



# Patients First

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## Corporate Philosophy

# Patients First

1. It is **sawai**'s mission to enable people to live healthy lives through pharmaceutical products imbued with our whole-hearted dedication.
2. It is **sawai**'s challenge to grow in tandem with society through innovation and cooperation, while pursuing creativity.
3. It is **sawai**'s hope that we will become an indispensable part of society through our desire to be of service.

## The M1 Project

### (Marshalling All Employees' Efforts to Become No. 1)

Sawai is promoting "internal branding activities" as a means of fostering a culture of shared values and ensuring that everyone in the Company shares a common understanding of Sawai's corporate evolution goals. Specifically, the project aims to pervasively spread awareness of our Corporate Philosophy and Code of Conduct and ensure that our operations are in accordance with that philosophy and code. In this way, we are aiming to concertedly focus each individual employee's efforts on the attainment of our goal of becoming No. 1. So long as Sawai continues to exist, we intend to sustain this project as a campaign of activities designed to establish a firm basis for maintaining the Company's vitality and dynamism of becoming No. 1 for many years to come.

### Approach to Integrated Reporting

This report was prepared with the support of the Company's CSR Committee, which includes the Director in charge of CSR, and its Secretariat. It presents relevant information that may materially affect the ability of the Company to create value over the short, medium, and long terms.

### A Caution Concerning Forward-Looking Statements

This 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.

Accordingly, please be aware that the impact of certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report.

### Financial Information

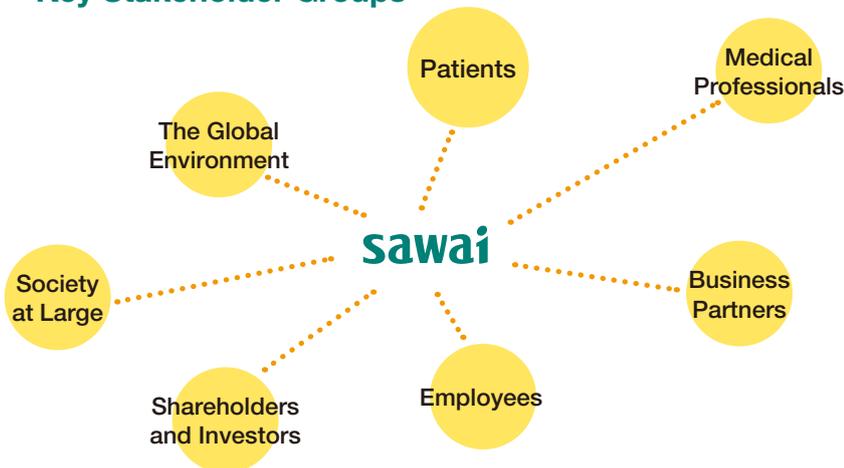
For more detailed financial information, please refer to the Financial Section  
URL: [http://www.sawai.co.jp/en/ir/library/integrated\\_report](http://www.sawai.co.jp/en/ir/library/integrated_report)



## Profile

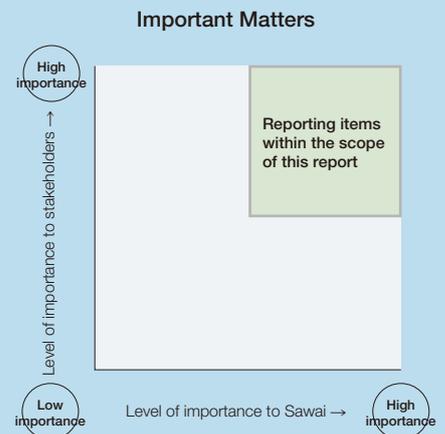
Sawai Pharmaceutical traces its roots back to Sawai Pharmacy in Osaka, which was established in April 1929 by Hanpei Sawai (the founder) and Noyo Sawai (a pharmacist). Pharmacies were rare in Japan in that era, and Sawai Pharmacy initially contributed to its region's community by selling pharmaceuticals. In light of the chaotic conditions and pharmaceutical shortages seen before, during, and immediately after World War II, the pharmacy decided that it should begin emphasizing pharmaceuticals manufacturing, and it, therefore, initiated research related to eye medicines, salves, and vitamins. When Japan's Pharmaceutical Affairs Act was instituted in 1948, the pharmacy transformed itself into an OTC pharmaceutical manufacturing company by establishing Sawai Pharmaceutical Co., Ltd. Japan introduced its universal medical insurance system (the National Health Insurance System (NHI)) in 1961, making it possible for Japanese to obtain sophisticated pharmaceutical products by paying only a low percentage of those products' price. Sawai responded to this, beginning in 1965, by shifting the focus of its operations from OTC pharmaceutical manufacturing to ethical pharmaceutical manufacturing, and it has ever since that time been operating as a company that contributes to the reduction of medical treatment expenses through the provision of high-quality generic ethical drugs. Going forward, Sawai is aiming to continue operating as a company that generates important benefits for society by being highly responsive to society's needs in the field of medical care.

## Key Stakeholder Groups



## Definition of Materiality

This report contains information regarding the Company's strategy and performance, its future outlook as well as its creation of corporate value in the short, medium, and long terms. In addition, this report includes information on matters related to finance, economic, social, environmental, governance, and other matters. Such information contained in this report has been included based on judgments regarding materiality from the points of view of assessments of quality, volume, risk and opportunities as well as inputs from dialogue with stakeholders.



## Editorial Policy

Aiming to promote a deeper understanding of its management and corporate activities, Sawai has been producing and distributing English-language annual reports since the fiscal year ended March 31, 2000. Beginning from the fiscal year ended March 31, 2015, Sawai has expanded the scope of these annual reports by adding environment-related and other non-financial information previously outside the scope of the reports in order to produce integrated reports based on the latest international integrated reporting framework of the International Integrated Reporting Council (IIRC).

This report primarily focuses on information related to Sawai Pharmaceutical and its consolidated subsidiaries during fiscal 2014 (the period from April 1, 2014, through March 31, 2015).

## Sawai Pharmaceutical in Numbers

Reducing Medical Care Expenses  
Approx. **¥200** Billion

**¥200** Billion

(Billions of yen)



The trends of demographic graying and increasingly sophisticated medical therapy methods have been accompanied by rapid growth in medical care expenses that has presented Japanese society with a major challenge. Sawai is helping restrain growth in medical care expenses by producing high-quality, high-value-added generic drugs and marketing them at prices lower than those of brand products. In fiscal 2014, our operations had the effect of reducing medical care expenses by approximately ¥200 billion on an NHI drug price basis.

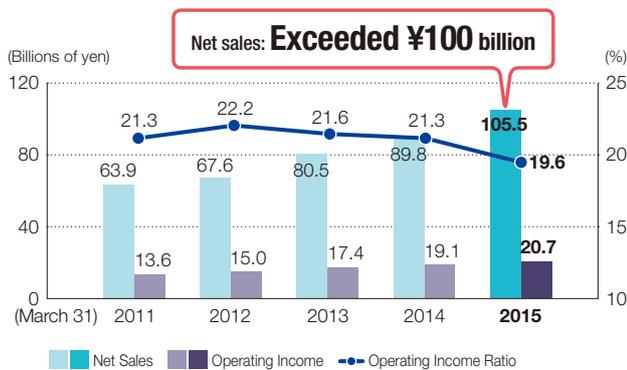
### Net Sales

**¥105.5** Billion

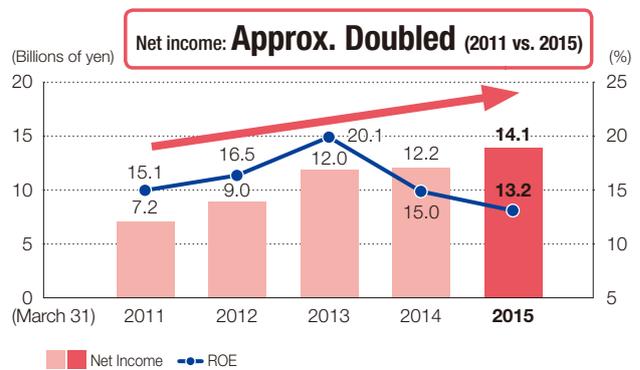
Reflecting demand growth stemming from campaigns to promote generic drug use, Sawai's net sales surged past the ¥100 billion mark for the first time in fiscal 2014. The Company's fiscal 2014 net sales amounted to ¥105.5 billion, up 17.4% from the previous fiscal year.

## Financial and Non-Financial Highlights

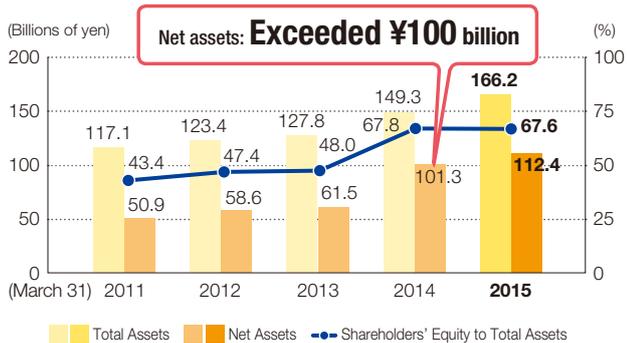
### Net Sales/Operating Income/Operating Income Ratio



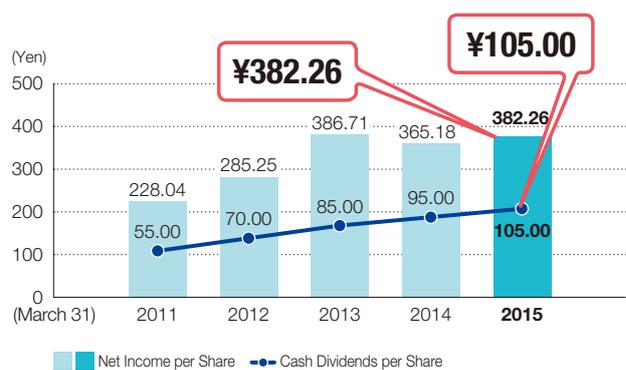
### Net Income/ROE



### Total Assets/Net Assets/Shareholders' Equity to Total Assets



### Net Income per Share/Cash Dividends per Share



\* The Company split its common stock two for one on October 1, 2013. Net income per share and cash dividends per share for years prior to 2014 were recalculated to reflect the share split.

### Annual Sales Volume

Approx. **8** Billion Tablets

Sawai sells approximately eight billion tablets, placing it in the top class of Japan's domestic generic drug manufacturing industry.

### Number of Items Sold

Approx. **650** Items

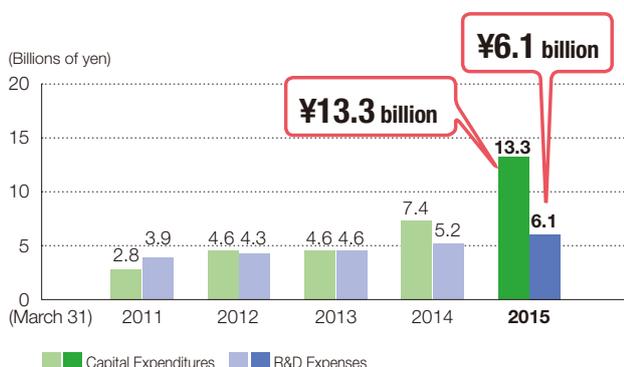
Sawai offers a lineup of approximately 650 product items, and it is in the top class of Japan's domestic generic drug manufacturing industry.

### Generic Drug Manufacturers that Are Highly Appealing to Pharmacists

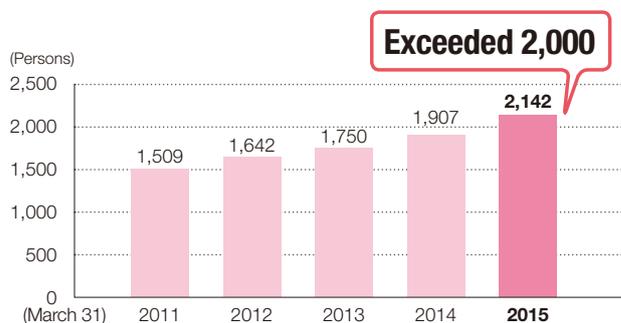
No. **1** for **5** Consecutive Years

In 2014, Sawai was rated Japan's No. 1 generic drug company for the fifth consecutive year by *Nikkei Drug Information's* "Generic Drug Company Ranking 2014," which is based on a survey of pharmacists.

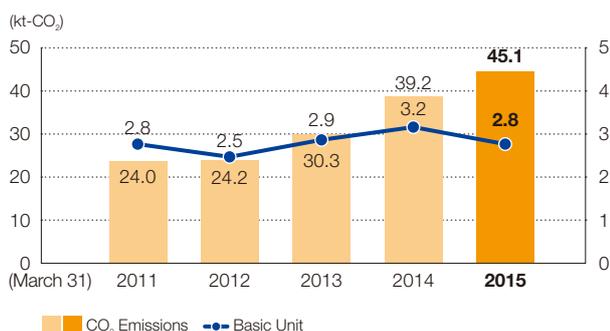
### Capital Expenditures/R&D Expenses



### Employees (Including contingent employees)



### CO<sub>2</sub> Emissions



\* Volume of CO<sub>2</sub> emissions per unit of production is the volume of emissions divided by production volume (mil. tablets).  
\* Excluding Kaken Shoyaku Co., Ltd.

### Waste Volume/Recycled Volume



\* Volume of waste per unit of production is the volume of waste divided by production volume (100 mil. tablets).  
\* Excluding Kaken Shoyaku Co., Ltd.

## Realizing rapid corporate growth while promoting the wider-spread use of generic drugs

Demographic graying is proceeding more rapidly in Japan than anywhere else in the world, and, since the start of the 21st century, the Japanese government has been promoting greater use of generic drugs as a means of restraining growth in medical care expenses. Aiming to make the most of associated opportunities, Sawai Pharmaceutical has been engaged in generic drug awareness and generic drug advertising, and promotional activities while also being quick to undertake anticipatory investments in manufacturing facilities, personnel, and other corporate resources. Consequently being strongly positioned to respond to demand growth accompanying generic drug use promotion campaigns, we have been rapidly improving our corporate performance and expanding the scale of our operations.



2003

Listed on the First Section of the TSE

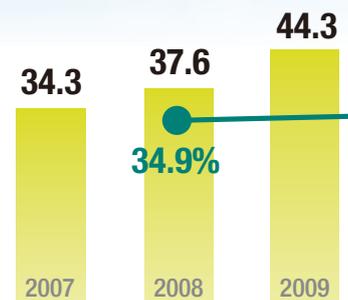


Former Head Office and Factory



Net Sales (billion yen)

Generic Drugs' Share of Japan's Pharmaceutical Market (volume basis)\*



07-09 The Medium-term Business Plan

April 1929

Sawai Pharmacy established in Asahi-ku, Osaka, by Hanpei Sawai and Noyo Sawai

July 1948

Sawai Pharmaceutical Co., Ltd. incorporated in Asahi-ku, Osaka

About 1965

Operations shifted from OTC drugs manufacturing to ethical pharmaceutical manufacturing

September 1995

Listed on the OTC stock market

December 2000

Listed on the Second Section of the Tokyo Stock Exchange

Sawai Pharmaceutical traces its roots back to Sawai Pharmacy, which was established in 1929, and the pharmacy's first pharmacist was a woman – Noyo Sawai. Female pharmacists were rare in Japan at that time, but Noyo Sawai's work was instrumental in enabling the pharmacy to earning a strongly positive regional reputation. Subsequently, the increasing intensity of wartime conditions led to drug rationing systems, and post-war chaos led to contagious disease or epidemics that further exacerbated drug shortages.

Aiming to satisfy unmet needs stemming from those situations, the pharmacy converted itself into an OTC drug manufacturer. Soon afterward, in response to the institution of Japan's Pharmaceutical Affairs Act and the National Health Insurance (NHI) System, Sawai transformed itself into an ethical drug manufacturer. During the subsequent period of time, Sawai created a strong foundation for its subsequent growth as the leading company in Japan's generic drug industry.

