sawai

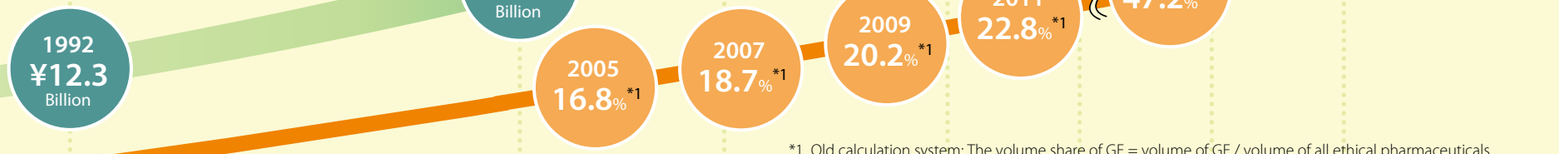
Growing Our Leadership in Generics Through a Focus on People

Annual Report 2014

For the year ended March 31, 2014

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 a 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, in 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.

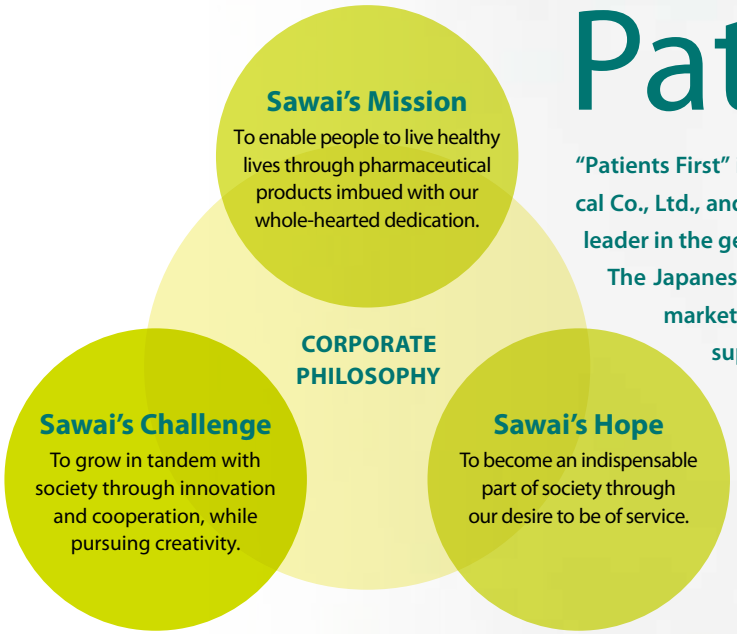
The Kanto Factory

CONTENTS

Reliable Generics for All Who Need Them

- **Around 620 Ethical Drugs through Various Formulations**
- **Creativity and Strong R&D Capabilities Leading to Innovation**
- **Stable Supply of High-Quality and Safe Products**

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.

FINANCIAL HIGHLIGHTS

For the Years Ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2014	2013	2014
Net sales	¥ 89,824	¥ 80,503	$ 870,469
Operating income	19,091	17,385	185,007
Net income	12,193	12,022	118,159
Net assets	101,302	61,480	981,704
Total assets	149,348	127,843	1,447,313
Research and development (R&D) expenses	5,170	4,551	50,102
Capital expenditures	7,353	4,599	71,259
Depreciation and amortization	4,989	3,793	48,351
	%		
Ratio of R&D expenses to sales	5.8	5.7	
Return on equity	15.0	20.1	
Shareholders' equity to total assets	67.8	48.0	
	Yen		U.S. dollars (Note 1)
Amounts per common share:			
Net income—basic	¥ 365.18	¥ 386.71	$ 3.54
Net income—diluted	330.41	318.17	3.20
Cash dividends applicable to period	140.00	170.00	1.36
Net assets	2,755.29	2,027.15	26.70

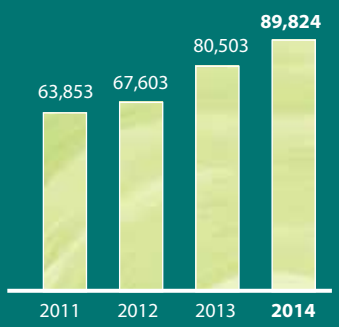
Note: 1. The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥103.19 to $1.00, the rate prevailing on March 31, 2014.

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

3. The Company split its common stock two for one on October 1, 2013. Amounts per common share in 2013 were recalculated to reflect the share split.

4. The interim dividend in 2013 was ¥90, which was before the share split, and the year-end dividend in 2013 was ¥50, which was after the share split.

Net sales (Millions of yen)



Net income (Millions of yen)

Net income per share (basic) (Yen)

Sustained efforts under M1 Trust 2015 yield record sales and income

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

We would like to begin this report by expressing our sincere appreciation to our shareholders for their continuing support.

In fiscal 2013 the Japanese economy followed a gradual recovery trend. In addition to government policies designed to end deflation and bring about an economic rebirth, this recovery was also driven by an improvement in confidence resulting from the selection of Tokyo as the venue for the 2020 Olympic Games. At the same time, economic conditions deteriorated for companies that rely mainly on domestic demand because of soaring construction costs, and because of the increased cost of raw materials due to the depreciation of the yen.

A key event for the generic drug industry was the announcement in April 2013 of a new roadmap developed by the Ministry of Health, Labour and Welfare to promote increased use of generic drugs. This roadmap reflects a sustained commitment to promoting generic drug use. The target is to raise the share of generic drugs to at least 60% in volume terms by March 31, 2018.

Fiscal 2013 was the second year of our medium-term business plan, M1 Trust 2015. In line with our basic policy under that plan, we worked to implement key measures adopted for each of our business areas. We launched nine products, based on five active ingredients, in June, followed in December by 14 products, based on seven active ingredients. Determined marketing resulted in healthy sales of these new products. We continued to provide wholesalers and agents with reliable information about Sawai's strengths, including our excellent product quality and our ability to supply products reliably. At the same time, we worked to build our presence in the insurance pharmacy and hospital markets.

In March 2013, a new pharmaceutical manufacturing plant became operational at the Kanto Factory. The new facility has progressively taken over production from other factories, resulting in improvement in its operating rate. We have since commenced the second phase of our capital investment plan a year ahead of schedule. The aim is to strengthen our capacity to supply products reliably in readiness for future growth in the demand for generic drugs by accelerating the expansion of our production capacity to 10 billion tablets per year.

In fiscal 2013, net sales increased by 11.6% year on year to ¥89,824 million, operating income by 9.8% to ¥19,091 million, and net income by 1.4% to ¥12,193 million. All of these figures represent new records.

Fiscal 2014 will be the final year of our medium-term business plan, and our entire corporate resources will be focused on the achievement of our targets under that plan. However, we cannot afford to be complacent about changes in the business environment, including not only drug price revisions, but also the April 2014 amendment of the national health insurance drug pricing system, as well as exchange rate trends. We will continue our efforts to improve our corporate value by further strengthening our advantages, including our product development capabilities, our ability to supply products reliably, our dependable quality, our powerful information systems, and the potential of the Sawai brand.

We look forward to the continuing support of our shareholders.

H. Sawai
Hiroyuki Sawai, Chairman

M. Sawai
Mitsuo Sawai, President

We made steady progress in the year ended March 2014, and we are determined to build on that progress by focusing our total corporate energies on the achievement of our targets.

Mitsuo Sawai, *President*

Q.1

How would you assess your initiatives and financial performance in the year ended March 2014?

In April 2013, the Ministry of Health, Labour and Welfare announced a roadmap for the promotion of the increased use of generic drugs, aiming to raise their market share to at least 60% in volume terms by the end of March 2018. However, the Ministry has not implemented any reforms specifically designed to increase the use of generic products, and we therefore worked to expand sales through our own efforts.

In June, we launched ESUEEWAN® combination capsules, a metabolic antagonist anticancer drug, and the antiplatelet drug CILOSTAZOL OD tablets. In each case, only one other company is approved to manufacture and sell these products, and the fact that we were able to introduce them further enhanced the reputation of our development capabilities. PITAVASTATIN Ca tablets, which we brought to market in December, are supplied by over 20 other companies. Despite this competitive environment, we were able to achieve steady sales growth thanks to our track record in the market for cholesterol reducing drugs and our reputation as a reliable supplier. Our sales of newly introduced products in fiscal 2013 were substantially above the target level.

By further strengthening our cooperation with wholesalers and agents, we were able to achieve substantial growth in sales of new products introduced since 2009, and sustained growth in sales of products introduced since 2005. We also worked to deepen our presence in the insurance pharmacy and hospital markets by increasing our efforts to market to both pharmacies and hospitals. Our production organization contributed to this strong sales trend by operating plants at weekends to provide the necessary increase in output.

Our income was affected by a demand surge in the fourth quarter ahead of the consumption tax increase, and by a dramatic increase in sales volumes, especially for low-priced products, as a result of efforts to promote the increased use of generic drugs. The sales cost ratio rose, in part because of impairment losses on inventories resulting from price cuts under the National Health Insurance system and other factors. However, we were able to curb increases in selling, general and administrative expenses through company-wide cost control efforts.

As a result, our net sales, operating income and net income all set new records in fiscal 2013, which was our 14th straight year of sales growth and our sixth straight year of income growth.

Q.2

What progress have you made under the M1 Trust 2015 medium-term business plan?

We announced the plan in May 2012. Our targets are net sales of ¥104 billion, operating income of ¥21 billion, net income of ¥13.5 billion, and ROE of 16.7% in the year ending March 2015. We are focusing our total energies toward the achievement of these targets, and we have formulated three basic policies to guide our efforts. First, we aim to build an overwhelming position as the number one presence in the generic drug market. Second, we will optimize our company-wide cost control systems by strengthening our management infrastructure. Third, we will invest strategically in new fields.

We continued to make steady progress in the year ended March 2014, which was the second year under the plan. One of our key policies under the medium-term plan calls for the steady launch of new products and the capture of market share. We launched 14 active ingredients in 32 products during the year ended March 2013, and 12 active ingredients in 23 products in the year ended March 2014. We have already launched 11 new products, based on six active ingredients, in the first half of the year ending March 2015. We also developed products that none of our competitors could bring to market. These achievements are helping to expand our market share and strengthen our presence in the generic drug market.

In the area of production and supply, we commenced production at our new Kanto Factory in March 2013. Located in Mobara City, Chiba Prefecture, the factory initially had capacity for 2 billion tablets per year and brought our total capacity to 8 billion tablets per year, which is one of the highest levels in the Japanese generic drug industry. We have already started construction of phase two at the Kanto Factory in anticipation of increased efforts to promote the use of generic drugs, and we plan to increase our capacity to 10 billion tablets per year by end of FY2014.

We are developing multiple sources for raw materials with the aim of reducing procurement costs while ensuring reliability of supply. We are also taking steps to control costs, including the improvement of production efficiency through the expansion of lot sizes. At the same time, we are actively investing in areas that are essential to future growth, including R&D and human resource recruitment and training.

One of our new strategic directions is expansion into overseas markets. While this is unlikely to contribute to short-term financial performance, we see overseas markets as an important source of future growth, and we are already making preparations to move into those markets.

Overview of Financial Results

(Millions of yen)

	Year ended March 2013 (actual)	Year ended March 2014 (actual)	Year ending March 2015	
			Figure announced in medium-term plan	Current Forecasts
Net sales	80,503	89,824	**104,000**	**106,000**
Operating income	17,385	19,091	**21,000**	**21,000**
Ordinary income	17,602	19,092	**21,000**	**20,900**
Net income	12,022	12,193	**13,500**	**13,500**

Q.3

What is your view of future trends in the generic drug market, and how will you respond to those trends?

