.S. dollars

	2013		
	Book value	Fair value	Difference
Cash and deposits	**218,533**	**218,533**	**—**
Trade notes and accounts receivable	**282,341**	**282,341**	**—**
Investment securities: other securities	**20,277**	**20,277**	**—**
Total assets	**$521,151**	**$521,151**	**$ —**
Trade notes and accounts payable	**126,786**	**126,786**	**—**
Current portion of long-term debt	**26,023**	**26,097**	**74**
Other accounts payable	**101,737**	**101,737**	**—**
Income taxes payable	**34,683**	**34,683**	**—**
Convertible bonds	**322,354**	**398,654**	**76,300**
Long-term debt	**37,200**	**37,480**	**280**
Total liabilities	**$648,783**	**$725,437**	**$76,654**

(i) For certain financial instruments, including cash and cash deposits, notes and accounts receivable and payable, income taxes payable and other accounts payable, the fair value is approximately equal to the book value due to the short period until maturity of the respective items.

(ii) For marketable securities and convertible bonds, fair value is determined based on quoted market prices.

(iii) For long-term debt including the current portion of long-term debt, fair value is determined using the estimated discounted values of future cash flows for the same or similar types of instruments.

(iv) Investment securities of non-listed companies with aggregate book values of ¥88 million ($934 thousand) and ¥88 million at March 31, 2013 and 2012 have not been included in "Investment securities: other securities" as it is not possible to accurately estimate the fair values of these investments based on estimated future cash flows or quoted market prices.

(v) The Company issued zero coupon convertible bonds with stock acquisition rights in the total amount of ¥30,750 million ($326,468 thousand) in the Euro Market. Information on convertible bonds is described in Note 17 as below.

9 Inventories

Inventories at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Finished goods and merchandise	**¥15,129**	¥14,673	**$160,625**
Work-in-process	**6,998**	5,171	**74,294**
Raw materials and supplies	**7,402**	5,936	**78,586**
Total	**¥29,529**	¥25,780	**$313,505**

10 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, 2013 and 2012.

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

March 31, 2013	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥1,391**	**¥1,910**	**¥519**	**$14,773**	**$20,277**	**$5,504**

March 31, 2012	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥5,869	¥6,690	¥821

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

March 31, 2013	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**

March 31, 2012	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 8	¥ 7	¥ (1)

(b) Acquisition costs of securities with no available fair values as of March 31, 2013 were as follows:
Unlisted equity securities: ¥88 million ($934 thousand).
Acquisition costs of securities with no available fair values as of March 31, 2012 were as follows:
Unlisted equity securities: ¥88 million.

11

Short-term and Long-term Debt

There was a zero balance on short-term debt at March 31, 2013 and 2012.

Long-term debt and convertible bonds at March 31, 2013 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2014–2020, interest at 0.83%–1.78%		
Unsecured	**¥ 5,954**	**$ 63,223**
Zero coupon convertible bonds with subscription rights to shares	**30,362**	**322,354**
	36,316	**385,577**
Current portion of long-term debt	**2,451**	**26,023**
	¥33,865	**$359,554**

Note: Information on zero coupon convertible bonds with subscription rights to shares is described in Note 17.

Long-term debt at March 31, 2012 consisted of the following:

	Millions of yen
Loans from banks and other public corporations, due 2013–2020, interest at 1.25%–1.78%	
Unsecured	¥ 8,170
Zero coupon convertible bonds with subscription rights to shares	30,513
	38,683
Current portion of long-term debt	2,689
	¥35,994

The aggregate annual maturities of long-term debt and convertible bonds outstanding at March 31, 2013 were as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2014	**2,451**	**26,023**
2015	**1,469**	**15,600**
2016	**31,046**	**329,607**
2017	**165**	**1,748**
2018	**100**	**1,062**
2019–2020	**250**	**2,654**
Total	**¥35,481**	**$376,694**

Note: Long-term debt for ESOP in the amount of ¥474 million ($5,034 thousand) is excluded from the total amount.

12

Retirement and Severance 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected retirement benefit obligation	**¥89**	¥93	**$946**
Retirement and severance benefits	**¥89**	¥93	**$946**

Retirement benefit expenses for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 7**	¥ 8	**$ 79**
Payment of contribution to defined contribution pension plan	**440**	421	**4,674**
Retirement benefit expenses	**¥447**	¥429	**$4,753**

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

13

Net Assets

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or a legal earnings reserve. Legal earnings reserves are included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserves may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserves may, by resolution of the shareholders, be transferred to other capital surplus and retained earnings, respectively, which are potentially available for distribution as dividends.

On June 25, 2013, the Company's shareholders approved the payment of year-end cash dividends of ¥100 ($1.06) per share, totaling ¥1,515 million ($16,085 thousand), paid to the Company's shareholders of record as of March 31, 2013. It does not include ¥6 million ($60 thousand) with the payment of year-end cash dividends of ESOP.

14

Deferred 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 37.86% for the year ended March 31, 2013 and 40.87% for the year ended March 31, 2012.

Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Directors' and corporate auditors' retirement	**¥ 209**	¥ 151	**$ 2,215**
Unrealized gains on inventories	**101**	296	**1,072**
Accrued bonuses to employees	**494**	436	**5,241**
Reserve for sales rebates	**274**	334	**2,909**
Loss due to impairment of fixed assets	**210**	210	**2,229**
Loss on disposal of buildings and structures	**127**	127	**1,352**
Accrued enterprise taxes	**290**	310	**3,081**
Loss on valuation of inventories	**334**	454	**3,544**
Other	**425**	698	**4,515**
Subtotal deferred tax assets	**2,464**	3,016	**26,158**
Less valuation allowance	**(388)**	(832)	**(4,121)**
Total deferred tax assets	**2,076**	2,184	**22,037**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(264)**	(194)	**(2,803)**
Net unrealized holding gains on securities	**(184)**	(97)	**(1,955)**
Other	**(0)**	(1)	**(4)**
Total deferred tax liabilities	**(448)**	(292)	**(4,762)**
Net deferred tax assets	**¥1,628**	¥1,892	**$17,275**

Elements causing significant differences between the statutory income tax rates and the effective income tax rates after application of tax effect accounting are as follows:

		2013	2012
Statutory tax rate (Reconciliation)	(%)	**37.9**	—
Non-deductible expenses, such as entertainment expenses		**0.5**	—
Non-taxable income, such as dividends received		**(0.2)**	—
Inhabitants tax on per capita basis		**0.2**	—
Tax credit for R&D expenses		**(2.6)**	—
Increase (Decrease) in valuation allowance		**(2.4)**	—
Other		**0.2**	—
Effective income tax rate	(%)	**33.6**	—

There were no significant differences between the statutory income tax rates and the effective income tax rates for the year ended March 31, 2012.

15

Segment Information

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

Information about major customers at March 31, 2013 was as follows:

Name of the Customer	Millions of yen	Thousands of U.S. dollars	Related segment
Mediseo Co., Ltd.	**¥9,669**	**$102,658**	Pharmaceuticals
Alfresa Corp.	**¥8,513**	**$ 90,385**	Pharmaceuticals

16

Stock Option Plan

The details related to the stock option expenses at March 31, 2013 were as follows:

	Fiscal year 2009 Stock options
Position and number of grantee	**Directors of the Company: 9** **Corporate auditors: 1** **Employees: 664** **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, 2013 and 2012 were as follows:

	Number of shares	
	2013	2012
Before Settlement of Rights		
Beginning of year	**—**	—
Granted	**—**	—
Expired	**—**	—
Settled	**—**	—
End of year	**—**	—
After Settlement of Rights		
Beginning of year	**56,400**	86,300
Settled	**—**	—
Exercised	**19,700**	29,400
Expired	**200**	500
End of year	**36,500**	56,400

Information per share price at March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Exercise price	**¥4,650**	¥4,650	**$49.37**
Fair value at grant date	**1,257**	1,257	**13.35**

1 Rate of variability, which is calculated based on the monthly closing prices of common stock of the Company for the period of 4 years and 6 months from February 2004 to August 2008 for the 2010 stock options.
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 a similar period as the option vesting period of the stock options.

17

Convertible Bonds with Subscription Rights to Shares

	Fiscal year 2013 convertible bonds
Bonds	**Zero coupon convertible bonds due 2015**
Types of stock	**The Company's common stock**
Issue price of acquisition rights	**No cost**
Initial convertible price *1 and 2	**¥9,537 per share ($101.25 per share)**
Total amount of issue	**¥30,750 million ($326,468 thousand)**
Due	**September 17, 2015**

*1 Convertible price is subject to adjustment for subsequent events such as the issue of common stock at less than market value, stock splits and extra dividends.
*2 Convertible price was changed to ¥9,371.6 ($99.50) by resolution of the general meeting of shareholders on June 25, 2013.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of SAWAI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SAWAI PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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.

KPMG AZSA LLC

July 19, 2013
Osaka, Japan

Corporate Data

(As of March 31, 2013)

Sawai Pharmaceutical Co., Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥11,959 million
Number of Shares Outstanding:	15,856,900
Number of Shareholders:	5,254
Number of Employees:	1,050
Stock Listing:	1st Section of Tokyo Stock Exchange
Independent Public Accountant:	KPMG AZUSA & Co.
Transfer Agent:	Sumitomo Mitsui Trust Bank, Limited
Branches:	Sapporo, Sendai, Kitakanto, Tokyo Daiichi, Tokyo Daini, Nagoya, Osaka, Hiroshima, Fukuoka
Area Offices: (As of July 1, 2013)	Nagano, Tokyo nishi, Yokohama, Chiba, Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu, Okayama, Kumamoto
Consolidated Subsidiary:	Medisa Shinyaku Inc. Kaken Shoyaku Co.,Ltd.
Factories:	Kanto Factory, Osaka Factory, Sanda Factory, Kyusyu Factory, Second Kyusyu Factory, Yasato Factory of Kaken Shoyaku, Pharmaceutical Technology Center

Stock Price Information

	Stock Price	
	High	Low
From April 1, 2012 to March 31, 2013	**¥ 11,320**	**¥ 8,070**
First Quarter	**8,890**	**8,070**
Second Quarter	**9,270**	**8,430**
Third Quarter	**9,470**	**8,580**
Fourth Quarter	**11,320**	**8,660**

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