### Medium-term Management Plan Progress

- Establishing the top brand in the generics industry for the realization of our "Patients First" philosophy
- Capturing share in the DPC hospital market
- Reinforcing our production systems
- Strengthening our R&D systems for the development of high-quality drugs



**200.0 Billion**  
(Plan)

**2013**

Completed a new pharmaceutical plant at the Kanto Factory

**2006**

Completed Head Office and Research Laboratories in Osaka



50.1  
35.8%

63.9

67.6  
39.9%

80.5

89.8  
46.9%

105.5

124.0  
(Plan)

134.0  
(Plan)

147.0  
(Plan)  
60.0%  
(Target)

200.0  
(Plan)

2010

2011

2012

2013

2014

2015

2016

2017

2018

2021

(March 31)

\* Source: Ministry of Health, Labour and Welfare (MHLW) (New index)

**M1 TRUST**

**M1 TRUST 2015**

**M1 TRUST 2018**

- Net sales growth far exceeding market growth rate
- Strengthening management structure through cost control and effective strategic investment
- Establishment of robust Sawai Brand

- Establishment of overwhelming No. 1 presence in the generics market
- Thorough company-wide cost control through strengthening of management foundation
- Strategic investment in new fields

- Firmly maintain the No. 1 market share in the generics industry
- Strengthen stable supply and cost control capabilities in response to changing market conditions
- Build an operating foundation for future growth through new business fields

# Business Model

Sawai Pharmaceutical creatively engineers its own unique manufacturing technologies and leverages those technologies to develop inexpensively priced, high-value-added generic versions of existing drugs on the expiry of those drugs' patent protection. We develop and launch our products in advance of competing companies while concurrently maintaining high-quality standards and ensuring stable product supplies. By providing those conscientiously created products via medical institutions to patients, we are helping patients realize healthy lives, contributing to a sustainable society by means of medical care expense reductions, and achieving robust corporate growth. Our business model centers on efforts to sustain this virtuous cycle of societal contributions and corporate growth and thereby implement our Corporate Philosophy while augmenting our corporate value.

## Inputs

### Manufactured Capital

- Manufacturing facilities designed to ensure stable generic drug supply capabilities (annual production capacity of 10 billion tablets)
- Plan for introducing leading-edge technologies that reduce environmental impacts and support efficient operations
- Use of high-quality raw materials as a means of ensuring the high quality of our generic drug products

### Financial Capital

- Strong financial position (equity ratio: 67.6%; credit rating: A-) enabling proactive growth investment
- Strong profitability enabling the realistic setting of ROE targets of 12% and higher

### Human Capital

- Top executives and employees with relevant expertise and abundant experience
- Robust education/training programs resulting in 244 employees with pharmacist qualification and 100% certification of medical representatives (MRs) for six consecutive years

### Intellectual Capital

- R&D operations enabling first-to-market launches of high-quality generic drug products
- Capabilities for pharmaceutical technology R&D based on the understanding of patients' and medical professionals' perspectives
- Manufacturing know-how making possible high-mix, low-volume production

### Social and Relationship Capital

- Outstanding pharmaceutical affairs system and business deployment for meeting special needs associated with Japan's National Health Insurance (NHI) System and other aspects of the business environment in Japan
- Strong relationships with wholesaling/marketing companies responsible for social infrastructure supporting drug distribution
- Strong relationships with supply chain entities supporting stable product supply capabilities

### Natural Capital

- Strengths stemming from uncontaminated land and abundant natural sources of clean water
- Biological resources used as raw material for pharmaceuticals

## Research and Development

- R&D operations designed to realize "first-to-market launches" with a foundation of outstanding patent search and analysis capabilities
- Development of high-value-added products

When developing generic drugs that can be launched immediately after the patent expirations, it is important to confirm the timing of patent expirations and the date at which products can be launched, and Sawai has outstanding strengths regarding patent search and analysis capabilities. Another of our strengths lies in our R&D capabilities for creatively engineering high-value-added products – such as orally disintegrating (OD) tablets that patients can easily ingest without drinking water and products with key information printed on each tablet to facilitate healthcare providers' efforts to prevent drug administration-related errors – and for efficiently implementing development programs in advance of competing companies to enable first-to-market product launches.

## Production, Stable Supplies, and Quality Control

- Strong emphasis on being "a step ahead" of competitors regarding quality
- High-mix, low-volume production
- Leading investments based on a long-term perspective

For companies providing medical drugs with a decisive impact on human lives, it is of crucial importance to ensure high-quality and stable product supplies. Accordingly, Sawai places strong emphasis on being "a step ahead" of competitors regarding quality and systematically procures raw materials from multiple sources that meet rigorous quality standards and are geographically dispersed throughout the world. Furthermore, we have manufacturing strengths associated with high-mix, low-volume production know-how that enables quick responses to demand fluctuations and associated with our maintenance of excess production capacity owing to leading investments based on a long-term perspective. By fully leveraging all these strengths, we are advantageously positioned to ensure both high product quality and stable product supplies.

# Patients First

## Marketing and Sales

- Marketing and sales operations that comprehensively capitalize on all of Sawai's strengths
- Nationwide coverage of healthcare institutions stemming from marketing operations closely coordinated with the operations of wholesalers and marketing agencies
- Product portfolio management based on product life-cycle analyses

By emphasizing efforts to fully utilize the capabilities of wholesalers and marketing agencies and closely cooperate with such distribution infrastructure partners, Sawai is able to marshal powerful marketing and sales operations covering more than 50,000 pharmacies throughout Japan as well as most of the country's hospitals, clinics, and other medical institutions. Reflecting pharmacies' high appraisal of our comprehensive array of strengths leveraged in our marketing and sales operations – including high-quality, high-value-added products; capabilities for ensuring stable product supplies; information dissemination power; and market survey power – approximately 75% of our sales are from the pharmacy market.

## Outcomes

It is **sawai**'s mission to enable people to live healthy lives through pharmaceutical products imbued with our whole-hearted dedication.

It is **sawai**'s challenge to grow in tandem with society through innovation and cooperation, while pursuing creativity.

It is **sawai**'s hope that we will become an indispensable part of society through our desire to be of service.



Chairman, Hiroyuki Sawai (left), President, Mitsuo Sawai (right)

Following our “Patients First” Corporate Philosophy, we are committed to expanding our manufacturing and marketing of generic drugs that let people lead healthy lives.

Japan faces challenges spanning its governmental deficit, aging demographics, declining birthrate, and rising cost of sophistication of medical care technologies. Sawai is doing its part by providing high-quality generic ethical drugs at prices that are lower than those of original drugs and, thereby, contributing to reducing medical costs. We estimate that our operations during fiscal 2014, ended March 31, 2015, helped reduce Japan’s medical care expenses some ¥200 billion. We are also improving the quality of Japan’s medical care through various initiatives, including developing easier-to-ingest drugs.

In both value and volume terms, Sawai has grown faster than Japan’s generic drug market. In fiscal 2014, net sales surpassed the ¥100 billion milestone.

In May 2015, Sawai announced its new “M1 TRUST 2018” medium-term business plan through March 31, 2018, targeting “to transform into a company that can continue to grow amid rapidly changing market conditions.” This plan calls for strengthening operations as a generic pharmaceutical company making key contributions to improved healthcare in Japan and worldwide, while achieving sustained corporate growth.

We trust this report will help our investors and other stakeholders gain a clearer understanding of our business strategies, thereby earning your continuing support.

Chairman

*H. Sawai*

President

*M. Sawai*



### Aiming “to transform into a company that can continue to grow in the midst of rapidly changing market conditions”

Sawai Pharmaceutical’s medium- to long-term vision calls for increasing its net sales to ¥200 billion in the fiscal year ending March 31, 2021 and becoming a “globally recognized generic drug company,” and our new “M1 TRUST 2018” medium-term business plan is designed to give the Company strong momentum toward those objectives during the next three fiscal years. In this section of our integrated report, I will present an overview of the results of our previous medium-term business plan along with explanations of the strategies we will be implementing going forward.

**Mitsuo Sawai**, President

## Overview of the Previous Medium-Term Business Plan (April 1, 2012–March 31, 2015)

### \*1 Road Map for Further Promotion of Generic Medicine Use

In April 2013, Japan's Ministry of Health, Labour and Welfare announced a road map for further promoting the use of generic drugs. This road map sets the new target of increasing the volume share of generic drugs to 60% or higher by the end of March 2018.

### \*2 Authorized Generics (AGs)

Authorized generics (AGs) are generic drugs that are launched and marketed by companies based on authorization to utilize patent rights and other rights obtained from original drug manufacturers or other companies holding such rights.

### \*3 Grouping Generics into Three Price Bands

Aiming to correct excessive variations in NHI reimbursement prices of generic drugs, from April 2014, NHI listed generic drugs have been grouped into three price bands – those with prices 50% or more of the prices of the corresponding original drugs, those with prices 30% up to 50% of the prices of the corresponding original drugs, and those with prices less than 30% of the prices of the corresponding original drugs.

The new system calls for determining drug prices based on weighted averages of the prices of products within each price band.

### \*4 CILOSTAZOL OD Tablets

In the typical age-group of Japanese patients who take CILOSTAZOL OD tablets, many people are believed to have a liking for green tea. In view of this, we have for the first time formulated tablets with a flavor highly similar to that of green tea.

## General Achievement of Previous Medium-Term Business Plan's Goals

We generally achieved the objectives of the previous medium-term business plan, M1 TRUST 2015, which were establishment of overwhelming No. 1 presence in the generics market, thorough company-wide cost control through strengthening of the management foundation, and strategic investment in new fields.

Under its new road map\*<sup>1</sup>, the Japanese government is strongly promoting the use of generic drugs, but several factors—including the growing presence of authorized generics (AGs)\*<sup>2</sup>, reduction in NHI drug prices for newly listed products, and the adoption of low-price-oriented business strategies by companies seeking to expand their market share in response to the impact of the government's concentration of NHI listed generic drugs into three price bands\*<sup>3</sup>—are causing changes in the operating environment. Despite these changes, each Sawai unit implemented measures in line with the plan.

In R&D, we succeeded in becoming the only generic drug company to launch Risedronate sodium 17.5mg tablets and CARVEDILOL 1.25mg and 2.5mg tablets. We also developed technology that clear the hurdle of directly printing information onto orally disintegrating (OD) tablets, including when commercializing antiplatelet drug CILOSTAZOL OD tablets\*<sup>4</sup>. In recognition of this technological achievement, in May 2014, Japan's Academy of Pharmaceutical Science and Technology awarded Sawai the "Asahi Kasei Award for Drug Development Technology." That same month, we further strengthened our status as the preferred manufacturer of generic drugs by commencing construction of a new Development Center in Suita City, Osaka Prefecture. Utilizing our outstanding patent search and analysis competency and advanced formulation capabilities, we are committed to speeding development of new products and improving existing ones.

By accelerating the Kanto Factory expansion program and implementing investments in other facilities under the previous plan, we increased our annual production capacity to 10 billion tablets. To assure stable supply systems over the medium-to-long term, we assumed ownership of the Kashima Factory of Mitsubishi Tanabe Pharma Factory Ltd., resulting in a nationwide six-plant production network since April 2015. We are lining up multiple raw material sources to counter the risk of product shortages linked with raw materials makers and to reduce procurement costs. Through these activities, we are attaining the two objectives of providing stable supply and procuring materials at low cost simultaneously.

In new business development, in May 2014, the U.S. Federal Drug Administration (FDA) accepted our Abbreviated New Drug Application for PITAVASTATIN tablets, which is the first step in our future development of overseas business. In September 2014, Sawai entered the biosimilars market by signing a co-promotion contract covering Sandoz Japan's G-CSF biosimilar Filgrastim BS Injection.

**\*5 7 Consecutive Fiscal Years of Growth in Both Revenue and Profit**

Assisted by the tailwind from the government's measures to promote the use of generics, we have recorded growth in both revenue and profit for 7 consecutive fiscal years—from fiscal 2008 through fiscal 2014.

**Performance in Fiscal 2014**

During fiscal 2014, we increased net sales to ¥105.5 billion, surpassing our previous medium-term plan target of ¥104.0 billion. Our operating income and net income amounted to ¥20.7 billion and ¥14.1 billion, respectively, generally achieving plan targets\*5.

While a harsh operating environment precludes excessive optimism, in view of measures to promote generic drugs, we believe our steadfast commitment as a leading generics company will enable us to progressively improve performance.

**Performance in FY2014**

(Millions of yen)

	FY2011	FY2014	Growth rate
Net Sales	67,603	105,454	56.0%
Operating Income	15,004	20,688	37.9%
Ordinary Income	15,096	20,619	36.6%
Net Income	9,026	14,053	55.7%

**Our New Medium-Term Business Plan—"M1 TRUST 2018"**



**\*6 Premises for the Drafting of "M1 TRUST 2018"**

We are assuming that the attainment of the 60% volume share of generic drugs will be during the fiscal year ending March 31, 2017. In addition, we are assuming that the NHI drug reimbursement price revision accompanying the consumption tax rate increase to 10% in April 2017 will not be accompanied by a drug price survey.

**Drafting of the "M1 TRUST 2018" Medium-Term Business Plan**

Sawai's medium- to long-term vision is to increase net sales to ¥200 billion in the fiscal year ending March 31, 2021 and to become a "globally recognized generic drug company." Our new "M1 TRUST 2018" medium-term business plan\*6 is designed to deliver a solid foundation. While we operate in a turbulent market environment owing to such factors as the introduction of new NHI drug reimbursement price setting rules and intensifying competition associated with an increase in marketing authorized generics, we are dedicated to a robust corporate structure capable of sustaining growth. By the final year of the new medium-term business plan, our specific performance targets are ¥147.0 billion in net sales, ¥25.0 billion in operating income, and an ROE of 12% or higher.

**M1 TRUST 2018 Outline**

<b>Vision</b>	To transform into a company that can continue to grow in the midst of rapidly changing market conditions
<b>Period Covered</b>	April 2015 ~ March 2018
<b>What "M1 TRUST 2018" Will Achieve</b>	<ul style="list-style-type: none"> <li>• Firmly maintain the No. 1 market share in the generics industry</li> <li>• Strengthen stable supply and cost control capabilities in response to changing market conditions</li> <li>• Build an operating foundation for future growth through new business fields</li> </ul>

**Target in FY2017**

(Millions of Yen)

	FY2014	FY2017 (Plan)	Growth rate
Net Sales	105,454	147,000	39.4%
Operating Income	20,688	25,000	20.8%
Ordinary Income	20,619	24,500	18.8%
Net Income	14,053	17,000	21.0%

### \*7 New Market Share Target by Volume

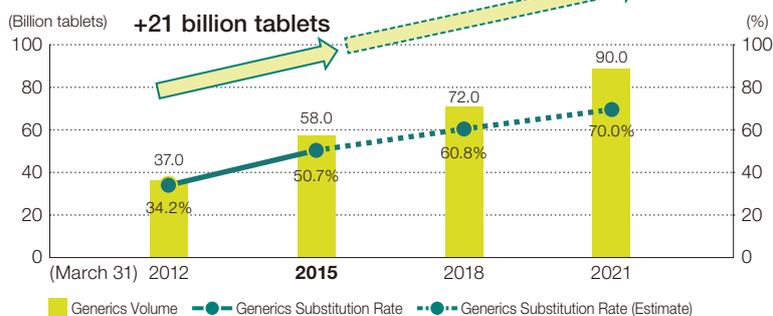
This target will be raised to 70% or more by mid-2017. Thereafter, the target will be raised to 80% or more as soon as possible during the period from fiscal 2018 to fiscal 2020.

## Market Outlook

Our new medium-term plan is in line with the government road map announced in April 2013, whereby generic drugs' share of the Japanese pharmaceuticals market on a volume basis will rise to about 60% in the fiscal year ending March 31, 2017, and some 70% by March 31, 2021. To meet future demand, in the generic drug industry as a whole annual production capacity must rise 32 billion tablets in six years. To maintain Sawai's No. 1 share in this dynamically growing market, it will be necessary for Sawai to augment its manufacturing and supply capabilities.

The "Basic Policy on Economic and Fiscal Management and Reform 2015" announced by the Cabinet Office in June 2015 suggests an even higher generic drug volume target\*. As the government road map's target may well change, and, therefore, demand may exceed our expectations, we will be prepared to boost capabilities even more.

### Generics Market Size (Volume Basis) +32 billion tablets



## Key Measures to Achieve "M1 TRUST 2018" Targets

### \*8 Increasing R&D Investment

by Approximately **1.5** Times (Plan)

To ensure that we can launch new products in advance of competing companies in the high-quality generic drug market, the "M1 TRUST 2018" medium-term business plan calls for investing approximately ¥23.5 billion in R&D, roughly 1.5 times the ¥15.8 billion of R&D investment implemented during the period of the previous medium-term business plan.