During the 2014 review of medical service fees, the government changed the rules for generic dispensing premiums, which were introduced to encourage the use of generic drugs by insurance pharmacies. Other new measures to promote the use of generic drugs include the introduction of a generic drug index for hospitals operating under the diagnosis procedure combination (DPC) system. In addition, patients have become more cost-aware as a result of the consumption tax increase. These measures are expected to result in dramatic growth in the quantities of generic drugs sold.

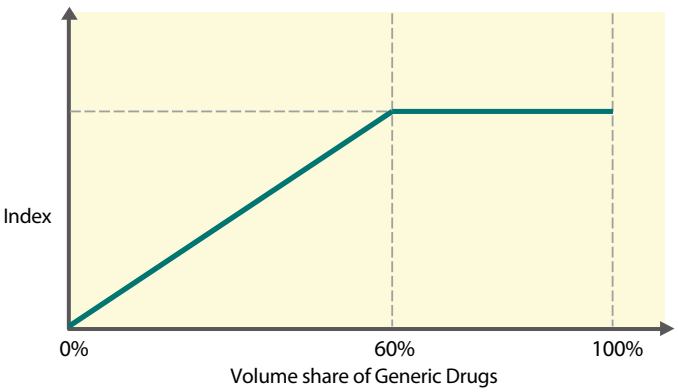
However, the government also reviewed the pricing rules for generic drugs, which resulted in substantial reductions in drug prices. The existing system of exceptional price reductions for long-standing products listed under the National Health Insurance pricing scheme was abolished and replaced with a new system under which exceptional price reductions will be implemented according to the percentage of generic products used in place of the original product, while the prices of newly listed generic drugs will be reduced to 60% of the prices of the original products. In addition, the prices of listed generic drugs will be concentrated into three price bands. These changes to the drug pricing system represent an extremely serious challenge for the generic drug industry and will create a much harsher business environment.

We are responding to this change in our environment by implementing fine-tuned marketing strategies for each product. We aim to achieve sustainable growth by avoiding simple price wars and relying instead on our strengths as a company, including our R&D capabilities, our reliable supply systems, and our reputation for dependable quality. We have already started construction of phase two at the Kanto Factory. By the end of fiscal 2014, we will also significantly expand our machinery and facilities with the aim of ensuring reliability of supply by establishing production capacity for 10 billion tablets per year.

We will also enhance our ability to develop superior generic drugs through aggressive, future-oriented capital investment. For example, we have already decided to build a new development center in Suita City, Osaka Prefecture.

Through these initiatives, we will strive to earn the total confidence of medical institutions and patients and establish an overwhelming position as the number one company in the generic drug industry. At the same time, the entire Sawai organization will work to maintain profitability by reducing costs. By pursuing these strategies, we are determined not only to achieve the targets set down in our medium-term business plan, but also to prepare for our next target: net sales of ¥200 billion.

The Generic Drug Index



The generic drug index has been introduced as one of the components of the Group Ⅱ functional assessment coefficient for DPC hospitals.

Assessments are based on the quantity of generic drugs used as a percentage of the total drugs administered to in-patients. (However, the upper limit for volume-based assessments is 60%.)

$$\text{Volume share of generic drugs} = \frac{\text{Generic drugs}}{\left(\text{Original drugs for which generic are available} + \text{Generic drugs}\right)}$$

Q.4

What levels of capital investment and R&D do you envisage in the future?

In its road map for promoting the increased use of generic drugs, the Ministry of Health, Labour and Welfare called on generic drug manufacturers to increase their efforts to ensure reliability of supply and dependable quality and improve their information distribution systems. The future survival of generic drug manufacturers will depend on their ability to expand production capacity to meet future demand growth and ensure reliability of supply. They will also need to strengthen their R&D capabilities so that they can differentiate themselves from competitors through product development and the quality of the information that they provide.

Because our activities center on the development, manufacture and sale of our own products, one of our key management priorities is to stay ahead of demand growth through continual investment in the plant and facilities needed to maintain our capacity to supply products reliably. We initially planned capital investment totaling ¥26 billion during the three-year period covered by our medium-term business plan, but we have already invested ¥13.8 billion in the year ended March 2013 and ¥8.3 billion in the year ended March 2014, and in the year ending March 2015 we have scheduled projects totaling ¥12.5 billion, including the second phase of construction at the Kanto Factory, which has been brought forward by one year, and the construction of the aforementioned development center. We are also increasing our R&D expenditure, which grew from ¥4.6 billion in the year ended March 2013 to ¥5.2 billion in the year ended March 2014. We plan to spend ¥6.3 billion in the year ending March 2015. This growth reflects our commitment to the reinforcement of our R&D organization.

Net cash provided by operating activities amounted to approximately ¥12.3 billion in the year ended March 2013 and about ¥13.4 billion in the year ended March 2014. Thanks to these positive cash flows, we are able to finance a significant proportion of our capital investment from internal funds. We will use optimal methods, such as bank loans, to procure any additional funds required for future capital investment. We will also explore ways to maximize the efficiency of our capital investment. For example, we are improving our facility utilization rates by operating two or three shifts.

Q.5

What is your policy on shareholder returns?

We regard shareholder returns as one of our most important management priorities. Our basic policy concerning income distribution is to seek an appropriate balance between shareholder returns and the maintenance of sufficient funds for active investment in preparation for future growth, and the expansion of capital to enhance our financial soundness. We aim to maintain dividend stability based on a target dividend payout ratio of 30%. These decisions are guided by comprehensive analyses that also take into account our consolidated financial results each year, and other methods used to return income to shareholders.

In the year ended March 2014, our interim dividend before the stock split amounted to ¥90 per share. We have increased the year-end dividend by ¥5 compared with the most recent estimate to ¥50 per share after the stock split. In the next fiscal year, we plan to pay interim and year-end dividends of ¥50 each, marking our sixth consecutive year of dividend increases. We look forward to the continuing support of our shareholders.

In April 2013, the government announced a roadmap for the promotion of increased use of generic drugs. This was followed in April 2014 by introduction of new measures to encourage the use of generic drugs. These initiatives are expected to accelerate growth in the use of generic products.

Japan's national health expenditure continues to expand year after year. In fiscal 2011, it increased by 3.1% year on year to ¥38.5 trillion. Per capita healthcare expenditure increased by 3.3% year on year and exceeded ¥300,000 for the first time. Health expenditure reached 8.15% of gross domestic product (GDP) in fiscal 2011, compared with 7.79% in the previous year, while the ratio to national income increased from 10.62% to 11.13%. Each year the burden on household finances grows heavier.

The government has responded to this situation by implementing a range 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*1. Unfortunately this target was not achieved. The expansionary trend in the market leveled out, with the result that the volume share of generic drugs was around 25.6% as of March 31, 2013 according to a mid-range estimate compiled by the Ministry of Health, Labour and Welfare. An international comparison reveals that the volume share of generic drugs in the Japanese market remains low compared with other major countries, notably the United States, Canada, the United Kingdom and Germany, where the volume share is already over 50%.

This situation led the Ministry of Health, Labour and Welfare to adopting a roadmap for further promotion of the use of generic drugs. Announced in April 2013, this roadmap sets the new target of increasing the volume share of generic drugs to 60% or higher*2 by the end of March 2018. In April 2014, the government introduced measures to promote the increased use of generic drugs, including a review of the rules for generic prescription premiums paid to health insurance pharmacies, and the introduction of a generic drug index for hospitals operating under the diagnosis procedure combination (DPC) system.

The government also made changes in relation to drug pricing, including the introduction of a system of exceptional price reductions based on the percentage of generic products used in place of long-standing products listed under the National Health Insurance pricing scheme, and the reduction of prices for newly listed generic drugs. In addition, the prices for all listed generic drugs were concentrated into three price bands.

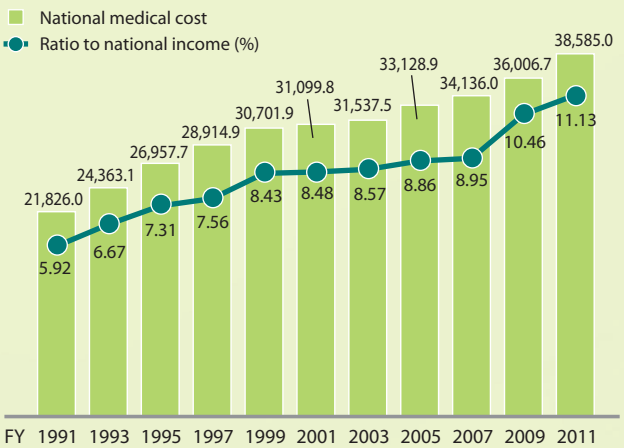
While these measures to promote the use of generic pharmaceuticals are expected to result in continual expansion and sales growth, the industry will also be affected by the pricing reforms. The improvement of cost competitiveness will therefore be an increasingly important priority.

As an industry leader in terms of production capacity and reliability of supply, Sawai is adapting to these environmental changes by establishing R&D capabilities to support the development of high-quality generic drugs with high added value, by focusing on information-sharing and educational activities, and by implementing in-depth cost control measures. Our aim is to build an unassailable position as the leading company in the generic drug industry. In keeping with our "Patients First" philosophy, we will continue to promote the increased use of generic drugs by building confidence in these products.

*1 Old calculation.

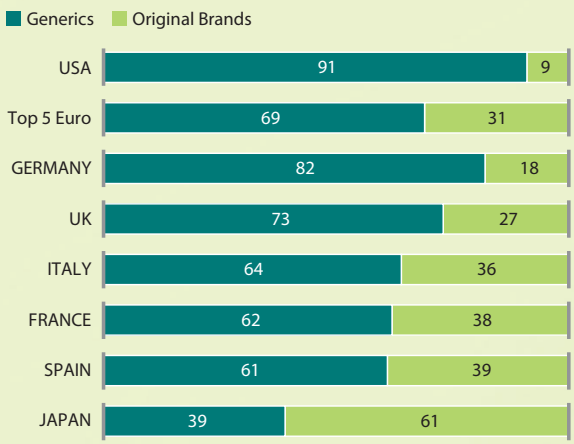
*2 New calculation. This figure is equivalent to 34.3% based on the old calculation formula.