### \*9 Increasing Capital Investment

by Approximately **1.3** Times (Plan)

Responding to the generic drug market's rapid expansion, Sawai plans to elevate its annual manufacturing capacity from the current level of 10 billion tablets to the 15.5 billion tablet level. To attain this target, we will be implementing capital investment with a value of approximately ¥44.0 billion, roughly 1.3 times the ¥34.7 billion of capital investment we implemented during the period of the previous medium-term business plan.

## R&D Investment and Capital Investment

While an increasing number of other companies have sought to increase R&D and manufacturing capabilities in recent years, we are confident of our No. 1 position across a comprehensive range of competitive strengths in the generic drugs industry.

We are leveraging superior capabilities in R&D, manufacturing, and quality control. During the three years of the new medium-term business plan, we are planning to invest ¥23.5 billion in R&D\*<sup>8</sup> and to make capital investment of ¥44.0 billion\*<sup>9</sup>. While it is recognized in the generic drugs industry that generic pharmaceutical companies will generally be first to launch generic versions of original drugs upon expiry of those drugs' patent protection, Sawai also launches one or two new products each year that competing companies are unable to market. These facts attest to Sawai's core competency in R&D. During the period of the new medium-term plan, Sawai plans to be first-to-market with high-value-added generic versions of some 30 existing drugs.

While Sawai has an annual manufacturing capacity of 10 billion tablets, putting it in the top class of the industry, the new medium-term plan raises capacity to 15.5 billion tablets. Given that the volume share of generic drugs is still low\*<sup>10</sup>, in Japan compared to other countries and that government may raise the target, Sawai may hike capital spending apace.

Generic drugs are manufactured with high-mix low-volume production systems that entail frequent processes of shifting between various kinds of equipment.



Sawai boasts a high level of precision in coordinating manufacturing plans with sales trends, and manufactures roughly 90% of its products in-house, gaining sophisticated know-how to respond flexibly to demand fluctuations.

Another of Sawai's strengths is its ability to coordinate the activities of its quality assurance departments with manufacturing activities to realize high-quality manufacturing operations and ensure highly reliable supplies of its products.

#### Production Policy and Sales Volume



#### \*10 Comparison of Generics' Volume-Based Market Shares in Developed Countries

United States	Approx. 90%	(2010)
United Kingdom	75.2%	(2013)
Germany	82.5%	(2013)
France	70.7%	(2012)
Japan	46.9%	(2013)

Source: Ministry of Finance, Fiscal System Council Reference Materials

#### Marketing and Sales

In response to government measures to promote generic drug usage, some companies have adopted low-price strategies to expand market share; we will avoid this. To provide patients with efficacious generic drug products quickly, Sawai will enhance its patent search and analysis capabilities and manufacturing technologies, expeditiously obtain manufacturing and marketing approvals, and ensure its manufacturing departments meticulously maintain high-quality standards while providing reliable supplies of products. Our Code of Conduct begins by stating that "Sawai's pharmaceutical products are ourselves." Rather than attaching cut-rate prices to products in which we have devoted our hearts and souls, we have given our marketing departments the responsibility for helping customers understand the value of our products and why they are worth using. Responding to

expanding demand for generic drug products requires considerable investments in capital assets and human resources; a fair price is a prerequisite for funding those investments.

By continuing to emphasize bolstering cooperative relationships with wholesalers and marketing agencies, refraining from measures aimed at short-term market share gains, and ensuring high quality and reliable supplies over the long term, Sawai demonstrates its commitment to being the leader in generic drugs that patients can trust.

## Regarding the Competitive Environment

### Competition with Foreign-Based and AG Manufacturers

Some observers have noted the threat of stepped-up participation in Japan's growing generic drug market by both foreign-based drug companies with vast capital resources and Japan-based original drug manufacturers. However, because Japan's pharmaceutical industry is subject to rigorous government licensing, it is impossible for new market participants to emerge overnight.

Any new market participant will face challenges of marketing routes and manufacturing. Japanese consumers are renowned for their emphasis on strict quality standards, making it extremely difficult for companies not used to this to prosper. Sawai has prepared to capture market growth by arranging financing vehicles, including a ¥30 billion bond issuance program<sup>\*11</sup>, and is proactively utilizing these resources.

There has also been an increase in the number of generic drug manufacturers with capital ties to original drug manufacturers that have become active in authorized generics (AGs). Unless the AGs can be launched considerably earlier than ordinary generics or gain approval for indications different from those of ordinary generics, the AGs do not represent a major threat to Sawai.

#### \*11 Corporate Bond Program (shelf registration):

**¥30.0** billion

Time period: Through March 23, 2017  
Issuance amount available: ¥20.0 billion  
(Because ¥10.0 billion of bonds had been issued as of June 2015)



Regarding products that have been marketed for years as original drugs and relaunched as is in the form of AGs, we are confident our value-added generic products, “Sawai Generic” backed by leading-edge technologies, can successfully compete. Moreover, when companies are dependent on marketing AGs procured from original drugmakers, after several rounds of NHI drug price revision, they will become unable to generate profits. As a manufacturer rather than a trading company, we place emphasis on the development and manufacture of high-value-added generic drug products that earn the support of patients, and have given little consideration to the possibility of entering the AG field.

## Efforts to Realize Sustained Corporate Growth

### \*12 Appointment of a Female External Director

At the General Meeting of Shareholders held in June 2015, Ms. Nawomi Todo assumed her position as an external director of the Company, becoming Sawai’s first female corporate officer.

We are expecting her to contribute to the strengthening of our corporate governance, and we also consider her posting to be a step forward in line with our efforts to promote greater diversity within Sawai.

### Further Strengthening Corporate Governance

As a company providing medical drugs with a decisive impact on human lives, Sawai is committed to strong corporate governance. In addition to executive directors highly knowledgeable about generic drugs, we are beginning to recruit external directors from among candidates who can offer valuable insight and oversight, including those with specialized expertise, physicians, or women\*12 offering a solid understanding of the requirements of patients or other users of our products. We believe augmenting the Board of Directors with external directors will promote management soundness and transparency. In addition, while three other top executives and I are relatives of Sawai’s founder, we are also leading shareholders of the Company. I believe that we have a common perspective with other shareholders and investors about the importance of ensuring that our governance systems function to support long-term objectives.

### Increased Management Emphasis on CSR Issues

To further strengthen our corporate social responsibility (CSR) activities, we established a CSR Committee at the end of fiscal 2014. Having entered the ranks of relatively large corporations with annual net sales exceeding ¥100 billion, we are taking steps to ensure that executives as well as all other Sawai employees will further elevate their understanding of the importance of fulfilling our responsibilities to society. We have also begun giving additional consideration to various CSR issues associated with our capital investments, such as the potential for introducing equipment that reduces CO<sub>2</sub> emissions.

### Fostering the Development of Human Resources

Our new medium-term business plan is the foundation to realize our medium- to long-term vision. In particular, we are placing priority during the current fiscal year on initiatives to “create”\*13 human resources. By March 31, 2018, our goal is to increase the number of Sawai employees to approximately 1.4 times the level of March 31, 2015—an increase of approximately 900 employees\*14. Even excluding the approximately 200 employees additionally posted at the Kashima Factory since April 2015, we will be adding approximately 400 new employees in the current fiscal year alone. Rather than merely hiring employees, we are intent on providing employees with ample opportunities to participate in educational and training programs that will enhance their contributions. I consider it my personal

\*13

創

“Create” Campaign

“Create” is a Company-wide theme within Sawai during fiscal 2015. For example, we are striving to “create” No. 1 competitive power in terms of quality and volume, “create” a dynamic management base appropriate for the next stage of corporate foundation, and “create” human resources. Each year, Sawai’s President determines a new theme represented by a single Japanese “kanji” ideograph.

### \*14 Number of Employees (including temporary staff) to Be Increased

by approximately **1.4** times (plan)

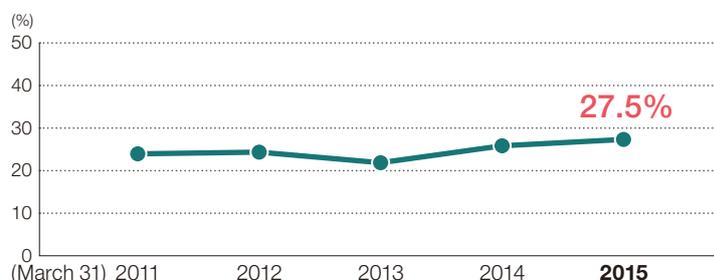
2,142 employees (fiscal 2014)  
→ 3,050 employees (fiscal 2017)

mission to ensure that the Company proactively “creates” (創) human resources and that we offer an environment that facilitates employees’ efforts to upgrade their qualifications.

## Shareholder Returns and Long-Term Outlook

We consider shareholder returns to be one of our most-important priorities. Our policy is to ensure sufficient funds for investment in future growth, maintain dividend stability based on a target dividend payout ratio of 30%, and sustain ROE levels of 12% or higher. Capital investments are a crucial prerequisite for sustained growth. Since about a decade ago, we have been proactively making capital investments in view of the growth potential of generic drugs with foresight, which has paid off. To meet the expectations of stakeholders, we will remain dedicated to corporate growth and to raising shareholder value.

### Payout Ratio

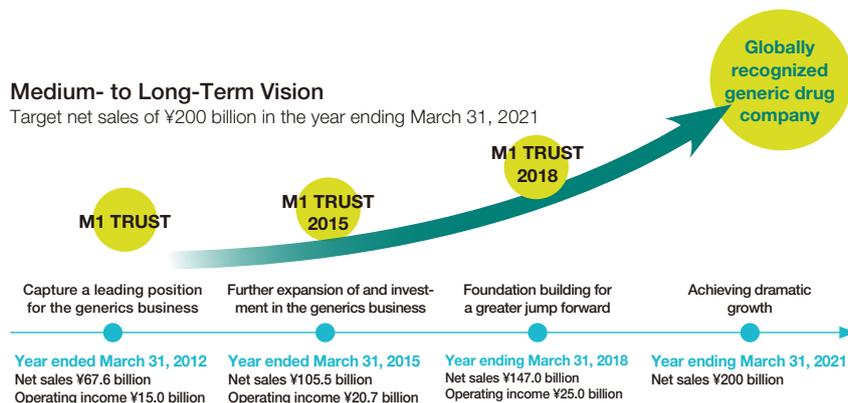


Generic pharmaceuticals are helping to restrain Japan’s medical care expenses<sup>\*15</sup>, which are burgeoning by almost ¥1 trillion yearly. Generics are critical to sustaining Japan’s universal healthcare system, which enables people to obtain sophisticated care at a relatively low cost<sup>\*16</sup>. Benefiting from the tailwind of government policies for promoting the use of generic drugs, the volume share of generics in the Japanese pharmaceutical market is projected to continue to rise.

While it is difficult to forecast Sawai’s long-term outlook, in addition to launching operations in the U.S., we recognize that we have a social responsibility to help meet the needs of people in Asia who lack full access to pharmaceutical products. I am hoping to see Sawai’s high-quality generic drug products come to play an important role in meeting the world’s unmet medical needs. I believe providing benefits not only to patients in Japan, but to patients throughout worldwide, is the best way to truly realize our Corporate Philosophy of “Patients First.”

### Medium- to Long-Term Vision

Target net sales of ¥200 billion in the year ending March 31, 2021



### \*15 National Health Insurance (Medical Care Expense) Reimbursement Cost

Approximately **¥35 trillion** in fiscal 2012

Approximately **¥54 trillion** in fiscal 2025

Source: Ministry of Finance, *Fiscal System Council Reference Materials*

### \*16 Sawai’s Contribution to Reducing Japan’s Medical Care Expense

Approximately **¥200 billion** in Fiscal 2014

This figure is calculated on a drug price basis by comparing the cost of Sawai products sold during fiscal 2014 to the cost of replacing the Company’s products with original drug manufacturers’ products. (Sawai’s contribution to reducing Japan’s medical care expense was approximately ¥139 billion in fiscal 2012 and approximately ¥156 billion in fiscal 2013.)

## Launching High-Quality, High-Value-Added Generic Pharmaceuticals in Advance of Competing Companies



**Shinichi Tokuyama**  
Director, Senior Executive Officer,  
Vice President of Research and Development  
Division

“Making extra efforts to develop and improve products based on consideration of patients’ perspectives is how Sawai differentiates its products, and it is a main source of our competitive power.”

\*1 Elevating Patients’ Quality of Life (QOL)  
Patients face diverse challenges in their lives, including those associated with the administration of drugs, and Sawai aims to improve patients’ QOL by helping to alleviate those challenges.

\*2 Creative Formulation  
In the case of orally disintegrating (OD) tablets that can be ingested without drinking water, for example, Sawai holds patents related to technological methods for solving problems associated with efforts to achieve optimal balances of disintegration and strength—two characteristics that are difficult to harmonize—and it is making effective use of such patents in its formulation development and formulation manufacturing efforts.

Following its “Patients First” philosophy, Sawai helps elevate patients’ quality of life\*<sup>1</sup> by developing high-value-added generic drugs, such as those that are easier to ingest. During fiscal 2014, we leveraged our strengths in patent search and analytical capabilities and manufacturing technologies, launching 28 new products based on 13 active ingredients.

### Patent Search and Analysis Capabilities

Pharmaceutical patents span materials, uses, production, crystallization, usage, volume of usage, and formulation. Patent search and analysis capabilities are among our biggest R&D advantages.

Our Intellectual Property Department surveys and analyzes patents on original drugs and seeks means of avoiding or invalidating patent protection to quickly develop generic drugs. In fiscal 2014, we were the only generic drug company to market CARVEDILOL 1.25mg and 2.5mg tablets for treatment of chronic cardiac insufficiency.

### Creative Formulation Efforts

We deploy the latest technologies to create innovative drug formulations,

such as orally disintegrating tablets that can be ingested without drinking water and compact tablets. Our creative formulation work, such as printing key drug information on each tablet, has won praise.

Our creative formulation\*<sup>2</sup> expertise, patent search, and analysis capabilities with respect to patents on original drugs, development of drugs based on patients’ perspectives, and introduction of new technologies unavailable at the time original drugs were launched enable us to offer generic products featuring key improvements. Our attention to details differentiates our products from those of competitors.

### Overseas Business Development

Our previous medium-term business plan and new plan target overseas business development, particularly in the U.S. The U.S. Federal Drug Administration (FDA) accepted the Abbreviated New Drug Application for PITAVASTATIN tablets we submitted in fiscal 2014. We are strengthening our in-house development systems to submit applications for our second and third products in the U.S., which is the world’s largest pharmaceuticals market.

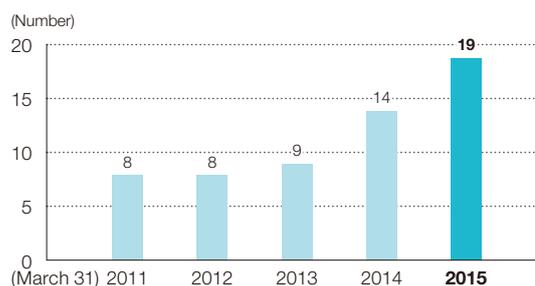
### Example of Printing of Product Names on Tablets



Candesartan orally disintegrating (OD) tablets  
Available in dosages of 2mg, 4mg, 8mg, and 12mg

These tablets are printed on both sides with the name of the ingredients and specifications in indelible, edible green ink for ease of identification.

### Number of Patents Held by Sawai



# Production, Stable Supplies, and Quality Control

## Ensuring High-Quality and Stable Supplies Is a Key Part of a Generic Drugmaker's Mission and the Chief Means of Demonstrating a Generic Drugmaker's Reliability.



**Keiichi Kimura**  
 Director, Senior Executive Officer,  
 Vice President of Manufacturing Division,  
 and General Manager of Stable Supply  
 Management

**“We are further augmenting our competitive power by strengthening our stable supply systems’ and quality assurance systems’ capabilities for responding to demand growth and by reducing costs.”**

**In fiscal 2014, Sawai strengthened its stable supply systems and quality assurance systems by appointing a General Manager of Stable Supply Management and three Stable Supply Managers.**

### Emphasizing Stable Supply

Our critical mission as a manufacturer of ethical pharmaceuticals is assuring patients are dependably supplied with the drugs they need when they need them. Among wholesalers and medical institutions, Sawai has earned a solid reputation for reliability.

Japan’s generic drug market will expand given that the Ministry of Health, Labour and Welfare’s “Road Map for Further Promotion of Generic Medicine Use” increases the volume share target of generic drugs to 60% or higher by March 31, 2018, while the Cabinet Office’s “Basic Policy on Economic and Fiscal Management and Reform 2015” sets an even higher target.

As the leader in Japan’s generic drug industry, Sawai also operates rigorous risk management systems to ensure the reliability of raw material procurement and effective responses to unforeseeable developments.

In April 2015, we acquired the Kashima Factory of Mitsubishi

Tanabe Pharma Factory Ltd. to further expand our production network.

### Strong Commitment to Quality

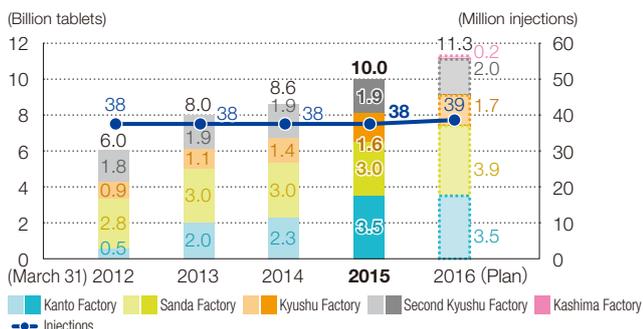
Sawai’s commitment to quality is unshakeable. As Japan joined the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S\*) in July 2014, we are strengthening our quality assurance systems through measures including those specified by PIC/S production management and inspection requirements. In line with our medium-term plan’s global business development objectives focusing on the U.S. market, we are building systems that meet U.S. FDA\*\* requirements, and are implementing various other measures to further upgrade our quality assurance capabilities and position us ahead of competitors.

### Building a Competitive Cost Structure

Beyond ensuring reliably stable supply, Sawai is emphasizing building a competitive cost structure to facilitate sustained growth. We are enhancing capabilities for detailed management of raw material procurement prices, including price negotiations. We are also introducing more-sophisticated production planning processes and strengthening production management and quality control systems.

\*1 PIC/S: The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S) was established to lead the international development, implementation, and maintenance of harmonized Good Manufacturing Practice (GMP) standards and quality systems of inspectorates in the field of medicinal products.  
 \*\*2 FDA: The U.S. Federal Drug Administration

### Expansion of Sawai's Production Capacity



The Kashima Factory

## Strong Relationships with Wholesalers and Marketing Agencies plus Our Large Contingent of Medical Representatives (MRs) Quickly Providing Accurate Drug Information Boost Customer Satisfaction.



**Takashi Iwasa**  
Director, Senior Executive Officer,  
Vice President of Sales Division

**“To promote the delivery of Sawai’s generic drugs to a growing number of patients, we are undertaking more-proactive information provision activities.”**

After the new drug pricing system introduced in April 2014 concentrating NHI listed generic drugs into three price bands, some competitors adopted low-price-oriented strategies. Clearly differentiated from competitors, Sawai instead relies on robust capabilities for ensuring stable product supplies; developing high-quality, high-value-added products; and providing vital information.

### Strong Pharmaceutical Sales Capabilities

Sawai early recognized the importance of wholesale routes for expanding sales to dispensing pharmacies, earning a high share\*1 of the pharmacy segment of the generic drug market.

Balanced development of wholesale and marketing agency channels is a clear advantage. In fiscal 2014, reflecting the impact of the 28.0% year-on-year growth in our sales through the wholesale route, which amounted to ¥60.3 billion, drug deliveries\*2 to hospitals operating under the diagnosis procedure combination (DPC) system were up 38.1% from the previous fiscal year, and drug deliveries to pharmacies surged 25.1%. Sales through marketing agencies also increased

during fiscal 2014, rising 6.7% year on year, to approximately ¥40.4 billion.

To maintain our No. 1 position in generic drugs in Japan, we will continue strengthening our relationships with wholesalers and marketing agencies while expanding sales in the pharmacy market. We will proactively move ahead with efforts to develop additional business with DPC hospitals.

### Strengthening Our MR Support System

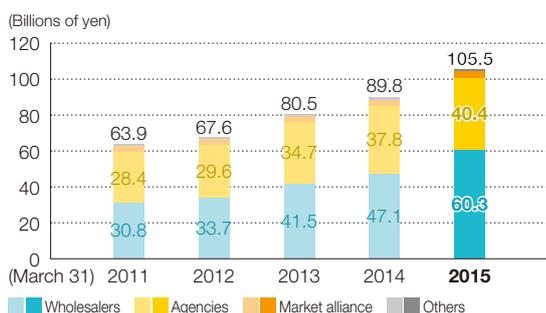
Our approximately 490 MRs – one of the largest MR staffs in the generic drug industry – proactively provide accurate information regarding quality, efficacy, and safety.

We are upgrading our systems for preparing materials for distribution to physicians and pharmacists as well as our MR education and training systems. MRs also obtain support from such multi-dimensional promotion systems as the “sawai medical site,” an Internet site offering academic information about our products, and “sawai oncology,” an Internet site offering specialized oncology information, as well as our “Pharmaceutical Product Information Center,” a 24-hour information request hotline.

\*1 Approximately 75% (for the parent company on a nonconsolidated basis) of shipments of Sawai’s products are for the dispensing pharmacy market, clearly reflecting the Company’s strong position in the pharmacy market.

\*2 Customers of Sawai’s parent company utilizing Sawai products include approximately 55,000 pharmacies, 7,800 hospitals, and 34,000 clinics.

### Sales by Distribution Channel



### Principal Products

Trade Name	Active Ingredient	Dosage Form	Strength
ATORVASTATIN	Cardiovascular agents	Tablets	5mg/10mg
CANDESARTAN OD	Cardiovascular agents	Orally disintegrating tablets	2mg/4mg/8mg/12mg
CLOPIDOGREL	Blood/body fluid agents	Tablets	32.63mg/65.24mg/97.88mg
LANSOPRAZOLE OD	Digestive organ agents	Orally disintegrating tablets	15mg/30mg
TAMSULOSIN HYDROCHLORIDE OD	Urogenital and anal organ agents	Orally disintegrating tablets	0.1mg/0.2mg

# Corporate Governance

## Basic Policies on Corporate Governance

Sawai Pharmaceutical, with the basic management policy of maximizing shareholder value, has positioned enhancement of its corporate governance as an important management issue for structuring management systems that make appropriate and prompt decision making possible in response to changes in the external environment and practices highly fair and transparent management.

Moreover, as a company supplying medical drugs that affect people's lives, the Company must maintain and constantly enhance its high ethical standards. In keeping with the Company's "Patients First" Corporate Philosophy, the Company engages in business activities in accordance with

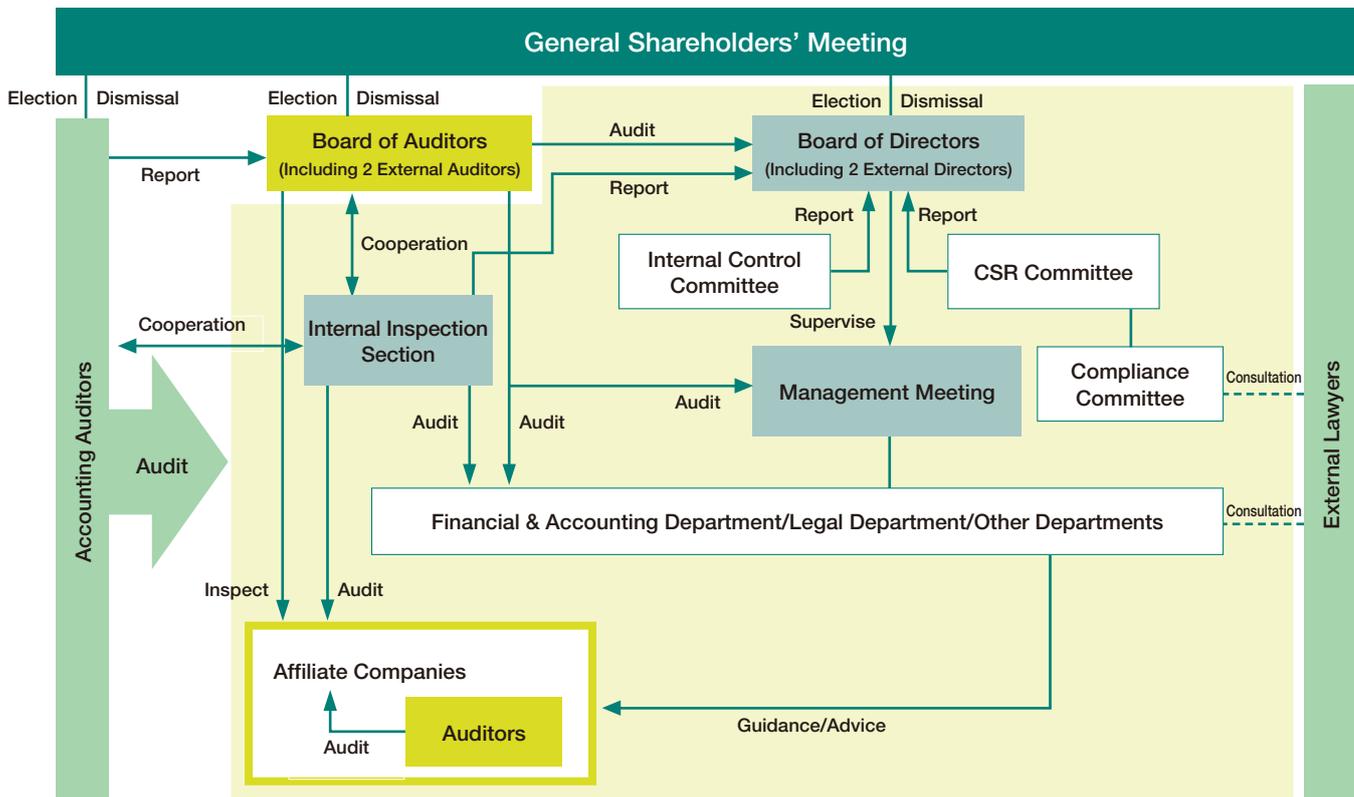
its Code of Conduct toward shareholders and other stakeholders and its internal regulations.

The Company's Board of Directors has 10 members, 2 of whom are external directors. The internal directors have in-depth familiarity with conditions in the ethical pharmaceutical industry and within the Company and observe internal activities from a highly ethical perspective. On the other hand, the external directors exercise a monitoring and checking function from a perspective that is external to the pharmaceutical industry and the Company. Within this framework, the Company conducts its operations in ways that achieve a balance between internal control and

external control in the pursuit of efficiency and legal compliance.

The Company gives comprehensive consideration to corporate size, the conduct of management, and other matters and adopts the "Company with Board of Auditors" corporate governance model. In addition, the business decision-making function and the operation-execution function are separated, and the Company endeavors to strengthen and improve the efficiency of its business execution functions and has adopted the "Corporate Officer" system for clearly defining responsibilities for operation and execution.

## Corporate Governance Structure



## Management Structure

### Board of Directors and the Management Meeting

At Sawai Pharmaceutical, the Board of Directors of the Company is responsible for management decision making and supervising the conduct of management. In addition, to make more appropriate and efficient management decisions, the Company has formed the Management Meeting, which is chaired by the President and Representative Director and is composed of Corporate Officers. To conduct management efficiently, the Management Meeting establishes basic policies and measures for management appropriately and promptly, while also discussing and making decisions on business execution policies.

### Board of Auditors

The Company's Board of Auditors has four members, two of whom are external auditors. The Auditors attend the meetings of the Board of Directors and express their opinions from an objective perspective. In addition, the Auditors exchange information with the Internal Inspection Section, which is independent of business operating departments, and the independent Accounting Auditors to receive their reports. They also conduct inspections of their own, prepare audit reports, and properly carry out their supervision of the conduct of management by the members of the Board of Directors.

### External Directors and External Auditors

The external directors and external auditors pose questions from time to time regarding matters reported in the meetings of the Board of Directors and decisions made, and state their opinions from an external perspective. In addition, to ensure effective audits, the external auditors work together with the Standing Statutory Auditor, the Internal Inspection Section, and the Accounting Auditors to implement audits and exchange opinions with the directors periodically.

To support the activities of the external directors and external auditors and, thereby strengthen the auditing and supervisory functions, the Company assigns staff and approves the payment of the invoices they submit for research and other purposes within reasonable limits.

### Reasons for Election of External Directors and Auditors and Their Activities

Position	Name	Reasons for Election	Attendance at Meetings of the Board of Directors and Board of Auditors
External Directors	Hidefumi Sugao	Mr. Sugao has a broad range of specialized legal knowledge gained from his work as a lawyer. He also has experience in acting as an external director of other listed companies and has served as an external auditor of the Company since June 2007. The Company anticipates that, as an external director with voting rights, he will be able to provide useful advice from his independent perspective that will lead to strengthening the supervision of the Board of Directors and increase the transparency of management.	Attended 17 of 17 meetings of the Board of Directors
	Nawomi Todo	Ms. Todo has extensive specialized knowledge and experience as a medical doctor. The Company anticipates that, as an external director with voting rights, she will be able to provide useful advice from her independent perspective that will lead to strengthening the supervision of the Board of Directors and increase the transparency of management.	Elected at the General Shareholders' Meeting on June 25, 2015
External Auditors	Takashi Takahashi	Since Mr. Takahashi has established a tax accounting office and gained extensive specialized knowledge and experience through his licensed tax accounting practice, and his frontline work experience in the taxation bureau, the Company's judgment is that he will be able to provide useful advice and perform auditing functions, from his independent perspective, and will be able to perform his role as an external auditor appropriately.	Attended 17 of 17 meetings of the Board of Directors Attended 12 of 12 meetings of the Board of Auditors
	Toshiaki Kobayashi	Since Mr. Kobayashi has established a law office and gained extensive specialized knowledge and experience through his legal practice and management of his law office, the Company's judgment is that he will be able to provide useful advice and perform auditing functions, from his independent perspective, and will be able to perform his role as an external auditor appropriately.	Attended 17 of 17 meetings of the Board of Directors Attended 12 of 12 meetings of the Board of Auditors

Note: Notifications of the external directors and external auditors as independent executives have been filed with the Tokyo Stock Exchange.

## Anti-takeover Defenses

The party that controls the Company's finances and policy decision making must understand the sources of the Company's corporate value, continue to create and increase value, and ultimately work in the common interests of the shareholders. The Company has not adopted anti-takeover defense

measures, but, if a party seeks to purchase a large block of the Company's shares, to prevent the impairment of the Company's corporate value and the mutual interests of the shareholders, the Company will request this party to proactively and promptly disclose relevant information and express their opinions as well as

reasons for the purchase to the Company's Board of Directors in order for the Company's shareholders to make accurate judgments, and, as necessary, take appropriate measures within the limits prescribed by Japan's Companies Act and other relevant laws.

## Executive Compensation

The compensation of individual Directors is set based on a maximum overall allocation that is approved by the General Shareholders' Meeting, and then, following internal Company regulations, is set by decision of the Board of Directors. Compensation consists of three components: a basic amount, a bonus linked to performance, and stock options linked to corporate value. The maximum allocation is ¥670 million annually and was set by the 63rd General

Shareholders' Meeting held on June 23, 2011 (This amount excludes any compensation that Directors may receive for their non-executive services.). The compensation of individual Auditors is set based on the overall allocation of ¥50 million that was set at the 67th General Shareholders' Meeting held on June 25, 2015. There were no Directors who received ¥100 million or more in compensation. In addition, the 67th General Shareholders' Meeting also

approved a proposal providing for a separate compensation allocation for Directors (excluding external directors) in the form of stock options (rights to purchase newly issued shares). Granting of stock options has the aim of raising the motivation of the directors to work in the medium-to-long term toward increasing the Company's corporate value, and pay substantially increased attention to management in the interests of shareholders.

### Total Compensation Allocations for Management, Total Allocation of Compensation by Type, and the Number of Eligible Recipients

Executive Position	Total Compensation Allocation (Millions of yen)	Allocation by Type of Compensation (Millions of yen)			Number of Eligible Recipients
		Basic	Stock Options	Bonus	
Directors (Excluding external directors)	448	326	20	102	9
Auditors (Excluding external auditors)	19	19	—	—	2
External directors and auditors	13	13	—	—	3



## Supporting Japan's Healthcare System: —Aiming to Be a Company where All Management and Employees Share a Sense of Pride and Responsibility for Contributions—

External Director  
**Hidefumi Sugao**

### \* Corporate Governance Code

On June 24, 2014, Japan's Cabinet Office finalized its "Basic Policy for Economic and Fiscal Management and Reform 2014," with the purpose of increasing the capabilities of Japanese corporations to generate earnings by reforming the mind-sets of management and giving support to frameworks for management decision making that will enable companies to win in global competition. Along with this, Japan's Financial Services Agency, on March 5, 2015, released its Corporate Governance Code (draft), which contains guidelines for the corporate governance of listed corporations, and it became effective on June 1, 2015 by the Tokyo Stock Exchange. The principal goal of this code is to achieve sustainable corporate growth and increase corporate value in the medium-to-long term.