Growth of National Medical Costs (Billions of yen)



Source: the Ministry of Health, Labour and Welfare

Generics vs Original Brands (CY2010/%)



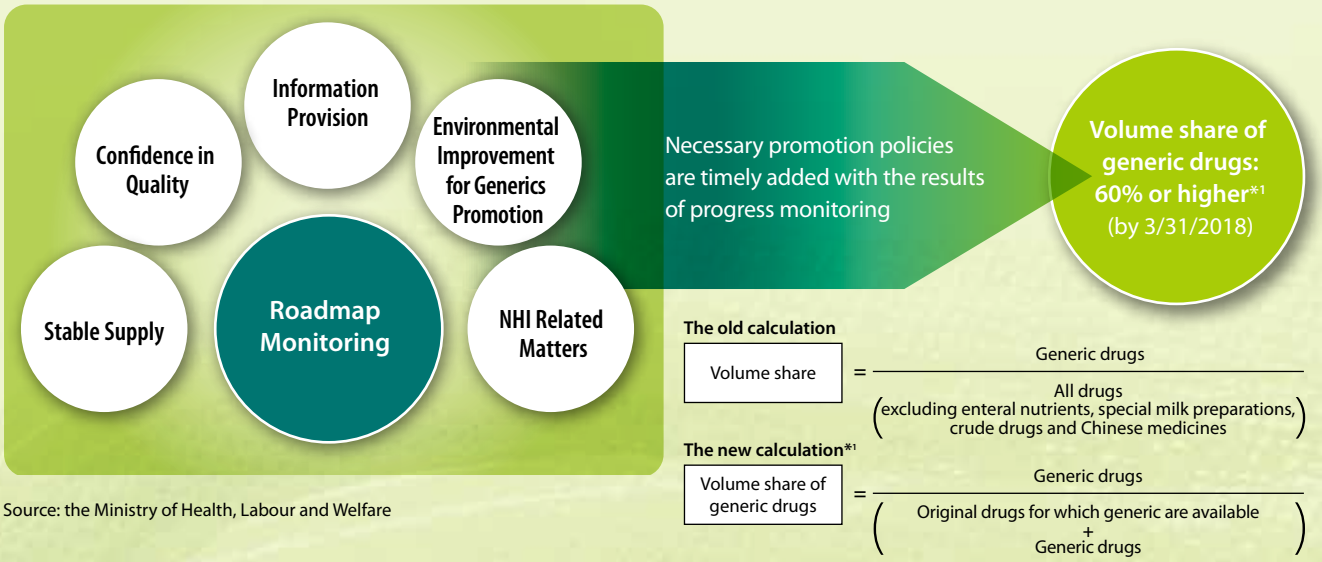
Source: the Ministry of Health, Labour and Welfare

History of Measures to Promote the Use of Generic Drugs

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 a 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 fees, Review of Premiums for Generic Dispensing Systems, introduction of generic drug index for use in the assessment of DPC hospitals according to the volume-based percentage of generic drugs used in in-patient care

Source: Information released by 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

In keeping with our "Patients First" philosophy, we use innovative drug formulation technology to develop the industry's best line-up of high-added-value products, making Sawai the preferred choice for health professionals and patients.

Sawai actively develops new products. In fiscal 2013, we launched 23 products based on 12 active ingredients. Consisting of over 600 products, our line-up of ethical pharmaceuticals is among the biggest in Japan. In June 2014, we launched another 11 products, based on six active ingredients, providing further evidence of the unrivalled R&D capabilities that allow us to create a continual stream of new high-quality products. We also differentiate ourselves from competing manufacturers by using our advanced drug formulation technology to introduce unique innovations.

One of our innovations is the use of laser technology to print information directly onto tablets. This process is used with the antiplatelet drug CILOSTAZOL OD tablets, which we launched in June 2013, and users have reacted positively to the resulting improvement of product identifiability. Recognition for our technological achievements includes the Asahi Kasei Award for Drug Development Technology, which was presented to Sawai by the Academy of Pharmaceutical Science and Technology, Japan.

Among the products launched by Sawai in June 2014 are major drugs like VALSARTAN, the original version of which recorded sales of ¥90 billion. Although these are supplied by many other generic drug manufacturers, we offer advantages that our competitors cannot match, such as the improvement of product identifiability with laser printing technology and unique packaging. We also develop products that competitors cannot produce, such as CARVEDILOL SAWAI 1.25mg and 2.5mg tablets, and we are the sole suppliers of these products. We also develop products in dosage forms that were not available for the original drugs. For example, AMBROXOL HYDROCHLORIDE sustained release OD tablets are much easier to swallow than capsules and have greatly enhanced patient usability. Similarly, LOSARHYD COMBINATION TABLETS LD SAWAI tablets, which are used to reduce blood pressure, are supplied in a dosage form that is smaller than the original product, making them easier to administer to patients. This innovative approach to product development is helping to differentiate Sawai more clearly from competitors while also strengthening our competitiveness.

We expect competition in the Japanese generic drug industry to escalate in the future, and we invest actively in R&D to ensure our survival in this environment. In fiscal 2013, our R&D expenditure was among the highest in the Japanese generic drug manufacturing industry at ¥5,170 million.

An important initiative that will further strengthen our status as the preferred manufacturer of generic drugs is the construction of a Development Center in Suita City, Osaka Prefecture as a base for the development of new products and the evaluation of commercialization potential. We plan to invest a total of ¥6 billion in this facility, which is scheduled to open by October 2015. The Development Center will be equipped with investigational drug production facilities that will meet the Japanese, U.S. (FDA) and European (EMA) GMP standards, allowing us to develop pharmaceuticals for overseas markets.

We want our products to be the preferred choice for users in the expanding generic drug market. We are determined to achieve that goal through the continuing improvement of our ethical pharmaceutical development capabilities.

Major Products

Trade Name	Therapeutic Class	Dosage Form	Strength
AMLODIPINE	Cardiovascular agents	Tablets	5mg
ATORVASTATIN	Cardiovascular agents	Tablets	10mg
BEZAFIBRATE SR	Cardiovascular agents	Tablets	200mg
CARVEDILOL	Cardiovascular agents	Tablets	10mg
CEFCAPENE PIVOXILE HYDROCHLORIDE	Antibiotics	Tablets	100mg
CEFDITOREN PIVOXIL	Antibiotics	Tablets	100mg
CILNIDIPINE	Cardiovascular agents	Tablets	10mg
CILOSTAZOL OD	Blood / body fluid agents	Orally Disintegrating Tablets	100mg
CLARITHROMYCIN	Antibiotics	Tablets	200mg(potency)
DONEPEZIL HYDROCHLORIDE OD	Central nervous system agents	Orally Disintegrating Tablets	5mg
EPINASTIND HYDROCHLORIDE	Allergic agents	Tablets	20mg
ETHYL ICOSAPENTATE	Cardiovascular agents	Seamless Capsules	900mg
FAMOTIDINE D	Digestive organ agents	Orally Disintegrating Tablets	20mg
LASOPRAN OD	Digestive organ agents	Orally Disintegrating Tablets	15mg
LIMARMONE	Cardiovascular agents	Tablets	5μg
LOXOPROFEN Na	Central nervous system agents	Tablets	68.1mg
METHYCOOL	Vitamins	Tablets	500μg
NIFEDIPINE CR	Cardiovascular agents	Tablets	20mg
OMEPRAZOLE	Digestive organ agents	Tablets	20mg
PRAVASTATIN Na	Cardiovascular agents	Tablets	10mg
RABEPRAZOLE Na	Digestive organ agents	Tablets	10mg
REBAMIPIDE	Digestive organ agents	Tablets	100mg
SENNOSIDE	Digestive organ agents	Tablets	12mg
SIMVASTATIN	Cardiovascular agents	Tablets	5mg
TAMSULOSIN HYDROCHLORIDE OD	Urogenital and anal organ agents	Orally Disintegrating Tablets	0.2mg
VOGLIBOSE OD	Miscellaneous metabolism agents	Orally Disintegrating Tablets	0.3mg

Major New Products Listed in Dec. 2013 - June 2014

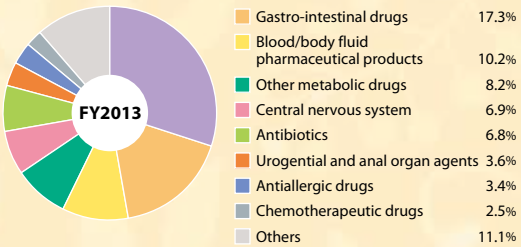
Trade Name	Therapeutic Class	Dosage Form	Strength
PITAVASTATIN Ca	Cardiovascular agents	Tablets	1mg / 2mg / 4mg
FEXOFENADINE HYDROCHLORIDE	Allergic agents	Orally Disintegrating Tablets	30mg / 60mg
FEXOFENADINE HYDROCHLORIDE	Allergic agents	Tablets	30mg / 60mg
AZITHROMYCIN	Antibiotics	Capsules	262mg
VALACYCLOVIR	Chemotherapeutics	Tablets	500mg
DOCETAXEL	Antineoplastics	Injections	20mg / 0.5mL(1vial) 80mg / 2mL(1vial)
AMBROXOL HYDROCHLORIDE OD	Respiratory organ agents	Orally Disintegrating Tablets	45mg
LOSARHYD	Cardiovascular agents	Tablets	50mg / 12.5mg
VALSARTAN	Cardiovascular agents	Tablets	20mg / 40mg / 80mg / 160mg
ZOLEDRONIC ACID	Miscellaneous metabolism agents	Injections	4mg / 5mL(1vial)
DOCETAXEL	Antineoplastics	Injections	20mg / 1mL(1vial) 80mg / 4mL(1vial)
CARVEDILOL	Cardiovascular agents	Tablets	1.25mg / 2.5mg

ATORVASTATIN

CILOSTAZOL OD

VALSARTAN

Sales by Therapeutic Category (%)



Representative Sawai Pharmaceutical Value-added Innovations

Design of products easily taken by patients

Change of dosage form	Reformulation of large, hard-to-swallow capsules into tablets
Miniaturized tablets	Miniaturization of large, hard-to-swallow tablets
ODTs	Development of Orally Disintegrating Tablets (ODTs)

Enhancements that facilitate prescription and dispensing for healthcare providers

Easy to split	Scored tablets easy to split
Improved stability	Improved stability against humidity, temperature, light etc.

Improvements of safe medication practices based on reducing medical errors

Better containers	New, high-safety containers that protect against breakage
Pre-filled syringes/ Pre-mixed bags	Switch to ready-to-use medical products
Clear displays	Clear descriptions of drug names, standards and effects included in packaging

Production Facilities

As the leading company in the generic drug industry, we believe that we have a social responsibility to supply high-quality products with optimal reliability, and we have already started to increase our production capacity to 10 billion tablets per year.

One of our most important missions as a manufacturer of ethical pharmaceuticals is to supply high-quality products with optimal reliability. Sawai has built a reputation for reliability of supply by actively undertaking anticipatory investment in the expansion of our production capacity. As the industry leader in terms of reliability of supply, we have built an excellent reputation among both wholesalers and medical institutions.

The Sawai Group already had the capacity to supply around 6 billion tablets annually from its six plants in Japan, but in March 2013 a new pharmaceutical 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.

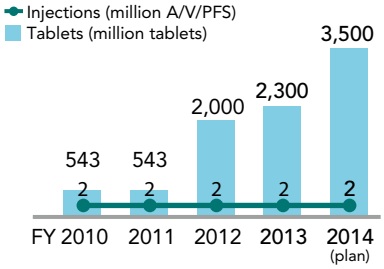
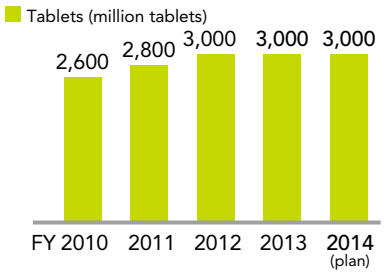
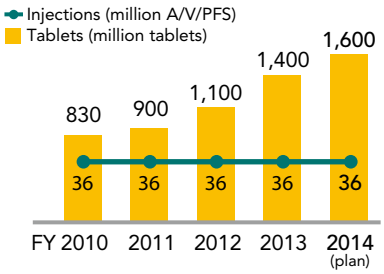
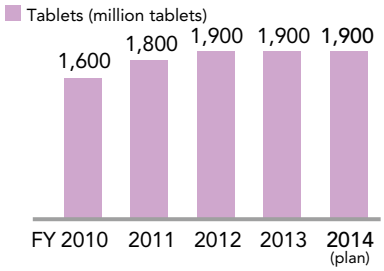
However, demand for generic drugs is expected to expand rapidly from now on, in part because of the government's announcement of a roadmap for promoting the increased use of generics. Our forecasts indicate that sales of generic drugs in the domestic market will increase by 30 billion tablets over the next five years, from 43 billion tablets per year in 2013 to 73 billion tablets in 2018. When this growth is compared with the 17 billion-tablet increase over the last five years, it becomes apparent that the industry as a whole will need to double its production capacity, and that further capital investment will be needed to ensure reliability of supply.

We aim to increase our production capacity to 10 billion tablets per year by the end of fiscal 2014, and we have therefore brought forward by one year plans to increase production capacity at the Kanto Factory. By March 31, 2015, the total production capacity of the Sawai Group will reach 10 billion tablets per year, consisting of 3.5 billion tablets at the Kanto Factory in Chiba, 3 billion tablets at the Sanda Factory in Hyogo Prefecture, 1.6 billion tablets at the Kyusyu Factory in Fukuoka, and 1.9 billion tablets at the Second Kyusyu Factory, which is also in Fukuoka. However, our demand forecasts indicate that this capacity will not be sufficient, and we are considering further capital investment.

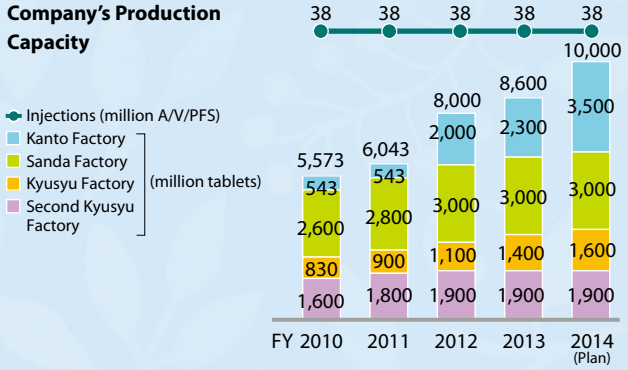
With the exception of the Yasato Factory, which is operated by our subsidiary, Kaken Shoyaku, all of Sawai Group production facilities have been integrated under the parent company. Productivity levels are already high, but we are targeting further productivity improvements and cost reductions as part of our response to the revision of the health insurance pricing system for generic drugs. For example, we are establishing multiple sources for raw materials, and optimizing production locations for each product. We are also strengthening our quality management systems through prioritized increases in staffing levels in quality-related areas, such as inspections.

We will continue our efforts to optimize production operations throughout the Sawai Group by procuring high-quality materials from worldwide sources, and by maintaining production and quality control systems based on our own stringent standards.

Major Factories of Sawai Pharmaceutical

	Factory Outline	Special Features	Production Capacity
Kanto Factory (Chiba Prefecture) 	**Site Area:** 87,478m² **Total Floor Area:** 27,931m² **Production Capacity:** 2,300 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 to 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:** 1,400 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 enhancing the presence of the Sawai brand and preparing for future growth in the demand for generic drugs by actively marketing our products and distributing information through a balanced mix of wholesale and agency channels.

Sawai is actively marketing its products, especially to insurance pharmacies and hospitals operating under the diagnosis procedure combination (DPC) system, in anticipation of expanding demand for generic products. In the year ended March 2014, deliveries of drugs to pharmacies increased by 18.3% over the previous year's level, while deliveries to DPC hospitals were 9.0% higher.

The wholesalers who sell Sawai products have nationwide sales networks. Our excellent reputation with these wholesalers reflects the high quality of our products and information, as well as our reliability of supply. Our efforts to develop closer links with wholesalers under the M1 Trust 2015 medium-term business plan have resulted in the sustained growth in our sales through this channel. In the year ended March 2014, sales via the wholesale route increased by 13.3% to ¥47,130 million, while the contribution to total consolidated net sales rose from 51.7% to 52.5%.

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 8.9% year on year to ¥37,898 million in the year ended March 2014, while the contribution to total consolidated net sales decreased from 43.2% to 42.2%.

We will continue to adapt to change in the market for generic drugs by expanding our sales to pharmacies, a segment in which we are especially strong. We will also work to expand our sales and raise the profile of the Sawai brand by building relationships with major hospitals, especially DPC hospitals. Through these strategies, we aim to build an unassailable position for Sawai as the leading company in the generic drug market.

In the pharmacy market, we will expand our relationships with our existing customers by mobilizing our resources, including contract medical representatives (MRs), and by using our strengths, including our extensive product line-up, our high-added-value products, and our reliability of supply, to differentiate ourselves from our competitors. At the same time, we will expand and strengthen our customer base by developing and implementing measures in response to change in the pharmacy market.

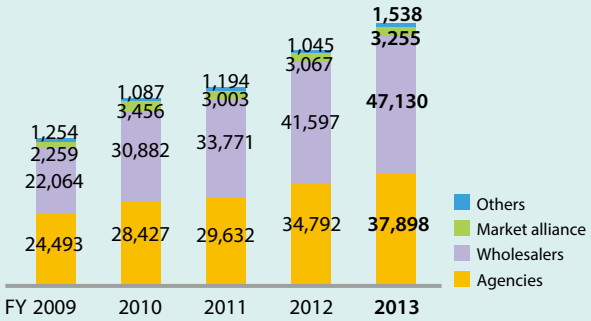
We will develop and expand our relationships with major hospitals by focusing on key targets. In addition, we will raise the profile of the Sawai brand through increased collaboration between hospital market MRs and regional MRs.

We also aim to expand sales and develop closer collaboration with wholesalers and agencies by building and strengthening relationships of trust through increases in the number of staff assigned to wholesalers and the frequency of communication between MRs and wholesaler marketing specialists (MSs), and the expansion of departments dedicated to agencies. IT tools will also play a role in our efforts to develop closer relationships with customers.

While formulating and implementing marketing strategies geared toward the new drug pricing system, we will also enhance our capacity to supply accurate information promptly to medical institutions and other users. Another focus will be the development of highly efficient marketing structures.

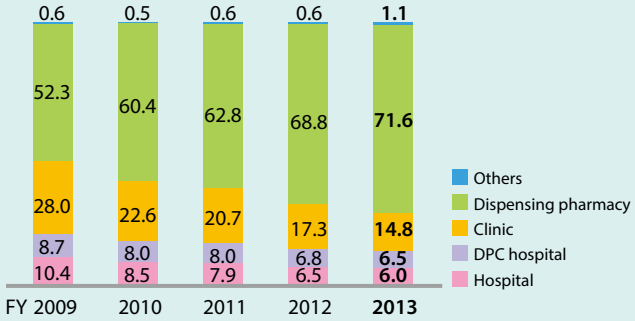
Sales by Market Channel

(Millions of yen)

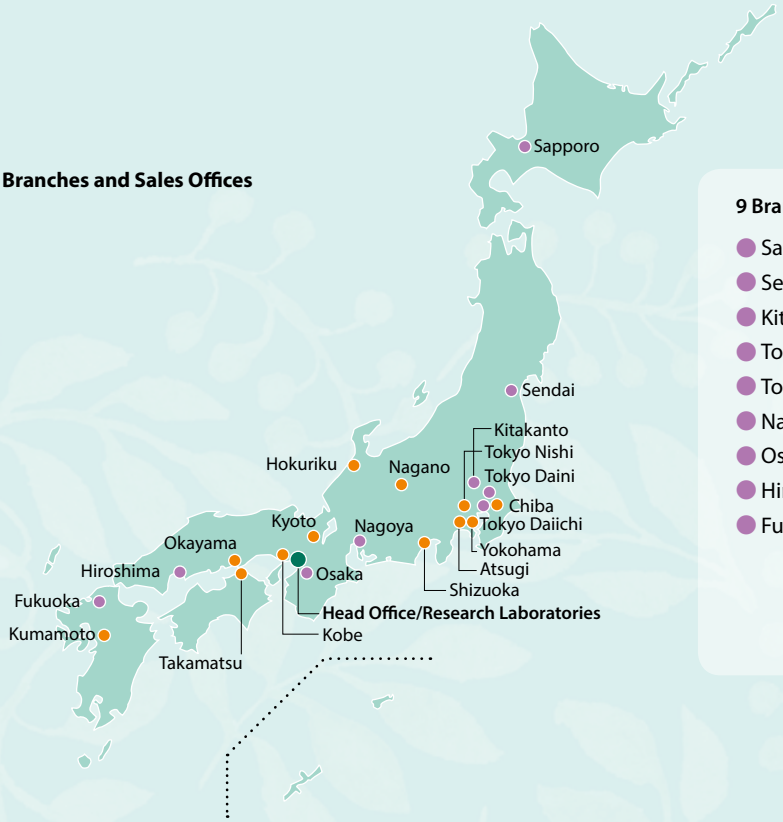


Sales Composition by Medical Institution Types

(Non-Consolidated/%)



Branches and Sales Offices



9 Branches

- Sapporo Branch
- Sendai Branch
- Kitakanto Branch
- Tokyo Daiichi Branch
- Tokyo Daini Branch
- Nagoya Branch
- Osaka Branch
- Hiroshima Branch
- Fukuoka Branch

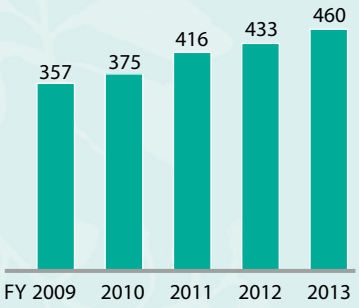
12 Sales Offices

- Nagano Sales Office
- Tokyo nishi Sales Office
- Yokohama Sales Office
- Atsugi 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



Under the M1 Project, we are working to enhance the profile of the Sawai brand and build confidence in our products by strengthening our corporate fundamentals and group potential, while also raising the awareness of individual employees through internal branding activities.

Trust is the foundation stone of the Sawai brand, and we believe that trust can only be built through the combined efforts of every individual employee. This is the concept behind the M1 Project, which we launched in October 2006. The M1 Project is based on total participation, and its guiding principle is that by working together we can become No. 1. Phase 8 of the project was completed in fiscal 2013, and we are now working on Phase 9 in fiscal 2014. Activities during this phase will focus on the further dissemination and assimilation of our corporate philosophy through courtesy campaigns and a series of corporate philosophy seminars in all workplaces. We will also update corporate philosophy posters and other dissemination tools used to distribute messages to our expanding work force.

Progress under the M1 Project

Phase	Concept	Key Themes	Common Themes
Phase 1 (Fiscal 2006) **Phase 2** (Fiscal 2007)	• Unification of values • Awareness raising	• Formulation and dissemination of corporate philosophy • Training system development • Facilitation of information sharing • Inventory adjustment • Change management improvement	• M1 Committee • M1 Club activities • Corporate philosophy dissemination activities • Employee awareness surveys
Phase 3 (Fiscal 2008) **Phase 4** (Fiscal 2009)	• Delivery of business results • Improvement of corporate fundamentals	• Development of performance management system • Improvement of development investment process • Formulation and dissemination of medium-term business plan • Off-site meetings	
Phase 5 (Fiscal 2010) **Phase 6** (Fiscal 2011)	• Strengthening of competitiveness base	• The Five-Years-After Committee • Reduction of direct materials purchasing costs • Reduction of indirect materials purchasing costs (Treasure Hunters) • Management skills development program • Off-site meetings	
Phase 7 (Fiscal 2012) **Phase 8** (Fiscal 2013)	• Reinforcement of corporate philosophy dissemination	• Formulation and dissemination of medium-term business plan (M1 Trust 2015) • Reduction of indirect materials purchasing costs (Treasure Hunters) • Courtesy campaign • Clarification of management philosophy for each segment	
Phase 9 (Fiscal 2014)	• Realization of corporate philosophy	• Corporate philosophy seminars • Revision of corporate philosophy dissemination tools • Expansion of courtesy campaign • Reduction of indirect materials purchasing costs (Treasure Hunters)	

Through its wide-ranging publicity activities, Sawai is helping to raise awareness of the effectiveness 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 general newspapers. That marked the start of our efforts to promote understanding about and increased use of generic drugs. Subsequently we began to place newspaper advertisements and TV commercials, and in recent years we have also sponsored various health-related programs. In addition, we are continually improving the content provided on our website for medical professionals and the general public.