Japan's Corporate Governance Code\* contains the principles to be followed for transparent, fair, timely, and decisive decision making with a view to Company stakeholders, including shareholders, customers, employees, and the community. For the management team to follow these principles and conduct constructive dialogue with shareholders and a diverse range of other stakeholders, it will be necessary to formulate a management strategy that will result in sustainable growth and increase corporate value in the medium-to-long term. As an external director, from my completely objective perspective, I am working to draw on my specialized legal knowledge to confirm that management strategy follows corporate governance guidelines and is consistent and to provide an oversight and advisory function for management.

Sawai Pharmaceutical is a leading company in the generic drug industry and is managing its business activities responsibly with this awareness in mind. Sawai's net sales have grown at double-digit rates in recent years, and we are expecting further leaps forward in the coming years.

Government officials have proposed a new goal of raising the percentage of generic drugs to more than 80% (volume basis) in the near

future with the aim of reducing medical costs. The expanding percentage of generics will give our growth greater impetus, but it will be indispensable for us to respond to this burgeoning demand through planned increases in production capacity and the recruitment of human resources. As the leader in the generics field, Sawai has a responsibility to society to promote broader usage and provide stable supplies of generics.

In addition, beginning in fiscal 2015, Sawai has adopted a policy of stepping up its CSR activities from the previous level, and active discussions have taken place in Board meetings on this issue. We are establishing communication channels and collaborative relationships between directors and employees, and, in response to the requests of society, I am sure that we can realize effective corporate governance.

Looking ahead, based on our Corporate Philosophy of "Patients First," as an external director, I want to focus on having all members of management and employees to share in the task of supporting Japan's healthcare system with confidence and responsibility as we enter the era of a super-aging society. I believe that it will be precisely this awareness and behavior that will respond to the expectations of our stakeholders.

# Directors, Auditors, and Officers

(As of June 25, 2015)

## Directors



### Chairman, Representative Director

#### Hiroyuki Sawai

Apr. 1963 Joined the Company  
Aug. 1968 Managing Director  
Apr. 1978 Representative Senior Managing Director  
Sep. 1988 President, Representative Director  
Jun. 2008 Chairman, Representative Director (current)

### President, Representative Director

#### Mitsuo Sawai

Jan. 1989 Joined the Company  
Jun. 2000 Director, Deputy Vice President of Sales Division and General Manager, Sales Planning  
Jun. 2002 Managing Director, Vice President of Sales Division and General Manager, Sales Planning  
Jun. 2005 Senior Managing Director, Vice President of Sales Division  
Jun. 2008 President, Representative Director (current)

### Director, Senior Executive Officer, Vice President of Sales Division

#### Takashi Iwasa\*, Ph.D.

Apr. 1979 Joined the Company  
Jun. 1994 Director, General Manager, Corporate Planning  
Jun. 1998 President, Representative Director of Medisa Shinyaku Inc.  
Jun. 2002 Managing Director, General Manager, Corporate Planning  
Jan. 2008 Managing Director, Vice President of Sales Division  
Jun. 2012 President, Representative Director of Kaken Shoyaku Co., Ltd. (current)  
Jun. 2013 Director, Senior Executive Officer, Vice President of Sales Division (current)

### Director, Senior Executive Officer, Vice President of Reliability Assurance Division, and General Manager, Regulatory Affairs Office

#### Harumasa Toya\*, Ph.D.

Apr. 1976 Joined the Company  
Jun. 1996 Director, Deputy Vice President of Research & Development Division and General Manager, Research  
Jun. 2002 Managing Director, General Manager, Medical Information  
Apr. 2008 Managing Director, Vice President of Reliability Assurance Division  
Jun. 2013 Director, Senior Executive Officer, Vice President of Reliability Assurance Division and General Manager, Regulatory Affairs Office (current)

### Director, Senior Executive Officer, Vice President of Manufacturing Division, and General Manager of Stable Supply Management

#### Keiichi Kimura\*

Apr. 1971 Joined the Company  
Jun. 2002 Director, Vice President of Manufacturing Division and General Manager, Production Control Department  
Jun. 2005 Managing Director, Vice President of Manufacturing Division  
May 2011 Director of Medisa Shinyaku Inc. (current)  
Jun. 2013 Director, Senior Executive Officer, Vice President of Manufacturing Division  
Apr. 2014 Director, Senior Executive Officer, Vice President of Manufacturing Division and General Manager of Stable Supply Management (current)

### Director, Senior Executive Officer, Vice President of Corporate Administration Division, and Deputy Vice President of Sales Division

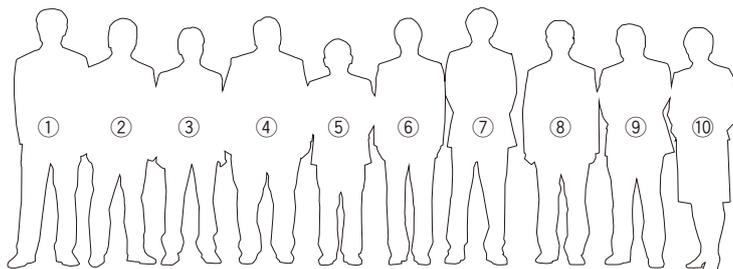
#### Minoru Kodama\*

Apr. 1976 Joined the The Sanwa Bank, Limited. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)  
May 2006 Joined the Company  
Jun. 2007 Director of Kaken Shoyaku Co., Ltd. (current)  
Jun. 2007 Director, General Manager, Corporate Planning  
Jun. 2008 Director of Medisa Shinyaku Inc.  
Apr. 2011 Senior Managing Director of Medisa Shinyaku Inc. (current)  
Jun. 2012 Managing Director, Vice President of Corporate Administration Division and Deputy Vice President of Sales Division  
Jun. 2013 Director, Senior Executive Officer, Vice President of Corporate Administration Division and Deputy Vice President of Sales Division (current)



From left,

- ① Hidefumi Sugao ② Kenzo Sawai ③ Keiichi Kimura ④ Takashi Iwasa ⑤ Hiroyuki Sawai  
⑥ Mitsuo Sawai ⑦ Harumasa Toya ⑧ Minoru Kodama ⑨ Shinichi Tokuyama ⑩ Nawomi Todo



**Director, Senior Executive Officer, General Manager, Corporate Strategy Department, and Deputy Vice President of Sales Division**

**Kenzo Sawai\***

- Apr. 1995 Joined the Sumitomo Pharmaceuticals Co., Ltd. (currently Sumitomo Dainippon Pharma Co., Ltd.)
- Apr. 2001 Joined the Company
- Jun. 2010 Director, General Manager, Corporate Strategy Department
- Jun. 2013 Director, Senior Executive Officer, General Manager, Corporate Strategy Department and Deputy Vice President of Sales Division (current)

**Director, Senior Executive Officer, Vice President of Research & Development Division**  
**Shinichi Tokuyama\***

- Oct. 1977 Joined the Company
- Jun. 2005 Director, Acting Vice President of Research & Development Division and General Manager, Development
- Jun. 2005 Director of Medisa Shinyaku Inc.
- Jun. 2012 President, Representative Director of Medisa Shinyaku Inc. (current)
- Jun. 2013 Executive Officer, Deputy Vice President of Research & Development Division and General Manager, Intellectual Property Department
- Jun. 2014 Director, Senior Executive Officer, Vice President of Research & Development Division (current)

**External Director**

**Hidefumi Sugao**

- Apr. 1979 Registered as an Attorney
- Jun. 1982 Opened Sugao Law Office (current)
- May 1994 External Director of Nishimatsuya Chain Co., Ltd. (current)
- Jun. 2007 Auditor of the Company
- Jun. 2012 Director of the Company (current)

**External Director**

**Nawomi Todo**

- Jun. 1984 Obtained Medical License
- Jul. 1984 Staff Doctor at Osaka University Hospital
- Jul. 1987 Staff Doctor at Osaka Police Hospital, Association of Osaka Police Foundation
- Jul. 1990 Staff Doctor at Nissay Hospital
- Jan. 2002 Staff Doctor at Osaka-tetsusyou Health Insurance Society (current)
- Jan. 2007 Obtained Certified Occupational Physician Qualification of Japan Medical Association (current)
- Jun. 2015 Director of the Company (current)

\* concurrently as executive officers

## Auditors

Standing Statutory Auditor  
**Hidetsugu Matsunaga**

Statutory Auditor  
**Takekiyo Sawai**

External Auditor  
**Takashi Takahashi**

External Auditor  
**Toshiaki Kobayashi**



From left, Takashi Takahashi, Hidetsugu Matsunaga, Takekiyo Sawai, Toshiaki Kobayashi

## Officers (excluding those who are concurrently appointed as Directors)



From left, Masahiro Sasaki, Yuji Tokunaga, Yoshiteru Takahashi, Kyozo Inari, Makio Sakaki, Kazuhiko Sueyoshi, Akira Hamada

### Executive Officers

General Manager, External Affairs  
Department  
**Kyozo Inari**

Deputy Vice President of  
Manufacturing Division and  
General Manager, Pharmaceutical  
Technology Center  
**Yoshiteru Takahashi, Ph.D.**

### Corporate Officers

General Manager, Quality  
Assurance Department  
**Makio Sakaki**

General Manager, Pharmaceutical  
Development Department  
**Yuji Tokunaga, Ph.D.**

General Manager, Controller  
Department  
**Kazuhiko Sueyoshi**

In charge of Overseas Operations,  
Corporate Strategy Department  
**Masahiro Sasaki**

General Manager, Human  
Resources Department  
**Akira Hamada**

# Internal Control, Compliance, and Risk Management



## Internal Control and Compliance

The Board of Directors of Sawai Pharmaceutical has approved a “system for securing the proper conduct of operations” pursuant to Japan’s Companies Act and Ordinance for Enforcement of the Companies Act.

The Company endeavors to motivate its Directors, Auditors, members of its Management Meeting, and the general managers of its business and stimulate them to action and, at the same time, as a pharmaceutical enterprise whose products benefit human lives, is working to promote the observation of ethical standards as well as sharing and usage of information.

Regarding the conduct of Company management and daily execution of business activities, the Company receives various kinds of advice and guidance, as needed, from a number of attorneys at law and specialists, and refers to their advice in making management judgments. In addition, depending on the issues at hand, the Company has established procedures for referring such matters to the Compliance Committee and Internal Control Committee. The executive with highest authority in both these committees is the President of Sawai, and its members include related Directors, the Standing Statutory

Auditor, and department-level general managers.

In addition, to secure the appropriateness and efficiency of the activities of its corporate Group, the Company places thoroughgoing emphasis on having Group companies abide by the tenets of its Corporate Philosophy and Management Policies and provides guidance as well as advice for the daily conduct of business.

Within its internal control organization, Sawai Pharmaceutical has formed the Internal Inspection Section, which has four members. This section is independent of the business divisions and reports directly to the President. This section is responsible for assessing the implementation of audits based on auditing plans as well as for assessing the design and operation of the Company’s internal control systems.

The consolidated subsidiaries of the Sawai Group are inspected and audited as necessary by the Company’s Accounting Auditors and by the Board of Auditors and the Internal Inspection Section.

Regarding compliance matters, the Company has formed the Compliance Committee, and through educational and enlightenment activities for the Directors and employees, this committee seeks to raise the awareness, etc., of compliance. Also, through the proper operation of Corporate Ethics Helpline Regulations, the committee works to discover, prevent, and redress at an early date any improper activities arising from the violation of laws and regulations. The Internal Inspection Section conducts internal audits and, through strict auditing activities by the

Auditors and the Accounting Auditors, the Company discloses proper corporate information in a timely fashion that consistently earns trust inside and from outside of the Company.

## Risk Management

At Sawai Pharmaceutical, to respond appropriately to risks inherent in its corporate activities by retaining/containing, reducing, averting, and/or transferring such risks and conduct reasonable management of the impact in the event such risks emerge, the Group conducts risk management that aims to minimize the risks of losses of impairment of management resources.

When conducting risk management, persons responsible for various types of risk are appointed and take responsibility for enlightening management and staff regarding risk management and operate the risk management systems. The persons in charge of risk management in each organizational unit promote risk management on their own initiative. This includes conducting analyses and assessments of individual risk, while keeping in mind the objectives and targets of the unit. Their activities also include preparing and implementing annual risk management plans as well as offering information related to risks within the organization and conducting educational and enlightenment activities. When risks emerge, persons in charge follow the Company’s “Crisis Management Regulations” and “Business Continuity Plan at the Time of Disaster” to minimize damages from risks and achieve an early return to normal business operations.

# Corporate Social Responsibility (CSR)

Sawai Pharmaceutical’s approach to CSR is based on its understanding that “the business activities of Sawai Pharmaceutical are its greatest contribution to society.” Therefore, the mission of Sawai Pharmaceutical is to contribute to society through the realization of its Corporate Philosophy and acting according to its Code of Conduct in its business operations.

## Sawai’s Approach to CSR

Sawai positions the realization of its Corporate Philosophy of “Patients First,” through its business activities as its most-important corporate social responsibility, and the entire Company is devoted to realizing this objective.

Moreover, along with Sawai’s growth, we are increasingly placing emphasis on the CSR activities we should perform based on input from our stakeholders. By conducting active CSR initiatives through our business processes, we are contributing to the realization of a sustainable society.

### Basic CSR Policy in Outline



Corporate Philosophy and Code of Conduct

## (1) Corporate Philosophy

**sawai’s** Corporate Philosophy is a question, “What can **sawai** do to be of service to the world?” We express this succinctly as

### Patients First

1. It is **sawai’s** mission to enable people to live healthy lives through pharmaceutical products imbued with our whole-hearted dedication.
2. It is **sawai’s** challenge to grow in tandem with society through innovation and cooperation, while pursuing creativity.
3. It is **sawai’s** hope that we will become an indispensable part of society through our desire to be of service.

## (2) CSR through Our Business Activities

Sawai positions realizing its Corporate Philosophy through its business activities as its most-important corporate social responsibility—CSR through Sawai’s business activities.

### (a) Reducing the burden on patients and enhancing convenience for them

By providing low-cost, high-quality generics to patients who are in need of medical treatment, we reduce the financial burden on patients and, by giving them peace of mind, enable them to devote their attention to successful treatment. In addition, by developing orally disintegrating (OD) tablets that can be taken without water and other value-added tablets that make it easier for patients to receive dosages of medicines, we aim to fulfill our Corporate Philosophy of putting “Patients First.”

### (b) Contributing to sustaining and further developing a superior healthcare system that is compatible with sound government finances

Since Japan introduced its “universal health insurance coverage” system after World War II, Japan has maintained an outstanding system under which everyone has been able to receive necessary medical treatment. However, as government financial issues have become more pressing and Japanese society has aged demographically, reviewing the medical system to make it compatible with soundness in government finances has become an urgent issue.

Amid these circumstances, as one of the most-effective ways of reducing the medical care cost burden on the people as a whole without undermining the quality of medical services, Sawai early on decided to take the initiative in promoting the understanding of the use of generics and their reliability.

Looking ahead, as the leading company in Japan's generic drug industry, Sawai Pharmaceutical will work to contribute toward the continuation and development of Japan's superior medical care system, in harmony with government fiscal soundness, through promoting the use of generics.

### **(3) CSR within Business Processes and Code of Conduct**

To realize its Corporate Philosophy, Sawai established its Sawai Code of Conduct, which provides a response to the question, "What actions should we take to be of service to our stakeholders?"

In its business activities, Sawai has mutually interactive relationships with various stakeholder groups that include not only customers, employees, business partners, and shareholders but also regional societies as well as the global environment. For Sawai to continue its business activities sustainably, we are aware that, in its business processes, each and every one of its employees has specific responsibilities they must fulfill (CSR within its business processes). For this reason, Sawai has established its Code of Conduct to provide clear criteria for all of its employees to follow.

### **(4) Sawai's Infrastructure for Promoting CSR Activities**

Sawai has established its CSR Committee, CSR Promotion Committee, and CSR Secretariat to promote and implement its CSR activities.

### **Important CSR Matters and the Process for Identifying Them**

Sawai's business activities take place in the context of relationships with various stakeholders that include customers, employees, business partners, shareholders and investors, and society as a whole, as well as the global environment. Based on our Corporate Philosophy of "Patients First," for Sawai to realize sustainable increases in corporate value, conducting business activities in ways that take account of sustainability, encompassing all stakeholders, will be essential.