We will continue to use dynamic advertising activities to promote increased use of generic drugs, while also building the profile of the Sawai brand.

TV Commercial:
Innovation in drug manufacturing

TV Commercial:
Our factories

A cancer-related information website for medical professionals

A newspaper advertisement (March 2014)

An advertisement in a specialist journal for medical professionals

The Generics Handbook

An information website for the general public (Sawai Health Promotion Dept.)

Sawai-Sponsored Program Now Screening

Sawai is an active sponsor of medical information programs designed to raise public awareness of various health problems. We are currently the sole sponsor of "I No Kokoro" (Spirit of Medical Care), a health information program that has been screened since April 2014 by Mainichi Broadcasting System. In the program, community health professionals talk about various health problems, providing viewers with accurate information about each condition. We support the aims of this program and sponsor it as part of our social contribution activities.

As a pharmaceutical manufacturer, we work through various initiatives to bring benefits to our patients, medical professionals and society.

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 public seminars about generic drugs. As a corporate citizen dedicated to growth in partnership with society, we also aim to contribute to communities through relationship-building activities, including the planning and co-sponsorship of various events.

Public Seminar to Raise Awareness of Generic Drugs

June 1, 2014, Shizuoka City

Sawai co-sponsored a seminar on the cardiac health risks associated with high blood pressure. The purpose of the event, which was hosted by the Shizuoka Shimbun newspaper and Shizuoka Broadcasting System Co., Ltd., was to disseminate accurate information about high blood pressure and generic drugs. This highly successful event attracted 434 people, significantly exceeding the initial estimate.

Public Seminar on Breast Cancer

December 7, 2013, Osaka City

Sponsored by the Sankei Shimbun newspaper and co-sponsored by Sawai, this seminar was the third of series of events that have provided women and their families with opportunities to learn the latest knowledge about breast cancer from leading experts.

World Heart Day 2013—Heart Health Walk

September 29, 2013, Osaka City

World Heart Day on September 29, 2013 was part of an international campaign to prevent cardiovascular disease. Sawai supports this campaign and is a special co-sponsor for the Health Heart Walk, which has been held since 2011 as the main event for the campaign. Around 1,700 people took part in the walk, an increase of over 700 from the previous year's total.

Let's Make Osaka Healthier!—Sawai Day

May 21, 2014, Osaka City

Sawai co-sponsored this annual event, which centered on a friendly baseball game between the Orix Buffaloes and the Hanshin Tigers from the Central and Pacific Leagues. Large numbers of elementary school children were invited to watch the match and participate in a variety of activities. The 2014 event was the fourth in the series.

"Generics and Me" Story Campaign 2013

Each year Sawai invites patients and the general public to submit stories about their experiences with generic drugs. In the current fiscal year, entries were accepted in June and July 2013. A total of 1,269 entries were received, from which 24 were selected through a stringent judging process for inclusion in a booklet. This booklet is used to raise awareness of the importance 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.

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.

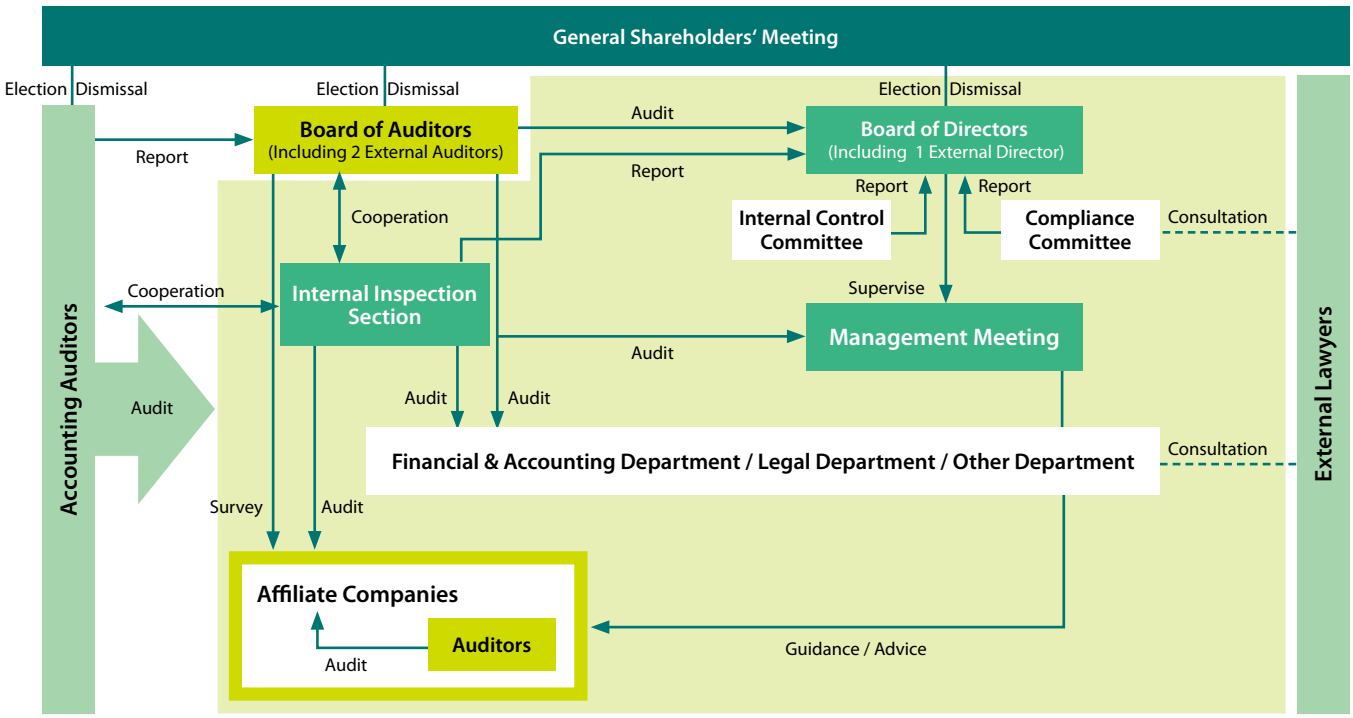
The Company makes reference to the concept of the independent director/auditor system stipulated by the Tokyo Stock Exchange

Board of Directors, Auditors and Corporate Officers (As of June 25, 2014)

Chairman, Representative Director	Hiroyuki Sawai
President, Representative Director	Mitsuo Sawai
Directors	Takashi Iwasa, Ph.D. Harumasa Toya, Ph.D. Keiichi Kimura Minoru Kodama Kenzo Sawai Shinichi Tokuyama
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 Minoru Kodama Kenzo Sawai Shinichi Tokuyama
Senior Executive Officers	Kyozo Inari Yoshiteru Takahashi, Ph.D.
Executive Officers	Makio Sakaki Yuji Tokunaga, Ph.D. Kazuhiko Sueyoshi Masahiro Sasaki Akira Hamada

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 director 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. Management decision-making has been separated from executive functions, and an executive officer system has been introduced to ensure prompt, efficient decision-making.
2. 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.
3. 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.
4. 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.
5. 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, 2014, 2013, 2012, 2011 and 2010

	Millions of yen				
Years ended March 31	**2014**	2013	2012	2011	2010
Net sales	**¥ 89,824**	¥ 80,503	¥ 67,603	¥ 63,853	¥ 50,070
Cost of sales	**48,353**	42,511	34,411	33,736	26,275
Gross profit	**41,471**	37,992	33,192	30,117	23,795
Selling, general and administrative expenses	**22,380**	20,607	18,188	16,531	15,276
Operating income	**19,091**	17,385	15,004	13,586	8,519
Income before income taxes and minority interests	**18,990**	18,098	14,928	12,289	8,372
Net income	**12,193**	12,022	9,026	7,183	4,982
Total assets	**149,348**	127,843	123,400	117,056	81,236
Inventories	**39,182**	29,529	25,780	21,218	18,081
Total current liabilities	**39,097**	30,105	26,932	25,811	25,441
Total long-term liabilities	**8,949**	36,258	37,893	40,382	9,537
Net assets	**101,302**	61,480	58,575	50,863	46,258
Net cash provided by operating activities	**13,422**	12,256	7,814	5,937	7,907
Net cash used in investing activities	**(8,283)**	(1,373)	(2,371)	(20,362)	(5,329)
Net cash provided by financing activities	**(178)**	(10,970)	(4,578)	24,756	348
Cash and cash equivalents at end of year	**25,537**	20,584	20,671	19,805	9,474
Research and development (R&D) expenses	**5,170**	4,551	4,317	3,902	3,593
Capital expenditures	**7,353**	4,599	4,599	2,805	5,370
Depreciation and amortization	**4,989**	3,793	3,389	3,066	3,025
			%		
Ratio of R&D expenses to sales	**5.8**	5.7	6.4	6.1	7.2
Return on equity	**15.0**	20.1	16.5	15.1	11.8
Shareholders' equity to total assets	**67.8**	48.0	47.4	43.4	54.5
			Yen		
Amounts per common share:					
Net income–basic	**¥ 365.18**	¥ 386.71	¥ 285.25	¥ 228.04	¥ 158.66
Net income–diluted	**330.41**	318.17	235.07	203.67	158.43
Cash dividends applicable to period	**140.00**	170.00	140.00	110.00	70.00
Net assets	**2,755.29**	2,027.15	1,846.84	1,605.16	1,408.83

Notes: 1. Minority shareholders' interests are included in net assets due to the application of Japanese Corporate Law.
2. Capital expenditures are calculated on a cash flow basis.
3. The Company split its common stock two for one on October 1, 2013.
Amounts per common share for years prior to 2014, were recalculated to reflect the share split.
4. The interim dividend in 2013 was ¥90, which was before the share split, and the year-end dividend in 2013 was ¥50, which was after the share split.

Business Environment

One of the key events for the Japanese generic drug industry in fiscal 2013 was the announcement of the "Roadmap for further promotion of the use of generic medicines" in April 2013. In this Roadmap, the Japanese Ministry of Health, Labour and Welfare signaled its continuing strong commitment to efforts to encourage the increased use of generic drugs by setting the target of raising the market share of generic drugs to 60%* by March 31, 2018. The Roadmap also calls for increased efforts by generic drug manufacturers to step up stable supply, confidence in quality, and information provision. Particular emphasis was placed on tougher inspections of manufacturers of active pharmaceutical ingredients, and on the development of multiple sources of ingredients to ensure reliability of supply. In a related move, the Ministry has also called on generic drug manufacturers to take urgent steps to comply with the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S), which is emerging as the international inspection standard.

Following the announcement of the Roadmap, the Central Social Insurance Medical Council began to consider the next phase of system reforms. It has since made a number of decisions, including changes to the rules for premiums used to promote the use of generic drugs by dispensing pharmacies, and the introduction of measures to encourage the use of generic drugs in DPC hospitals. In addition, the government has approved proposals for the next round of reforms to the drug pricing system under the national health insurance scheme, including reductions in the prices of generic drugs. These changes represent a major challenge for Japan's generic drug industry.

As a leading company in the generic drug industry, the Sawai Group responded to this situation by actively implementing measures in each business segment in line with basic policies defined in the M1 TRUST 2015 medium-term business plan. Fiscal 2013 was the second year under this plan, which is designed to ensure rapid adaptation to changes in the business environment.

* This figure is based on a new calculation formula and is equivalent to 34.3% under the old formula.

Income and Expenses

Net sales increased by 11.6% year on year to a new record of ¥89,824 million in fiscal 2013. Sales via wholesalers were 13.3% higher year on year, while sales through regional sales agencies grew by 8.9%. Wholesalers accounted for 52.5% of total net sales, compared with 51.7% in the previous year, while regional sales agencies contributed 42.2%, down from 43.2% in fiscal 2012.

The cost of sales was 13.7% higher year on year at ¥48,353 million while gross profit increased by 9.2% to ¥41,471 million. The gross profit to sales ratio was 1.0 percentage points lower at 46.2%.

Selling, general and administrative expenses increased by 8.6% year on year to ¥22,380 million. This reflects higher figures for several items, including R&D expenses, advertising expenses and personnel cost. On this basis, operating income was 9.8% higher year on year at ¥19,091 million. The operating income to sales ratio fell by 0.3 percentage points to 21.3%.

Net income set a new record of ¥12,193 million, a year-on-year increase of 1.4%, while net income per share* amounted to ¥365.18, compared with ¥386.71 in the previous year. The return on equity was 15.0%, down from 20.1% in fiscal 2012.

* On October 1, 2013, we implemented a share split at the rate of two new shares for each old share of common stock. Net income per share in 2013 was recalculated as if this share split had been implemented at the start of the accounting period.

R&D Expenses

The core of the Sawai Group's R&D structure is the Research and Development Division. In keeping with our "Patients first" philosophy, our R&D activities focus on the creation of pharmaceutical products that reflect medical needs, including the development of high added value product based on innovative formulations. In fiscal 2013, we obtained approval for the manufacture and sales of 12 active ingredients in 23 products.

R&D expenses increased by 13.6% year on year to ¥5,170 million. The ratio of R&D expenses to net sales rose to 5.8% from 5.7% in the previous year.

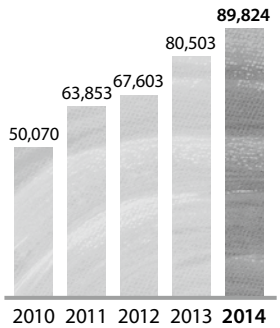
Financial Position

Total assets increased by ¥21,505 million year on year to ¥149,348 million as of March 31, 2014. Current assets rose by ¥16,618 million to ¥96,054 million because of increases in cash and deposits, inventories and other items. Fixed assets were ¥4,887 million higher at ¥53,294 million, mainly because of an increase in tangible assets.

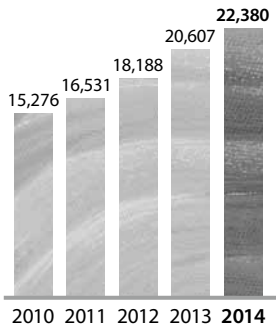
Capital expenditures totaled ¥7,353 million in fiscal 2013, compared with ¥4,599 million in fiscal 2012. The main items were investment in the second stage of construction at the Kanto Factory, and the renewal of

(For the year ended March 31)

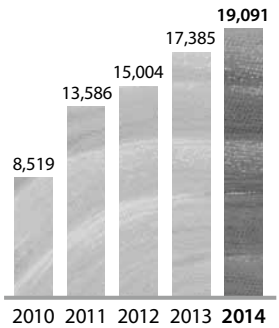
Net Sales
(Millions of yen)



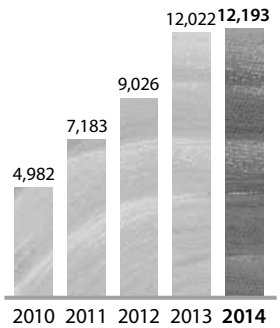
Selling, General and Administrative Expenses
(Millions of yen)



Operating Income
(Millions of yen)



Net Income
(Millions of yen)



machinery at other factories.

Total liabilities amounted to ¥48,046 million, a reduction of ¥18,317 million from the position as of March 31, 2013. Current liabilities were ¥8,992 million higher at ¥39,097 million, mainly because of an increase in trade notes and accounts payable. Long-term liabilities were ¥27,309 million lower at ¥8,949 million. This resulted mainly from a reduction in convertible bonds with share subscription rights.

Net assets increased by ¥39,822 million from the position as of March 31, 2013 to ¥101,302 million. Contributing factors include higher figures for net income, capital and the capital surplus. The shareholders' equity ratio rose by 19.8 percentage points to 67.8%.

Cash Flows

■ Cash flows from operating activities

Net cash provided by operating activities amounted to ¥13,422 million, a year-on-year increase of ¥1,166 million. The main items were ¥18,990 million in income before income taxes and minority interests, ¥4,989 million in depreciation and amortization, a ¥9,654 million increase in inventories, a ¥4,211 million increase in accounts payable, and ¥5,579 million in income taxes paid.

■ Cash flows from investing activities

Net cash used for investing activities amounted to ¥8,283 million, an increase of ¥6,910 million over the previous year's figure. This consisted mainly of expenditure of ¥7,022 million on the acquisition of tangible fixed assets.

■ Cash flows from financing activities

Net cash used for financing activities amounted to ¥178 million, a reduction of ¥10,792 million from the previous year's figure. The main items were ¥5,500 million in proceeds from long-term borrowing, ¥2,825 million in expenditure on the repayment of long-term debts, and ¥3,002 million in cash dividends paid.

On this basis, cash and cash equivalents amounted to ¥25,537 million as of March 31, 2014. This is ¥4,953 million higher than total as of March 31, 2013.

Dividend Policy

We regard the distribution of profit to shareholders as one of our most important management priorities. Our basic policy concerning profit distribution calls for an appropriate balance between shareholder returns and the need to maintain sufficient funds to support active investment in preparation for future growth, and to improve our financial soundness through the expansion of capital. We aim to maintain dividend stability and continuity based on target payout ratio of 30%, after considering all relevant factors, including our financial performance in each business year, the dividend payout ratio, and other means by which profit is returned to shareholders.

In fiscal 2013, we paid an interim dividend of ¥90 per share before the share split, and a final dividend of ¥50 per share. In fiscal 2014, we plan to pay interim and final dividends of ¥50 per share each.

Note: On October 1, 2013, we implemented a share split at the rate of two new shares for each old share of common stock. After adjustment for this share split, the dividend for fiscal 2013 was equivalent to ¥45 per share.

Outlook for Fiscal 2014

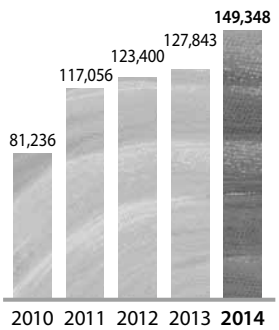
A reactionary downswing in demand following the demand rush ahead of the consumption tax increase is expected to affect the Japanese economy from the start of fiscal 2014. The outlook for global political and economic trends is also clouded by a number of uncertainties, including the "shadow banking" problem in China and the situation in Ukraine. Instability is also expected to continue in the business environment.

For the generic drug industry, fiscal 2014 is expected to bring dramatic growth in sales volumes because of the combined effects of measures to promote increase use of generic drugs through changes to the payments for medical services, and the increased cost-consciousness of patients following the consumption tax increase. However, changes to drug prices under the national health insurance scheme will also have a major impact, and generic drug manufacturers are likely to face a more challenging business environment.

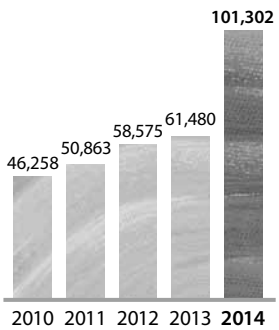
The Sawai Group will adapt to these changes in our business environment by further strengthening our product development capabilities, our capacity to supply products reliably, our reputation for dependable quality, our information provision capability, and our brand profile. We will also flexibly modify our corporate functions, including R&D, production and sales as we move toward the realization of targets for the final year of our medium term business plan, M1 TRUST 2015.

In fiscal 2014, we estimate that net sales will increase by 18.0% year on year to ¥106,000 million, operating income by 10.0% to ¥21,000 million, and net income by 10.7% to ¥13,500 million.

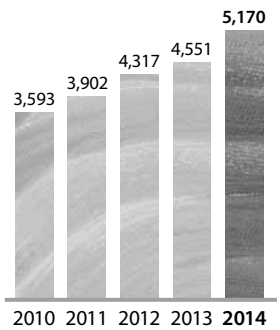
Total Assets
(Millions of yen)



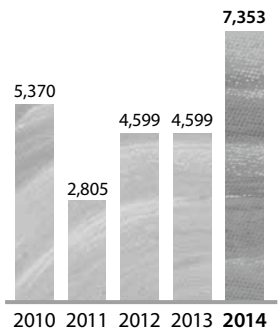
Net Assets
(Millions of yen)



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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2014**	2013	**2014**
Current Assets:			
Cash and deposits (Notes 5 and 6)	**¥ 25,537**	¥ 20,584	**$ 247,472**
Trade notes and accounts receivable (Note 6)	**28,344**	26,532	**274,681**
Electronically recorded monetary claims	**427**	62	**4,137**
Allowance for doubtful receivables	**(13)**	(13)	**(129)**
	54,295	47,165	**526,161**
Inventories (Note 7)	**39,182**	29,529	**379,718**
Deferred tax assets (Note 12)	**2,161**	1,676	**20,941**
Other current assets	**416**	1,066	**4,027**
Total current assets	**96,054**	79,436	**930,847**
Property, Plant and Equipment:			
Land	**7,620**	6,303	**73,842**
Buildings and structures	**36,379**	35,645	**352,544**
Machinery and equipment	**30,408**	27,759	**294,678**
Lease assets	**91**	95	**887**
Construction in progress	**2,497**	60	**24,197**
Other	**6,631**	5,984	**64,259**
	83,626	75,846	**810,407**
Accumulated depreciation	**(35,784)**	(31,744)	**(346,778)**
Net property, plant and equipment	**47,842**	44,102	**463,629**
Intangible Assets	**1,847**	1,957	**17,903**
Investments and Other Assets:			
Investment securities (Notes 6 and 8)	**3,239**	1,998	**31,386**
Long-term prepaid expenses	**65**	32	**633**
Deferred tax assets (Note 12)	**—**	27	**—**
Other investments and long-term receivables	**327**	317	**3,165**
	3,631	2,374	**35,184**
Allowance for doubtful receivables	**(26)**	(26)	**(250)**
Net investments and other assets	**3,605**	2,348	**34,934**
	¥149,348	¥127,843	**$1,447,313**