To this end, Sawai prepared a new Basic CSR Policy in May 2015. Based on this policy, Sawai has defined important matters in CSR activities and established priorities from two perspectives: "materiality for society as a whole" and "materiality due to linkages with Sawai's business activities."

### **CSR Promotion Systems**

With the goal of promoting initiatives related to CSR that actively and dynamically address social issues, at Sawai Pharmaceutical, we have formed organizational units with related objectives.

#### **CSR Committee**

With the President as chairperson, this committee is composed of members drawn primarily from Directors in charge of CSR, deputy members from among Directors with secondary

responsibility for CSR, other Directors, Standing Statutory Auditors, and Corporate Officers. This committee meets twice a year, discusses annual activities based on the Company's Basic CSR Policy, approves these activities and reviews results of activities, and then makes recommendations and reports to the Board of Directors.

#### **CSR Promotion Committee**

This committee was formed as a sub-committee under the CSR Committee to promote the efficient conduct of CSR activities. The Director in charge of CSR chairs the committee, and the remaining members include deputy members from among Directors with secondary responsibility for CSR and members selected from managerial-level personnel in each division. In principle, this committee meets four times a year, prepares plans for annual activities based on the Company's Basic CSR Policy, monitors progress, and reports on the results.

#### **CSR Secretariat**

The CSR Secretariat was formed with the objective of performing such functions as calling the meetings of the CSR Committee and the CSR Promotion Committee, preparing their meeting minutes, and disseminating information related to CSR internally and outside the Company. Members are selected from various divisions.

# Environmental Initiatives

In working to realize one of the tenets of its Corporate Philosophy, which is “It is Sawai’s mission to enable people to live healthy lives through pharmaceutical products” and as a provider of generic pharmaceuticals, Sawai Pharmaceutical works with the community and society to implement corporate activities that aim to preserve the global environment.



## Environmental Preservation Initiatives

Regarding environmental management, we assess the burden our activities place on the environment and are implementing measures to reduce the volume of emissions and usage of resources, including emissions of CO<sub>2</sub> and the usage of water and other resources. We monitor emissions and other indicators based on coefficients that link production volume with the emission rate per production unit, the energy consumption rate per unit, and the waste emission rate per unit. We are also working to reduce environmental impact through improvements in productivity.

### Kanto Factory Receives “Chiba Prefecture Architectural Culture Award”

Sawai’s Kanto Factory became the first in the pharmaceutical industry to

receive the Chiba Prefecture Architectural Culture Award. Reasons for the favorable appraisal included its extensive usage of LED lighting and proactive “greening” initiatives spanning planting of cherry trees and medicinal trees on the plant grounds.



Kanto Factory

### Supporting “Light Down Campaign”

Sawai participates in Japan’s Ministry of the Environment’s “Fun to Share” campaign aimed at a low carbon society, including the annual “CO<sub>2</sub> Reduction/Light Down Campaign,” and did its part by turning down lights at its business locations.

### Introduction of Hybrid Automobiles

In fiscal 2011, Sawai began to use hybrid cars, and, as of March 31, 2015, 271 of the Company’s 371 automobiles were hybrid vehicles.

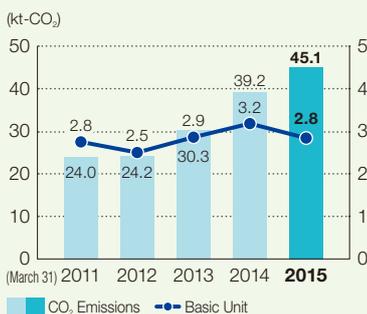
## Greenhouse Gas Emissions (CO<sub>2</sub> Emissions)

Due to the expansion of equipment for stable manufacturing of high-quality drugs and increases in the volume of production, the Company’s usage of energy increased and CO<sub>2</sub> emissions during fiscal 2014 rose 14.8%, to 45,062 tons. However, through efforts to increase productivity, the emission of CO<sub>2</sub> per unit of output was reduced 12.5% year on year to 2.8.

## Monitoring Chemical Substances, Water Quality, Atmosphere, and Waste Disposal

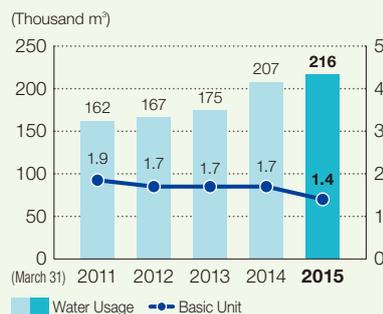
Sawai conducts proper monitoring to confirm designated chemical substances under the Pollutant Release and Transfer Register system and analyzes water quality (including BOD and COD levels) as well as air quality (including emissions of NO<sub>x</sub> and SO<sub>x</sub>, etc.). Sawai is strengthening its monitoring activities and is in compliance with regulations. Initiatives to reduce the volume of waste disposal include active measures to reduce, reuse, and recycle resources.

### CO<sub>2</sub> Emissions



\* Volume of CO<sub>2</sub> emissions per unit of production is the volume of emissions divided by production volume (mil. tablets).  
\* Excluding Kaken Shoyaku Co., Ltd.

### Water Usage



\* Volume of water usage per unit of production is the volume of usage divided by production volume (100 mil. tablets).  
\* Excluding Kaken Shoyaku Co., Ltd.

### Waste Volume/Recycled Volume



\* Volume of waste per unit of production is the volume of waste divided by production volume (100 mil. tablets).  
\* Excluding Kaken Shoyaku Co., Ltd.

# Human Rights and Labor Initiatives

Based on the idea that “our employees’ individual personalities and abilities are our greatest assets,” Sawai respects basic human rights and works to create workplace environments that are safe and pleasant and promote the good physical and mental health of its employees.



## Human Resource Development

Sawai Pharmaceutical, in addition to making personnel assignments suited to the ability and aptitude of employees, assigns its personnel to positions providing employees with opportunities for training that are appropriate for their job levels and departmental affiliation. Going forward, we will continue to provide good environments that allow each and every one of our employees to advance in their careers.

### Job Level Training

Sawai Pharmaceutical implements employee training appropriate for each job level, to support their development. For example, for younger employees in the latter half of their 20s, training begins with basic content and is followed by career

advancement training. For middle-level employees in their 30s, training is conducted to ready them for advancement to managerial-level positions and includes instruction in preparedness and skills by position, renewing their awareness of the roles of managers, training for starter-level managers, management of subordinates, and personnel assessment.

### Departmental Training

To meet increasingly demanding professional knowledge and skill requirements, Sawai also actively provides training that reflects the special requirements in its business activities. For example, Sawai implements “Introductory Training for MRs” that provides them with the necessary knowledge and skills to promote the wider use of Sawai generics. As a result of this detailed MR training system, for six consecutive years from fiscal 2009 to fiscal 2014, 100% of Sawai MRs applying for certification were approved. Sawai provides them with “continuing training” on a monthly basis that includes attending lectures covering the latest information concerning diseases, healthcare

systems, and our products. In other departments, managerial training is provided to enhance management skills and make sure that managers at various levels are aware of their roles and functions. Another course recently introduced is On-the-Job Training, which is used to instruct more senior employees on how to train their subordinates while on the job.

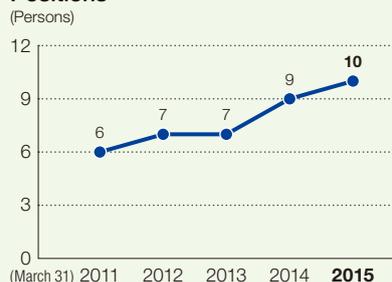
## Creating Pleasant Workplace Environments

Sawai places emphasis on employees’ work-life balance and wants each and every employee to be aware of creating company environments that make work easier. For example, employees can take advantage of vacation time for child-rearing until their children reach the age of two and can use the flextime system until their children finish the third grade of primary school. In addition, Sawai offers other benefits, some of which exceed legally required limits, including allowing employees to take a maximum leave of one year to care for senior family members.

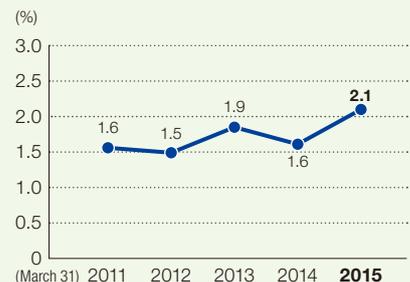
Number of MRs and Personnel with Pharmacist Qualifications



Number of Women in Management Positions



Ratio of Disabled Employees



# Social Contribution Initiatives

Sawai Pharmaceutical provides generic pharmaceuticals that lower the healthcare costs patients pay, thereby contributing to reducing the burden of national health costs. As a good corporate citizen, Sawai is also committed to engagement in a range of initiatives that promote health and sustainability for individuals and society overall.

## Lowering Medical Costs via High-Quality Generic Pharmaceuticals

Japan's healthcare costs are rising due to a rapidly aging society. We help reduce national healthcare costs by providing lower-cost generic drugs as therapeutically effective as original drugs. As Sawai has grown, so have cost savings of roughly ¥139.0 billion in fiscal 2012, ¥156.0 billion in fiscal 2013, and ¥200.0 billion in fiscal 2014.

## Social Contributions

### Disseminating Latest Medical Care Information

To encourage fuller understanding of generic pharmaceuticals, Sawai supports symposiums and seminars covering lifestyle diseases and sponsors television programs providing medical care information. In fiscal 2014, we presented television programs supporting regional healthcare initiatives and sponsored a symposium on circulatory system disorders.

### How Generic Pharmaceuticals Are Made

Sawai arranges for visits to its facilities so groups, including students, local residents, and parent-teacher associations, may see how efficacious generic pharmaceuticals are made. In fiscal 2014, Sawai arranged about 160 factory visits to broaden understanding of the value of generic pharmaceuticals.

### Donating "Sawai Hall" to Osaka University School of Pharmaceutical Sciences

Sawai donated the "Sawai Hall" to the Osaka University School of Pharmaceutical Sciences to contribute to the education of future professionals in pharmacology. Sawai Hall is now widely used as a valuable venue for student reports on research, lectures, and other events.



Sawai Hall

### "Let's Make Osaka Healthier! Sawai Day"

Sawai cosponsors an annual baseball game between the Orix Buffaloes and Hanshin Tigers, inviting elementary school students to watch the game and have a range of experiences, such as the "first-pitch ceremony."



Sawai Day

### Cosponsorship of World Heart Day and "Heart Health Walk"

Sawai was a special cosponsor of the Heart Health Walk, which is the main event of the worldwide heart vascular disease campaign "World Heart Day Osaka 2014," with the participation of more than 1,500 people. Sawai agrees with the spirit of World Heart Day, which is "to prevent cardiovascular and lifestyle diseases through a healthy diet and exercise." Sawai co-sponsored this event from 2011 for the fourth consecutive time.



World Heart Day

### Chairman Receives a Decoration from the Emperor



In the November 2014 presentation of decorations from Japan's Emperor, Sawai's Chairman and Representative Director, Hiroyuki Sawai, received the Order of the Rising Sun, Gold Rays with Neck Ribbon. Mr. Sawai is a driving force in Japan's generic pharmaceutical industry, serving for many years at top of the industry association, and is recognized for bringing generics into wider use and lowering medical costs.

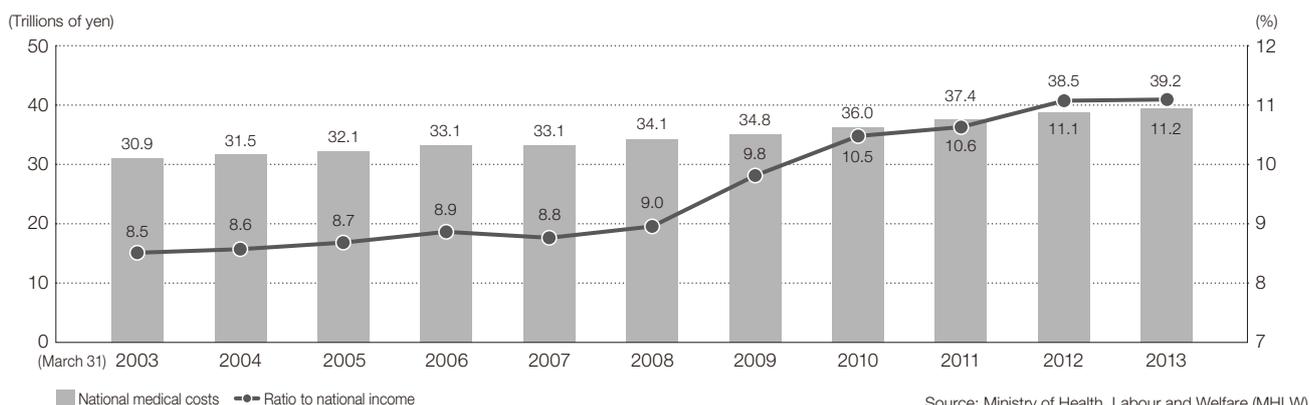
# Market Environment (for Reference)

Beginning in the 1990s, Japan's national healthcare costs have been rising at about ¥1 trillion annually. Also, along with the demographic aging of society and the decline in the birthrate, national healthcare costs are expected to continue to rise, and to prevent a decline in health-care quality and reduce these costs, the government has implemented active measures to expand the usage of generic drugs.

## History of Policies to Encourage Use of Generic Drugs

FY2002	<ul style="list-style-type: none"> <li>When generic drugs were prescribed, an additional two points in payment for a medical service fee were received</li> <li>When information on generic drugs was provided and generic drugs were formulated, an additional 10 points were received as a dispensing fee (Introduction of incentives for doctors and pharmacists)</li> </ul>
FY2003	<ul style="list-style-type: none"> <li>Introduction of comprehensive payment system through diagnosis and procedure combination (DPC)</li> </ul>
FY2006	<ul style="list-style-type: none"> <li>Review of the prescription form</li> </ul>
FY2007	<ul style="list-style-type: none"> <li>The government set a goal of 30% or higher usage of generic drugs by the fiscal year that ended March 31, 2013</li> <li>The number of times new products are listed on the NHI list are increased from once to twice</li> </ul>
FY2008	<ul style="list-style-type: none"> <li>Introduction of "Premiums for Generic Dispensing Systems" into a dispensing fee</li> <li>Review of the prescription form</li> <li>Specification of mandatory duty objective for use and formulation of generic drugs for "the Regulations for NHI Medical Institutions' and NHI Physicians' Responsibilities" and "the Regulations for NHI Pharmacies' and NHI Pharmacists' Responsibilities"</li> </ul>
FY2010	<ul style="list-style-type: none"> <li>Review of "Premiums for Generic Dispensing Systems"</li> <li>Introduction of "Premiums for Constructing Systems for Generics Use" (addition of basic fee for hospital entry)</li> </ul>
FY2012	<ul style="list-style-type: none"> <li>Review of "Premiums for Generic Dispensing Systems"</li> <li>Review of the prescription form</li> <li>Introduction of "Premiums for Prescribing by Generic Name"</li> </ul>
FY2013	<ul style="list-style-type: none"> <li>Government issues "Road Map for Further Promotion of Generic Medicine Use" and sets goal of raising use of generics to 60% or more in volume terms by the fiscal year ending March 31, 2018</li> </ul>
FY2014	<ul style="list-style-type: none"> <li>Review of "Premiums for Generic Dispensing Systems"</li> <li>Newly established generic drug index in DPC hospitals</li> </ul>

## Trends in ratio of national medical costs to national income (Mar. 2003~Mar. 2013)



# Eleven-Year Summary

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31

	Millions of yen		
	2015	2014	2013
Net sales	<b>¥105,454</b>	¥ 89,824	¥ 80,503
Cost of sales	<b>60,048</b>	48,353	42,511
Gross profit	<b>45,406</b>	41,471	37,992
Selling, general and administrative expenses	<b>24,718</b>	22,380	20,607
Operating income	<b>20,688</b>	19,091	17,385
Income (loss) before income taxes and minority interests	<b>20,298</b>	18,990	18,098
Net income (loss)	<b>14,053</b>	12,193	12,022
Total assets	<b>166,180</b>	149,348	127,843
Inventories	<b>44,663</b>	39,182	29,529
Total current liabilities	<b>42,209</b>	39,097	30,105
Total long-term liabilities	<b>11,572</b>	8,949	36,258
Net assets	<b>112,399</b>	101,302	61,480
Net cash provided by (used in) operating activities	<b>12,112</b>	13,422	12,256
Net cash used in investing activities	<b>(14,123)</b>	(8,283)	(1,373)
Net cash (used in) provided by financing activities	<b>(922)</b>	(178)	(10,970)
Cash and cash equivalents at end of year	<b>22,604</b>	25,537	20,584
Research and development (R&D) expenses	<b>6,110</b>	5,170	4,551
Capital expenditures	<b>13,251</b>	7,353	4,599
Depreciation and amortization	<b>5,863</b>	4,989	3,793
		%	
Ratio of R&D expenses to sales	<b>5.8</b>	5.8	5.7
Return on equity	<b>13.2</b>	15.0	20.1
Shareholders' equity to total assets	<b>67.6</b>	67.8	48.0
		Yen	
Amounts per common share:			
Net income—basic	<b>¥ 382.26</b>	¥ 365.18	¥ 386.71
Net income—diluted	<b>381.85</b>	330.41	318.17
Cash dividends applicable to period	<b>105.00</b>	95.00	85.00
Net assets	<b>3,053.29</b>	2,755.29	2,027.15

Notes: 1. Diluted net income per common share is not disclosed from 2005 to 2009 because there were no outstanding convertible securities.