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

LIABILITIES AND NET ASSETS	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Current Liabilities:			
Current portion of long-term debt (Notes 6 and 9)	**¥ 2,256**	¥ 2,451	**$ 21,865**
Current portion of lease obligations	**18**	19	**170**
Trade notes and accounts payable (Note 6)	**16,157**	11,942	**156,576**
Other accounts payable (Note 6)	**12,584**	9,582	**121,948**
Accrued bonuses to employees	**1,346**	1,304	**13,051**
Accrued bonuses to directors and corporate auditors	**58**	82	**560**
Income taxes payable (Note 6)	**4,650**	3,267	**45,064**
Reserve for sales returns	**72**	64	**700**
Reserve for sales rebates	**1,273**	723	**12,339**
Other current liabilities	**683**	671	**6,613**
Total current liabilities	**39,097**	30,105	**378,886**
Long-Term Liabilities:			
Convertible bonds with subscription rights to shares (Notes 6, 9 and 15)	**—**	30,362	**—**
Long-term debt (Notes 6 and 9)	**6,374**	3,504	**61,766**
Long-term lease obligations	**45**	62	**434**
Employees' retirement benefits (Note 10)	**—**	89	**—**
Debt for retirement benefits (Note 10)	**57**	—	**550**
Retirement allowance for directors and corporate auditors	**—**	588	**—**
Deferred tax liabilities (Note 12)	**178**	76	**1,722**
Other long-term liabilities	**2,295**	1,577	**22,251**
Total long-term liabilities	**8,949**	36,258	**86,723**
Net Assets (Note 11)**:**			
Shareholders' Equity:			
Common stock			
Authorized 77,600,000 shares			
Issued and outstanding			
38,125,988 shares in 2014 15,856,900 shares in 2013	**27,107**	11,959	**262,688**
Capital surplus	**27,505**	12,294	**266,551**
Retained earnings	**52,490**	43,308	**508,680**
Treasury stock 1,384,567 shares in 2014 706,412 shares in 2013	**(6,356)**	(6,471)	**(61,599)**
Total shareholders' equity	**100,746**	61,090	**976,320**
Accumulated Other Comprehensive Income			
Net unrealized holding gains on securities	**487**	335	**4,716**
Total accumulated other comprehensive income	**487**	335	**4,716**
Subscription Rights to Shares	**69**	46	**668**
Minority Interests	**—**	9	**—**
Net assets	**101,302**	61,480	**981,704**
	¥149,348	¥127,843	**$1,447,313**

CONSOLIDATED STATEMENTS OF INCOME

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net Sales (Note 13)	**¥89,824**	¥80,503	**$870,469**
Cost of Sales	**48,353**	42,511	**468,579**
Gross Profit	**41,471**	37,992	**401,890**
Selling, General and Administrative Expenses	**22,380**	20,607	**216,883**
Operating Income	**19,091**	17,385	**185,007**
Other Income (Expenses):			
Interest and dividend income	**139**	362	**1,343**
Gain on sales of investment securities	**5**	654	**47**
Interest expense	**(109)**	(131)	**(1,052)**
Subsidy income	**28**	226	**270**
Expenses for loan commitment agreements	**(105)**	(27)	**(1,022)**
Loss on disposal of fixed assets	**(107)**	(358)	**(1,036)**
Loss on impairment of fixed assets	**—**	—	**—**
Other, net	**48**	(13)	**470**
	(101)	713	**(980)**
Income Before Income Taxes and Minority Interests	**18,990**	18,098	**184,027**
Provision for Income Taxes:			
Current	**7,237**	5,904	**70,129**
Deferred	**(440)**	172	**(4,261)**
Income Before Minority Interests	**12,193**	12,022	**118,159**
Minority Interests	**(0)**	0	**(0)**
Net Income	**¥12,193**	¥12,022	**$118,159**
Per Share of Common Stock:	Yen		U.S. dollars (Note 1)
Net income—basic	**¥365.18**	¥386.71	**$3.54**
Net income—diluted	**330.41**	318.17	**3.20**
Dividends	**140.00**	170.00	**1.36**

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

Notes: 1. The Company split its common stock two for one on October 1, 2013.

2. The interim dividend in 2013 was ¥90, which was before the share split, and the year-end dividend in 2013 was ¥50, which was after the share split. Per share of common stock in 2013 were recalculated to reflect the share split.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income Before Minority Interests	**¥12,193**	¥12,022	**$118,159**
Other Comprehensive Income (Note 4)			
Net unrealized holding gains (losses) on securities	**152**	(381)	**1,473**
Total other comprehensive income (loss)	**152**	(381)	**1,473**
Comprehensive Income	**¥12,345**	¥11,641	**$119,632**
Comprehensive income attributable to:			
Owners of the parent	**12,345**	11,641	**119,632**
Minority interests	**(0)**	0	**(0)**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2014 and 2013

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, 2012 (Note 11)	¥ 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 subscription 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 11)	¥ 11,959	¥ 12,294	¥ 43,308	¥ (6,471)	¥ 61,090	¥ 335	¥ 335	¥ 46	¥ 9	¥ 61,480
Changes in items during the year										
Convertible bonds with equity purchase warrants conversion	15,113	15,113			30,226					30,226
Stock issue (exercise of stock subscription rights)	35	35			70			(15)		55
Cash dividends			(3,002)		(3,002)					(3,002)
Net income			12,193		12,193					12,193
Acquisition of treasury stock				(3)	(3)					(3)
Disposition of treasury stock		63		118	181					181
Changes in consolidated subsidiaries			(9)		(9)					(9)
Change in the share of consolidated subsidiaries stock									(9)	(9)
Net changes in items other than shareholders' equity					—	152	152	38	(0)	190
Total changes in items during the period	15,148	15,211	9,182	115	39,656	152	152	23	(9)	39,822
Balance at March 31, 2014 (Note 11)	**¥27,107**	**¥27,505**	**¥52,490**	**¥(6,356)**	**¥100,746**	**¥ 487**	**¥ 487**	**¥ 69**	**¥—**	**¥101,302**

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, 2013 (Note 11)	$ 115,894	$ 119,139	$ 419,694	$ (62,715)	$592,012	$3,244	$3,244	$ 445	$ 89	$595,790
Changes in items during the year										
Convertible bonds with equity purchase warrants conversion	146,453	146,453			292,906					292,906
Stock issue (exercise of stock subscription rights)	341	341			682			(145)		537
Cash dividends			(29,089)		(29,089)					(29,089)
Net income			118,159		118,159					118,159
Acquisition of treasury stock				(30)	(30)					(30)
Disposition of treasury stock		618		1,146	1,764					1,764
Changes in consolidated subsidiaries			(84)		(84)					(84)
Change in the share of consolidated subsidiaries stock									(89)	(89)
Net changes in items other than shareholders' equity						1,472	1,472	368	(0)	1,840
Total changes in items during the period	146,794	147,412	88,986	1,116	384,308	1,472	1,472	223	(89)	385,914
Balance at March 31, 2014 (Note 11)	**$262,688**	**$266,551**	**$508,680**	**$(61,599)**	**$976,320**	**$4,716**	**$4,716**	**$ 668**	**$ —**	**$981,704**

Note: Items concerning the appropriation of earnings were resolved at the general shareholders' meetings held in June 2014 and 2013.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥18,990**	¥18,098	**$184,027**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**4,989**	3,793	**48,351**
Gain on sales of investment securities	**(5)**	(654)	**(47)**
Increase (decrease) in reserve for sales rebates	**550**	(160)	**5,326**
Increase (decrease) in allowance for doubtful receivables	**1**	(24)	**6**
Increase in accrued bonuses to employees	**43**	152	**415**
Increase (decrease) in accrued bonuses to directors and corporate auditors	**(24)**	3	**(236)**
Increase (decrease) in reserve for sales returns	**8**	(0)	**81**
Decrease in employees' retirement benefits	**(89)**	(4)	**(864)**
Increase (decrease) in retirement allowance for directors and corporate auditors	**(588)**	162	**(5,697)**
Increase debt for retirement benefits	**57**	—	**550**
Interest and dividend income	**(138)**	(362)	**(1,343)**
Interest expense	**109**	131	**1,052**
Loss on disposal of fixed assets	**107**	358	**1,036**
Increase in trade notes and accounts receivable	**(2,178)**	(1,107)	**(21,102)**
Increase in inventories	**(9,654)**	(3,749)	**(93,556)**
Increase in trade notes and accounts payable	**4,211**	1,618	**40,807**
Decrease (increase) in long-term prepaid expenses	**(34)**	12	**(327)**
Increase in other accounts payable	**1,648**	631	**15,972**
Other	**1,063**	(53)	**10,317**
Subtotal	**19,066**	18,845	**184,768**
Interest and dividends received	**67**	212	**646**
Interest paid	**(132)**	(126)	**(1,277)**
Income taxes paid	**(5,579)**	(6,675)	**(54,064)**
Net cash provided by operating activities	**13,422**	12,256	**130,073**
Cash Flows from Investing Activities:			
Net decrease in time deposits	**—**	6,000	**—**
Payments for purchase of property, plant and equipment	**(7,022)**	(4,004)	**(68,045)**
Payments for purchase of intangible assets	**(332)**	(595)	**(3,215)**
Payments for purchase of investment securities	**(999)**	(630)	**(9,684)**
Proceeds from sales of investment securities	**8**	5,771	**81**
Proceeds from collection of long-term receivables	**12**	6	**116**
Payment for new factory construction	**—**	(7,921)	**—**
Payments for purchase of subsidiary stock	**(16)**	—	**(155)**
Other	**66**	0	**632**
Net cash used in investing activities	**(8,283)**	(1,373)	**(80,270)**
Cash Flows from Financing Activities:			
Proceeds from long-term debt	**5,500**	600	**53,300**
Repayment of long-term debt	**(2,825)**	(2,815)	**(27,378)**
Proceeds from disposition of treasury stock	**180**	134	**1,744**
Proceeds from issuance of stock resulting from exercise of stock subscription rights	**55**	92	**536**
Payments for purchase of treasury stock	**(3)**	(6,599)	**(30)**
Cash dividends paid	**(3,002)**	(2,371)	**(29,089)**
Other	**(83)**	(11)	**(810)**
Net cash used in financing activities	**(178)**	(10,970)	**(1,727)**
Net increase (decrease) in cash and cash equivalents	**4,961**	(87)	**48,076**
Cash and cash equivalents at beginning of year	**20,584**	20,671	**199,473**
Changes in consolidated subsidiaries	**(8)**	—	**(77)**
Cash and cash equivalents at end of year (Note 5)	**¥25,537**	¥20,584	**$247,472**

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, 2014 and 2013

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, 2014, which was approximately ¥103.19 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. and KAKEN SHOYAKU CO., LTD., 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) Employees' retirement benefits / debt for retirement 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 ¥5,170 million ($50,102 thousand) and ¥4,551 million for the years ended March 31, 2014 and 2013, 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
The Company split its common stock two for one on October 1, 2013. Net income per share figures in 2013

were recalculated to reflect the share split.

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 Changes in Accounting Policies

From April 1, 2013, the Company and some subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012).

Amounts provided are reported as debt for retirement benefits instead of a employees' retirement benefits in fixed liabilities.

4 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, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized holding gains on securities increase during the year	**¥236**	¥ 360	**$2,283**
Reclassification adjustments	**—**	(654)	**—**
Subtotal, before tax	**236**	(294)	**2,283**
Tax (expense) or benefit	**(84)**	(87)	**(810)**
Subtotal, net of tax	**152**	(381)	**1,473**
Total other comprehensive income (loss)	**¥152**	¥(381)	**$1,473**

5 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥25,537**	¥20,584	**$247,472**
Time deposits with maturities of over three months	**—**	—	**—**
Cash and cash equivalents	**¥25,537**	¥20,584	**$247,472**

6 Financial Instruments

(1) Qualitative information on financial instruments

(i) Policies for using financial instruments

The Companies' policy for 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 exposures to risk

Trade notes and accounts receivable are exposed to the credit risk of customers. The Companies have management structures in place to check the terms and balances outstanding for each 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 on the investment securities held to the management board.

Trade notes and accounts payable are due within one year. Long-term bank debts due 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, used rational estimations when no fair market values were available, and the Companies made rational estimations that included 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, 2014 and 2013 were as follows:

Millions of yen

	2014			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	**25,537**	**25,537**	**—**	20,584	20,584	—
Trade notes and accounts receivable	**28,771**	**28,771**	**—**	26,594	26,594	—
Investment securities: other securities	**3,145**	**3,145**	**—**	1,910	1,910	—
Total assets	**¥57,453**	**¥57,453**	**¥—**	¥49,088	¥49,088	¥ —
Trade notes and accounts payable	**16,157**	**16,157**	**—**	11,942	11,942	—
Current portion of long-term debt	**2,256**	**2,263**	**7**	2,451	2,458	7
Other accounts payable	**12,584**	**12,584**	**—**	9,582	9,582	—
Income taxes payable	**4,650**	**4,650**	**—**	3,267	3,267	—
Convertible bonds	**—**	**—**	**—**	30,362	37,549	7,187
Long-term debt	**6,374**	**6,398**	**24**	3,504	3,530	26
Total liabilities	**¥42,021**	**¥42,052**	**¥31**	¥61,108	¥68,328	¥7,220

Thousands of U.S. dollars

	2014		
	Book value	Fair value	Difference
Cash and deposits	**247,472**	**247,472**	**—**
Trade notes and accounts receivable	**278,818**	**278,818**	**—**
Investment securities: other securities	**30,475**	**30,475**	**—**
Total assets	**$556,765**	**$556,765**	**$ —**
Trade notes and accounts payable	**156,576**	**156,576**	**—**
Current portion of long-term debt	**21,865**	**21,927**	**62**
Other accounts payable	**121,948**	**121,948**	**—**
Income taxes payable	**45,064**	**45,064**	**—**
Long-term debt	**61,766**	**62,002**	**236**
Total liabilities	**$407,219**	**$407,517**	**$298**

(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 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 ¥93 million ($901 thousand) and ¥88 million at March 31, 2014 and 2013 were not included in "Investment securities: other securities" as it was not possible to accurately estimate the fair values of these investments based on estimated future cash flows or quoted market prices.

(v) Most convertible bonds with subscription rights to shares were switched to common stock by the use of a call option until the end of November 2013.
The remaining bonds which were not switched were advanced redemption.

7 Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Finished goods and merchandise	**¥19,098**	¥15,129	**$185,080**
Work-in-process	**10,055**	6,998	**97,443**
Raw materials and supplies	**10,029**	7,402	**97,195**
Total	**¥39,182**	¥29,529	**$379,718**

8 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, 2014 and 2013.

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

March 31, 2014	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥2,390**	**¥3,145**	**¥755**	**$23,165**	**$30,475**	**$7,310**

March 31, 2013	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥1,391	¥1,910	¥519

(2) Securities with fair market values not exceeding acquisition costs: None

(b) Acquisition costs of securities with no available fair values as of March 31, 2014 were as follows:
Unlisted equity securities: ¥93 million ($901 thousand).
Acquisition costs of securities with no available fair values as of March 31, 2013 were as follows:
Unlisted equity securities: ¥88 million.

9 Short-term and Long-term Debt

There was a zero balance on short-term debt at March 31, 2014 and 2013.

Long-term debt and convertible bonds at March 31, 2014 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other public corporations, due 2015–2020, interest at 0.73%–1.78%		
Unsecured	**¥8,630**	**$83,631**
Zero coupon convertible bonds with subscription rights to shares	**—**	**—**
	8,630	**83,631**
Current portion of long-term debt	**2,256**	**21,865**
	¥6,374	**$61,766**

Note: Information on zero coupon convertible bonds with subscription rights to shares is described in Note 15.

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

	Millions of yen
Loans from banks and other public corporations, due 2014–2020, interest at 0.83%–1.78%	
Unsecured	¥ 5,954
Zero coupon convertible bonds with subscription rights to shares	30,362
	36,316
Current portion of long-term debt	2,451
	¥33,865

The aggregate annual maturities of long-term debt and convertible bonds outstanding at March 31, 2014 were as follows:

March 31,	Millions of yen	Thousands of U.S. dollars
2015	**2,256**	**21,865**
2016	**1,833**	**17,759**
2017	**951**	**9,220**
2018	**887**	**8,594**
2019	**1,037**	**10,048**
2020–2021	**1,369**	**13,267**
Total	**¥8,333**	**$80,753**

Note: Long-term debt for ESOP in the amount of ¥297 million ($2,877 thousand) was excluded from the total amount.

10 Retirement and Severance Benefits

The Company and its subsidiary, MEDISA SHINYAKU INC., revised their tax qualified pension plans and implemented new defined contribution plans 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, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Projected retirement benefit obligation	**¥ —**	¥89	**$ —**
Employee's retirement benefits	**¥ —**	¥89	**$ —**

Retirement benefit expenses for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Service cost	**¥ —**	¥ 7	**$ —**
Payment of contribution to defined contribution pension plan	**—**	440	**—**
Retirement benefit expenses	**¥ —**	¥447	**$ —**

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

Movement in liability for retirement benefits at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2013	**¥89**	**$864**
Retirement benefit costs	**6**	**59**
Benefits paid	**38**	**373**
Balance at March 31, 2014	**¥57**	**$550**

Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits.

	Millions of yen	Thousands of U.S. dollars
Unfunded retirement benefit obligations	**¥57**	**$550**
Total net debt for retirement benefits at March 31, 2014	**¥57**	**$550**

Retirement benefit costs	Millions of yen	Thousands of U.S. dollars
Total retirement benefit costs at March 31, 2014 based on the simplified method	**¥6**	**$59**

The amount of contribution to the Company and MEDISA SHINYAKU INC. defined benefit system required was ¥393 million ($3,809 thousand).

11 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 in which 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, 2014, the Company's shareholders approved the payment of year-end cash dividends of ¥50 ($0.48) per share, totaling ¥1,836 million ($17,792 thousand), paid to the Company's shareholders of record as of March 31, 2014. This amount does not include ¥4 million ($39 thousand) with the payment of year-end cash dividends of ESOP.

12 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 37.9% for the year ended March 31, 2014 and 37.9% for the year ended March 31, 2013.

Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Directors' and corporate auditors' retirement	**¥ —**	¥ 209	**$ —**
Unrealized gains on inventories	**104**	101	**1,005**
Accrued bonuses to employees	**478**	494	**4,633**
Reserve for sales rebates	**452**	274	**4,379**
Loss due to impairment of fixed assets	**176**	210	**1,700**
Long-term accounts payable	**196**	—	**1,903**
Loss on disposal of buildings and structures	**127**	127	**1,234**
Accrued enterprise taxes	**363**	290	**3,513**
Loss on valuation of inventories	**556**	334	**5,392**
Other	**409**	425	**3,963**
Subtotal deferred tax assets	**2,861**	2,464	**27,722**
Less valuation allowance	**(347)**	(388)	**(3,360)**
Total deferred tax assets	**2,514**	2,076	**24,362**
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets	**(263)**	(264)	**(2,546)**
Net unrealized holding gains on securities	**(268)**	(184)	**(2,595)**
Other	**(0)**	(0)	**(1)**
Total deferred tax liabilities	**(531)**	(448)	**(5,142)**
Net deferred tax assets	**¥1,983**	¥1,628	**$19,220**

Elements causing significant differences between the statutory income tax rate and the effective income tax rate after application of tax effect accounting at March 31, 2014 are as follows:

		2014	2013
Statutory tax rate			
(Reconciliation)	(%)	**37.9**	37.9
Non-deductible expenses, such as entertainment expenses		**1.0**	0.5
Non-taxable income, such as dividends received		**(0.1)**	(0.2)
Inhabitants tax on per capita basis		**0.2**	0.2
Tax credit for R&D expenses		**(3.7)**	(2.6)
Increase (decrease) in valuation allowance		**(0.2)**	(2.4)
Other		**0.7**	0.2
Effective income tax rate	(%)	**35.8**	33.6

The statutory income tax rate will be changed from 37.9% to 35.5% in the 2014 fiscal year due to the cancellation of the special corporate tax for reconstruction. As a results, deferred tax assets decreased 138 million yen and corporate tax adjustments increased 138 million yen.

13 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, 2014 was as follows:

Name of the Customer	Millions of yen	Thousands of U.S. dollars	Related segment
Mediseo Co., Ltd.	**¥11,857**	**$114,906**	Pharmaceuticals
Alfresa Corp.	**¥ 9,660**	**$ 93,616**	Pharmaceuticals

14 Stock Option Plan

The details related to the stock option expenses at March 31, 2014 were as follows:

	Fiscal year 2009 Stock options
Position and number of grantees	**Directors of the Company: 9** **Corporate auditors: 1** **Employees: 664** **Subsidiary employees: 39**
Type and number of shares	**Common stock of Company: 319,400 shares**
Date of grant	**August 11, 2008**
Settlement of rights	**After providing services for the period**
Period of providing services for stock options	**For 2 years** **(From August 11, 2008 to August 11, 2010)**
Exercise period for rights	**For 5 years from grant date** **(From August 12, 2010 to August 11, 2015)**

	Fiscal year 2013 Stock options
Position and number of grantees	**Directors of the Company: 8** **Company executives: 6**
Type and number of shares	**Common stock of Company: 7,800 shares**
Date of grant	**July 10, 2013**
Settlement of rights	**After providing services for the period**
Period of providing services for stock options	**No regulations for the period**
Exercise period of rights	**For 30 years from grant date** **(From July 11, 2013 to July 10, 2043)**

Number of shares of stock options at March 31, 2014 and 2013 was as follows:

Fiscal year 2008 stock options	Number of shares	
	2014	2013
Before Settlement of Rights		
Beginning of year	**—**	—
Granted	**—**	—
Expired	**—**	—
Settled	**—**	—
End of year	**—**	—
After Settlement of Rights		
Beginning of year	**73,000**	112,800
Settled	**—**	—
Exercised	**23,800**	39,400
Expired	**200**	400
End of year	**49,000**	73,000

Fiscal year 2013 stock options	Number of shares	
	2014	2013
Before Settlement of Rights		
Beginning of year	**—**	—
Granted	**7,800**	—
Expired	**—**	—
Settled	**—**	—
End of year	**7,800**	—
After Settlement of Rights		
Beginning of year	**—**	—
Settled	**—**	—
Exercised	**—**	—
Expired	**—**	—
End of year	**—**	—

Information per share price at March 31, 2014 and 2013 was as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Exercise price	**¥ 1**	¥2,325	**$ 0.01**
Fair value at grant date	**4,895**	629	**47.44**

15 Convertible Bonds with Subscription Rights to Shares

Most convertible bonds with subscription rights to shares were switched to common stock by the use of a call option until the end of November 2013.

The remaining bonds which were not switched were advanced redemption.

16 Subsequent Events

The Company resolved to conclude the basic statement of mutual agreement about succeeding Mitsubishi Tanabe Pharma Factory Ltd. by company split and transfer in the Board of Directors meeting on June 30, 2014.

It is effective on April 30, 2015, the Company transfers pharmaceutical products business from Mitsubishi Tanabe Pharma Factory Ltd.

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 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

KPMG AZSA LLC
July 15, 2014
Osaka, Japan

CORPORATE DATA

(As of March 31, 2014)

Sawai Pharmaceutical Co., Ltd.

Head Office:	2-30, Miyahara 5-chome, Yodogawa-ku, Osaka 532-0003, Japan
Founded:	1929
Incorporated:	1948
Paid-in Capital:	¥27,106 million
Number of Shares Outstanding:	38,125,988
Number of Shareholders:	10,112
Number of Employees:	1,121
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, 2014)	Nagano, Tokyo nishi, Yokohama, Atsugi, 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, 2013 to March 31, 2014	**¥ 7,540**	**¥ 5,105**
First Quarter	**6,580**	**5,105**
Second Quarter	**7,190**	**5,760**
Third Quarter	**7,540**	**6,500**
Fourth Quarter	**7,080**	**5,606**

Note: The Company split its common stock two for one on October 1, 2013. Stock prices before the share split are calculated as if the share split had already been carried out.

For further information, please contact

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