2. Net assets from 2008 included minority shareholders' interest due to the application of the Japanese Corporate Law.

3. Capital expenditures are calculated on a cash flow basis.

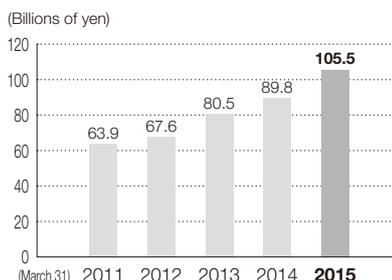
4. The Company split its common stock two for one on October 1, 2013.

Amounts per common share for years prior to 2014 were recalculated to reflect the share split.

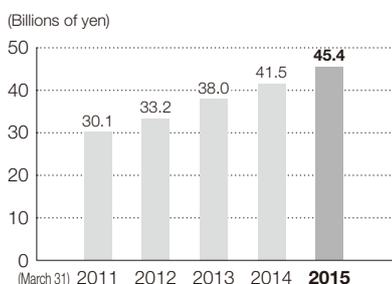
Millions of yen							
2012	2011	2010	2009	2008	2007	2006	2005
¥ 67,603	¥ 63,853	¥ 50,070	¥ 44,284	¥ 37,631	¥ 34,317	¥ 26,616	¥ 23,277
34,411	33,736	26,275	25,156	20,130	17,357	13,265	12,317
33,192	30,117	23,795	19,128	17,501	16,960	13,351	10,960
18,188	16,531	15,276	14,461	13,453	12,267	9,052	9,016
15,004	13,586	8,519	4,668	4,048	4,693	4,299	1,944
14,928	12,289	8,372	4,320	3,129	4,166	5,043	(379)
9,026	7,183	4,982	2,439	1,739	2,260	3,010	(349)
123,400	117,056	81,236	72,320	66,295	67,827	51,997	42,009
25,780	21,218	18,081	13,588	13,500	13,768	9,609	7,019
26,932	25,811	25,441	20,911	17,152	18,525	18,352	13,461
37,893	40,382	9,537	9,703	8,938	9,981	4,811	3,579
58,575	50,863	46,258	41,706	40,205	39,321	27,543	24,969
7,814	5,937	7,907	3,169	9,549	(4,370)	1,884	2,120
(2,371)	(20,362)	(5,329)	(3,037)	(6,562)	(10,551)	(2,313)	(1,803)
(4,578)	24,756	348	1,027	(4,958)	15,449	2,022	451
20,671	19,805	9,474	6,548	5,389	7,360	6,832	5,239
4,317	3,902	3,593	3,409	3,222	3,085	2,241	2,524
4,599	2,805	5,370	2,841	6,567	9,877	3,268	2,228
3,389	3,066	3,025	2,709	2,575	1,964	1,640	1,329
%							
6.4	6.1	7.2	7.7	8.6	9.0	8.4	10.8
16.5	15.1	11.8	6.2	4.6	6.9	11.5	(1.4)
47.4	43.4	54.5	55.4	58.3	55.8	53.0	59.4
Yen							
¥ 285.25	¥ 228.04	¥ 158.66	¥ 77.66	¥ 55.37	¥ 78.84	¥ 108.54	¥ (13.90)
235.07	203.67	158.43	—	—	—	—	—
70.00	55.00	35.00	27.50	27.50	27.50	25.00	20.00
1,846.84	1,605.16	1,408.83	1,275.53	1,230.09	1,204.21	1,007.06	913.38

# Management Discussion and Analysis

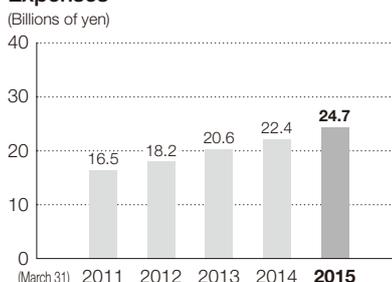
## Net Sales



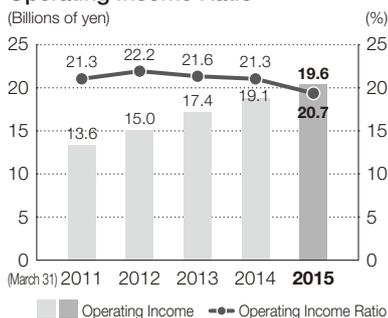
## Gross Profit



## Selling, General and Administrative Expenses



## Operating Income/ Operating Income Ratio



## Business Environment in Fiscal 2014

One of the major developments during the fiscal year ended March 31, 2015, was a major increase in demand for generic pharmaceuticals not only in the pharmacy market but also the hospital market. Developments leading to this were the announcement of the “Road Map for Further Promotion of Generic Medicine Use” in April 2013, which was followed by a review of medical service fees, which included the review of “Premiums for Generic Dispensing Systems” and the introduction of promotional measures for generic drugs in DPC hospitals that was implemented in April 2014. However, the prices of newly listed generic pharmaceuticals were reduced substantially and an extremely severe pharmaceutical pricing system was introduced. The essence of these system revisions was to divide already listed generics into three price ranges, and, just before the implementation of pharmaceutical price reductions in April, the profit environment became quite severe. In addition, the competitive environment in Japan’s generic market showed further change in September 2014, as a company with capital ties to the original supplier of Blopress (common name in Japan: Candesartan) began to offer this drug as an authorized generic (AG) ahead of other manufacturers’ launches of generics.

Amid these circumstances, under the basic policies of the Sawai Group’s “M1 TRUST 2015” medium-term business plan, which has entered its final year, each department undertook initiatives to aggressively implement its announced policies.

## Income and Expenses

Net sales increased by 17.4%, to ¥105,454 million. This was the first time for sales to exceed ¥100 billion and a new record following the record set in the previous year. By sales channel, sales through wholesalers rose 28.0% year on year, and sales through regional marketing agencies expanded 6.7%. Wholesalers accounted for 57.2% of total net sales, compared with 52.5% in the previous fiscal year, while regional marketing agencies contributed 38.3%, down from 42.2% in the previous fiscal year.

Gross profit increased 9.5%, to ¥45,406 million, and the gross profit to net sales ratio was 3.1 percentage points lower, at 43.1%. Selling, general and administrative expenses increased 10.4%, to ¥24,718 million, as a result of increases in R&D expenses, personnel costs, and advertising expenses. Thus, operating income was 8.4% higher year on year, at ¥20,688 million, and the operating income to net sales ratio fell 1.7 percentage points, to 19.6%.

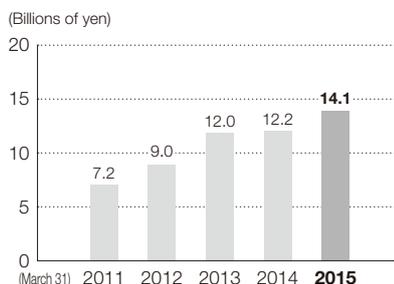
Net income set a new record of ¥14,053 million, a year-on-year increase of 15.3%, while net income per share amounted to ¥382.26, compared with ¥365.18 in the previous fiscal year. The return on equity was 13.2%, down from 15.0% in fiscal 2013.

## R&D Expenses

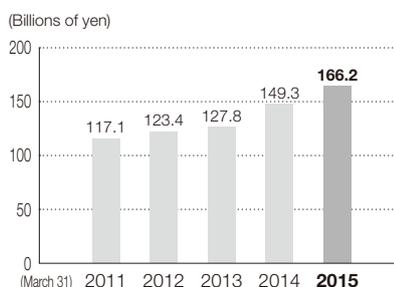
The core of the Sawai Group’s R&D structure is the Research and Development Division. In keeping with our “Patients First” philosophy, our R&D activities focus on the creation of pharmaceutical products that reflect medical needs, including the development of high-value-added products based on innovative formulations. In fiscal 2014, we obtained approval for the manufacture and sales of 13 active ingredients in 28 products.

R&D expenses increased 18.2%, to ¥6,110 million. The ratio of R&D expenses to net sales was 5.8%, the same as in the previous fiscal year.

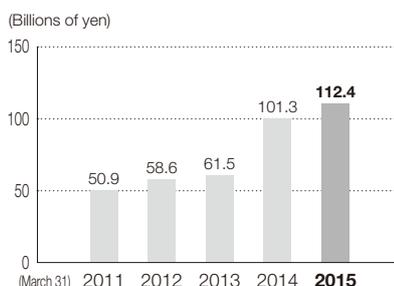
## Net Income



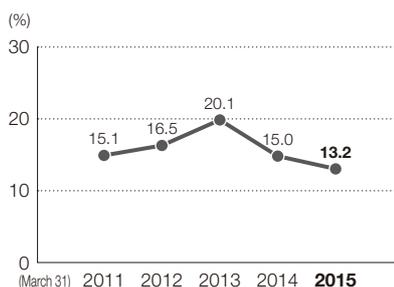
## Total Assets



## Net Assets



## Return on Equity (ROE)



## Financial Position

Total assets increased ¥16,831 million year on year, to ¥166,180 million as of March 31, 2015. Current assets rose ¥8,220 million, to ¥104,274 million, because of increases in trade notes and accounts receivable, inventories, and other items. Fixed assets were ¥8,611 million higher, at ¥61,906 million, mainly because of increases in tangible assets and other items.

Capital expenditures totaled ¥13,251 million in fiscal 2014, compared with ¥7,353 million in the previous fiscal year. The main items were investment in the second stage of construction at the Kanto Factory and the replacement of machinery at other factories.

Total liabilities amounted to ¥53,781 million, an increase of ¥5,735 million from March 31, 2014. Current liabilities were ¥3,112 million higher, at ¥42,209 million, mainly because of an increase in trade notes and accounts payable and other accounts payable. Long-term liabilities were ¥11,572 million, ¥2,623 million higher, mainly because of increases in long-term debt and in other items.

Net assets increased ¥11,097 million year on year and amounted to ¥112,399 million as of March 31, 2015. Factors contributing to this increase included higher net income and capital surplus. The shareholders' equity ratio decreased 0.2 percentage point, to 67.6%.

## Cash Flows

### Cash flows from operating activities

Net cash provided by operating activities amounted to ¥12,112 million, a year-on-year decrease of ¥1,310 million. The main items were ¥20,298 million in income before income taxes and minority interests, ¥5,863 million in depreciation and amortization, an increase of ¥5,348 million in accounts receivable, and an increase of ¥5,481 million in inventories.

### Cash flows from investing activities

Net cash used in investing activities amounted to ¥14,123 million, a year-on-year increase of ¥5,840 million. This consisted mainly of expenditures of ¥12,296 million for the acquisition of tangible fixed assets.

### Cash flows from financing activities

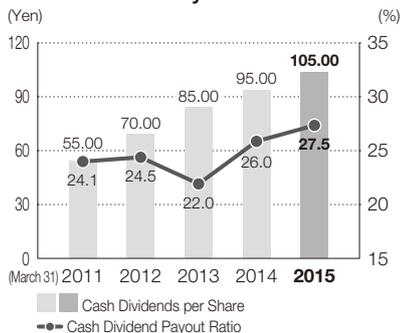
Net cash used in financing activities amounted to ¥922 million, an increase of ¥744 million from the previous year's figure. The main items were ¥5,000 million in proceeds from long-term borrowings, ¥2,453 million on the repayment of long-term debt, and ¥3,674 million in cash dividends paid.

As a consequence, cash and cash equivalents amounted to ¥22,604 million as of March 31, 2015. This was ¥2,933 million lower than the total as of March 31, 2014.

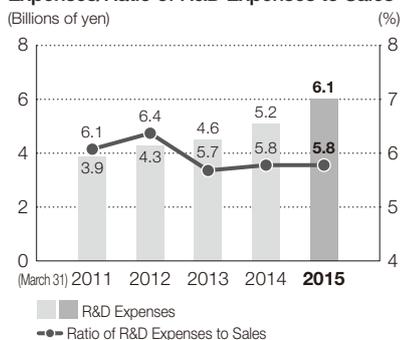
## Dividend Policy

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. We aim to maintain dividend stability and continuity based on a target dividend payout ratio of 30% after considering all relevant factors, including our financial performance in each business year, the dividend payout ratio, and other means for returning profit to shareholders.

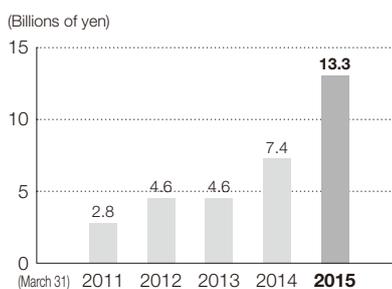
### Cash Dividends per Share/ Cash Dividend Payout Ratio



### Research and Development (R&D) Expenses/Ratio of R&D Expenses to Sales



### Capital Expenditures



In fiscal 2014, we paid an interim dividend of ¥50 per share and a final dividend of ¥55 per share, representing a dividend payout ratio of 27.5%. In fiscal 2015, we plan to pay interim and year-end dividends of ¥55 per share, which will bring the dividend payout ratio to 26.1%.

### Outlook for Fiscal 2015

In fiscal 2015, ending March 31, 2016, the Japanese economy is expected to show continued recovery. Factors accounting for this will be improvement in personal consumption, as the negative impact of the increase in the consumption tax runs its course, and the improvement in the earnings environment for corporations along with the return of stability in crude oil prices and foreign currency markets.

In the generic pharmaceuticals industry, although no new measures for promoting the use of generics will be introduced, there are movements by the government toward strengthening the function of insurers with the aim of promoting usage of generic medicines. We expect that in the next revision in the health insurance system, the government will substantially increase its measures to promote the use of generics by medical institutions. Accordingly, the share of generics in total pharmaceutical volume will continue to expand.

Amid this operating environment, in line with our medium- to long-term vision, which calls for sustained growth and “targeting annual net sales of ¥200.0 billion in the year ending March 31, 2021,” we prepared and announced our new three-year medium-term plan “M1 TRUST 2018,” which will cover the period through the fiscal year ending March 2018.

In fiscal 2015, we estimate that net sales will increase 17.6% year on year, to ¥124,000 million, operating income by 6.3%, to ¥22,000 million, and net income attributable to owners of the parent 10.3%, to ¥15,500 million.

### Business Risks

There are certain aspects of the Sawai Group’s business environment, accounting condition, and other matters that may have a material influence on the judgments of investors. These are summarized in the following paragraphs.

Please note that the following sections may contain forward-looking statements. These statements are based on the Sawai Group’s judgments as of March 31, 2015.

1. Regulatory risks arising from the Pharmaceutical and Medical Devices Law and other regulations

The Group’s activities are subject to regulation under Japan’s Pharmaceutical and Medical Devices Law, which requires the Group’s places of business to obtain permits, registrations, and licenses, as well as submit notifications to regional governments. The Group operates in full compliance with these legal regulations, but, in the event of violations of regulations, the Group’s operations may be suspended by the regulatory authorities, and permits, etc., to manufacture and sell pharmaceuticals may be cancelled. It is possible that such circumstances may have an effect on the Group’s management performance.

2. Changes in Japan’s drug price scheme and healthcare system

For the Group to sell its main products as pharmaceuticals for medical use, it is necessary for them to be listed in the NHI drug price list established by the government. Prices of many of these pharmaceuticals are reduced once every two years, following surveys of actual market prices. In addition, with the aim of restraining the expansion

in medical costs, reviews of the National Health Insurance System are also conducted. If there are major changes in the pharmaceutical pricing system and measures to restrain expenditures are implemented, it is possible that such circumstances may have an effect on the Group's management performance.

### 3. Lawsuits pertaining to intellectual property

The Group conducts thorough research regarding patents related to materials, uses, production, crystallization, usage, volume of usage, and formulation as well as rights to design, trademarks, and other intellectual property. In addition, the Group develops its products by giving full regard to laws related to the prevention of improper competition. However, even after the expiration of patents on materials and uses held by the original pharmaceutical companies, many patents, etc., related to generic pharmaceuticals sold by the Group remain with the original developer and seller, including those related to production, crystallization, usage, volume of usage and formulation. There may be instances where lawsuits are brought against the Group based on these remaining patents, etc. It is possible that such circumstances may have an effect on the Group's management performance.

### 4. Effects of competition and other factors

In the event that certain products sold by the Group suffer major declines in margins and become unprofitable due to major reductions in pharmaceutical prices, the Group works to sell its products at prices that secure appropriate profit margins to ensure that sales of its products are not suspended. However, with many companies entering the generic market, competition may become intense, and this situation may bring declines in prices. Moreover, original pharmaceutical manufacturers, even after the expiration of their patents, are implementing various measures to secure market share. Depending on the course of events, the Group may not be able to secure its planned level of sales. It is possible that such circumstances may have an effect on the Group's management performance.

### 5. Product recalls and suspension of sales

The efficacy and safety of the active ingredients in generic pharmaceuticals sold by the Group have been confirmed over a specified period in the products of the original pharmaceutical manufacturers. In addition to this record in actual use, these ingredients have been subjected to retrials and reassessments, and, basically, the risk of unknown serious side effects arising is extremely small. However, if new, unexpected side effects emerge or incidents occur where impurities are mixed with the ingredients, this may result in product recalls and the suspension of sales, and, depending on the details of these incidents, the Group may be held responsible. It is possible that such circumstances may have an effect on the Group's management performance.

### 6. Temporary suspension and delays in production due to natural disasters

The Group maintains production facilities in Fukuoka Prefecture, Hyogo Prefecture, the Osaka metropolitan area, Chiba Prefecture, and Ibaraki Prefecture. In the event of natural disasters or issues that arise because of technical or regulatory matters, production at these facilities may be suspended, and, depending on the products affected, supply may be stopped. It is possible that such circumstances may have an effect on the Group's management performance.

In addition, since the Group receives supplies of raw materials from specified business partners, the supply of such materials may be suspended due to natural disasters or other developments. In the event that it is difficult to find replacements, such circumstances may have an effect on the Group's management performance.

# Consolidated Balance Sheets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2015 and 2014

ASSETS	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
<b>Current Assets:</b>			
Cash and deposits	¥ 22,604	¥ 25,537	\$ 188,177
Trade notes and accounts receivable	32,577	28,344	271,199
Electronically recorded monetary claims	1,543	427	12,844
Allowance for doubtful receivables	(13)	(13)	(108)
	<b>56,711</b>	54,295	<b>472,112</b>
Inventories	44,663	39,182	371,825
Deferred tax assets	2,408	2,161	20,049
Other current assets	492	416	4,098
Total current assets	<b>104,274</b>	96,054	<b>868,084</b>
<b>Property, Plant and Equipment:</b>			
Land	7,631	7,620	63,528
Buildings and structures	38,950	36,379	324,259
Machinery and equipment	36,951	30,408	307,622
Lease assets	81	91	678
Construction in progress	4,000	2,497	33,297
Other	7,260	6,631	60,430
	<b>94,873</b>	83,626	<b>789,814</b>
Accumulated depreciation	(40,172)	(35,784)	(334,431)
Net property, plant and equipment	<b>54,701</b>	47,842	<b>455,383</b>
<b>Intangible Assets</b>	<b>2,117</b>	1,847	<b>17,621</b>
<b>Investments and Other Assets:</b>			
Investment securities	4,687	3,239	39,022
Long-term prepaid expenses	85	65	707
Other investments and long-term receivables	342	327	2,844
	<b>5,114</b>	3,631	<b>42,573</b>
Allowance for doubtful receivables	(26)	(26)	(214)
Net investments and other assets	<b>5,088</b>	3,605	<b>42,359</b>
<b>Total assets</b>	<b>¥166,180</b>	¥149,348	<b>\$1,383,447</b>

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

LIABILITIES and NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
<b>Current Liabilities:</b>			
Current portion of long-term debt	¥ 2,547	¥ 2,256	\$ 21,200
Current portion of lease obligations	18	18	148
Trade notes and accounts payable	17,055	16,157	141,980
Other accounts payable	15,157	12,584	126,183
Accrued bonuses to employees	1,456	1,346	12,126
Accrued bonuses to directors and corporate auditors	59	58	487
Income taxes payable	3,222	4,650	26,827
Reserve for sales returns	68	72	569
Reserve for sales rebates	1,904	1,273	15,854
Other current liabilities	723	683	6,016
Total current liabilities	42,209	39,097	351,390
<b>Long-Term Liabilities:</b>			
Long-term debt	8,630	6,374	71,848
Long-term lease obligations	27	45	225
Debt for retirement benefits	46	57	381
Deferred tax liabilities	363	178	3,024
Long-term deposits received	1,970	1,743	16,400
Other long-term liabilities	536	552	4,458
Total long-term liabilities	11,572	8,949	96,336
<b>Net Assets:</b>			
<b>Shareholders' Equity:</b>			
Common stock			
Authorized 77,600,000 shares			
Issued and outstanding 38,137,588 shares in 2015 38,125,988 shares in 2014	27,124	27,107	225,811
Capital surplus	27,597	27,505	229,742
Retained earnings	62,869	52,490	523,383
Treasury stock 1,353,839 shares in 2015 1,384,567 shares in 2014	(6,230)	(6,356)	(51,864)
Total shareholders' equity	111,360	100,746	927,072
<b>Accumulated Other Comprehensive Income</b>			
Net unrealized holding gains on securities	952	487	7,921
Total accumulated other comprehensive income	952	487	7,921
<b>Subscription Rights to Shares</b>	87	69	728
Net assets	112,399	101,302	935,721
<b>Total liabilities and equity</b>	<b>¥166,180</b>	<b>¥149,348</b>	<b>\$1,383,447</b>

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

# Consolidated Statements of Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
<b>Net Sales</b>	<b>¥105,454</b>	¥89,824	<b>\$877,909</b>
<b>Cost of Sales</b>	<b>60,048</b>	48,353	<b>499,898</b>
<b>Gross Profit</b>	<b>45,406</b>	41,471	<b>378,011</b>
<b>Selling, General and Administrative Expenses</b>	<b>24,718</b>	22,380	<b>205,781</b>
<b>Operating Income</b>	<b>20,688</b>	19,091	<b>172,230</b>
<b>Other Income (Expenses):</b>			
Dividend income	94	66	785
Gain on sales of investment securities	—	5	—
Interest expense	(143)	(109)	(1,186)
Subsidy income	149	28	1,239
Expenses for loan commitment agreements	(113)	(105)	(945)
Loss on disposal of fixed assets	(322)	(107)	(2,681)
Other, net	(55)	121	(464)
	<b>(390)</b>	(101)	<b>(3,252)</b>
<b>Income before Income Taxes and Minority Interests</b>	<b>20,298</b>	18,990	<b>168,978</b>
<b>Provision for Income Taxes:</b>			
Current	6,491	7,237	54,037
Deferred	(246)	(440)	(2,050)
<b>Income before Minority Interests</b>	<b>14,053</b>	12,193	<b>116,991</b>
<b>Minority Interests</b>	<b>—</b>	(0)	<b>—</b>
<b>Net Income</b>	<b>¥ 14,053</b>	¥12,193	<b>\$116,991</b>
<b>Per Share of Common Stock:</b>		Yen	U.S. dollars
Net income - basic	<b>¥ 382.26</b>	¥365.18	<b>\$ 3.18</b>
Net income - diluted	<b>381.85</b>	330.41	<b>3.18</b>
Dividends	<b>105.00</b>	95.00	<b>0.87</b>

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

# Consolidated Statements of Comprehensive Income

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
<b>Income before Minority Interests</b>	<b>¥14,053</b>	¥12,193	<b>\$116,991</b>
<b>Other Comprehensive Income</b>			
Net unrealized holding gains (losses) on securities	465	152	3,870
Total other comprehensive income (loss)	465	152	3,870
<b>Comprehensive Income</b>	<b>¥14,518</b>	¥12,345	<b>\$ 120,861</b>
Comprehensive income attributable to:			
Owners of the parent	14,518	12,345	120,861
Minority interests	—	(0)	—

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

# Consolidated Statements of Changes in Net Assets

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2015 and 2014

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
<b>Balance at April 1, 2013</b>	¥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)
Changes 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
<b>Balance at March 31, 2014</b>	¥27,107	¥27,505	¥52,490	(¥6,356)	¥100,746	¥487	¥487	¥69	—	¥101,302
<b>Balance at April 1, 2014</b>	¥27,107	¥27,505	¥52,490	(¥6,356)	¥100,746	¥487	¥487	¥69	—	¥101,302
Changes in items during the year										
Convertible bonds with equity purchase warrants conversion	—	—			—					—
Stock issue (exercise of stock subscription rights)	17	17			34			(10)		24
Cash dividends			(3,674)		(3,674)					(3,674)
Net income			14,053		14,053					14,053
Acquisition of treasury stock				(0)	(0)					(0)
Disposition of treasury stock		75		126	201					201
Changes in consolidated subsidiaries			—		—					—
Changes in the share of consolidated subsidiaries' stock					—				—	—
Net changes in items other than shareholders' equity					—	465	465	28	—	493
Total changes in items during the period	17	92	10,379	126	10,614	465	465	18	—	11,097
<b>Balance at March 31, 2015</b>	¥27,124	¥27,597	¥62,869	(¥6,230)	¥111,360	¥952	¥952	¥87	—	¥112,399

Thousands of U.S. dollars										
	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
<b>Balance at April 1, 2014</b>	\$225,664	\$228,982	\$436,985	(\$52,916)	\$838,715	\$4,051	\$4,051	\$575	—	\$843,341
Changes in items during the year										
Convertible bonds with equity purchase warrants conversion	—	—			—					—
Stock issue (exercise of stock subscription rights)	147	147			294			(82)		212
Cash dividends			(30,593)		(30,593)					(30,593)
Net income			116,991		116,991					116,991
Acquisition of treasury stock				(4)	(4)					(4)
Disposition of treasury stock		613		1,056	1,669					1,669
Changes in consolidated subsidiaries			—		—					—
Changes in the share of consolidated subsidiaries' stock					—				—	—
Net changes in items other than shareholders' equity					—	3,870	3,870	235	—	4,105
Total changes in items during the period	147	760	86,398	1,052	88,357	3,870	3,870	153	—	92,380
<b>Balance at March 31, 2015</b>	\$225,811	\$229,742	\$523,383	(\$51,864)	\$927,072	\$7,921	\$7,921	\$728	—	\$935,721

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

# Consolidated Statements of Cash Flows

Sawai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥20,298	¥18,990	\$168,978
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,863	4,989	48,814
Gain on sales of investment securities	—	(5)	—
Increase in reserve for sales rebates	631	550	5,255
Increase (decrease) in allowance for doubtful receivables	(0)	1	(3)
Increase in accrued bonuses to employees	110	43	914
Increase (decrease) in accrued bonuses to directors and corporate auditors	1	(24)	7
Increase (decrease) in reserve for sales returns	(4)	8	(33)
Decrease in employees' retirement benefits	—	(89)	—
Decrease in retirement allowance for directors and corporate auditors	—	(588)	—
Increase (decrease) in debt for retirement benefits	(10)	57	(91)
Interest and dividend income	(95)	(138)	(788)
Interest expense	143	109	1,186
Loss on disposal of fixed assets	322	107	2,681
Increase in trade notes and accounts receivable	(5,348)	(2,178)	(44,522)
Increase in inventories	(5,481)	(9,654)	(45,627)
Increase in trade notes and accounts payable	902	4,211	7,508
Increase in long-term prepaid expenses	(20)	(34)	(164)
Increase in other accounts payable	2,587	1,648	21,539
Other	207	1,063	1,730
Subtotal	20,106	19,066	167,384
Interest and dividends received	95	67	788
Interest paid	(137)	(132)	(1,141)
Income taxes paid	(7,952)	(5,579)	(66,197)
Net cash provided by operating activities	12,112	13,422	100,834
<b>Cash Flows from Investing Activities:</b>			
Payments for purchase of property, plant and equipment	(12,296)	(7,022)	(102,366)
Payments for purchase of intangible assets	(955)	(332)	(7,949)
Payments for purchase of investment securities	(799)	(999)	(6,654)
Proceeds from sales of investment securities	—	8	—
Proceeds from collection of long-term receivables	—	12	—
Payments for purchase of subsidiary stock	—	(16)	—
Other	(73)	66	(609)
Net cash used in investing activities	(14,123)	(8,283)	(117,578)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from long-term debt	5,000	5,500	41,625
Repayment of long-term debt	(2,453)	(2,825)	(20,421)
Proceeds from disposition of treasury stock	198	180	1,654
Proceeds from issuance of stock resulting from exercise of stock subscription rights	26	55	213
Payments for purchase of treasury stock	(0)	(3)	(4)
Cash dividends paid	(3,674)	(3,002)	(30,594)
Other	(19)	(83)	(146)
Net cash used in financing activities	(922)	(178)	(7,673)
Net increase (decrease) in cash and cash equivalents	(2,933)	4,961	(24,417)
Cash and cash equivalents at beginning of year	25,537	20,584	212,594
Changes in consolidated subsidiaries	—	(8)	—
<b>Cash and cash equivalents at end of year</b>	<b>¥22,604</b>	<b>¥25,537</b>	<b>\$188,177</b>

Note: The U.S. dollar amounts represent translations of Japanese yen amounts for convenience only and are translated at the rate of ¥120.12 to U.S. \$1.00, the rate prevailing on March 31, 2015.

# Corporate Data/Stock Information

(As of March 31, 2015)

**Company Name:** Sawai Pharmaceutical Co., Ltd.  
5-2-30, Miyahara, Yodogawa-ku,  
Osaka 532-0003, JAPAN  
TEL: +81-(0)6-6105-5711  
URL: http://www.sawai.co.jp

**Founded:** April 1, 1929

**Incorporated:** July 1, 1948

**Paid-in Capital:** ¥27,124 million

**Number of Employees:** 1,239 (consolidated)

**Branches:** Sapporo, Sendai, Kitakanto, Tokyo Daiichi, Tokyo Daini,  
Nagoya, Osaka, Hiroshima, Fukuoka

**Area Offices:** Nagano, Tokyo nishi, Yokohama, Atsugi, Chiba,  
Shizuoka, Kyoto, Kobe, Hokuriku, Takamatsu,  
Okayama, Kumamoto

**Factories:** Kashima Factory\*, Kanto Factory, Osaka Factory,  
Sanda Factory, Kyushu Factory, Daini Kyushu Factory,  
Yasato Factory of Kaken Shoyaku, Pharmaceutical  
Technology Center

\* The Kashima Factory was transferred to Sawai Pharmaceutical on April 1, 2015.

**Consolidated Subsidiaries:** Medisa Shinyaku Inc.  
Kaken Shoyaku Co., Ltd.

**Transfer Agent:** Sumitomo Mitsui Trust Bank, Limited

**Stock Listing:** 1st Section of Tokyo Stock Exchange

**Number of Shares Outstanding:** 38,137,588

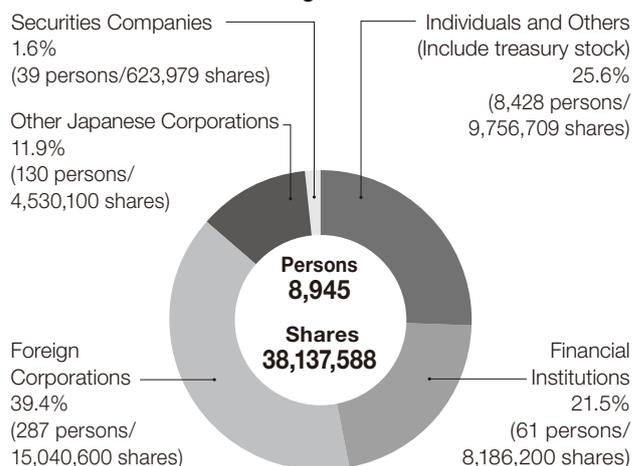
**Number of Shareholders:** 8,945

## Major Shareholders:

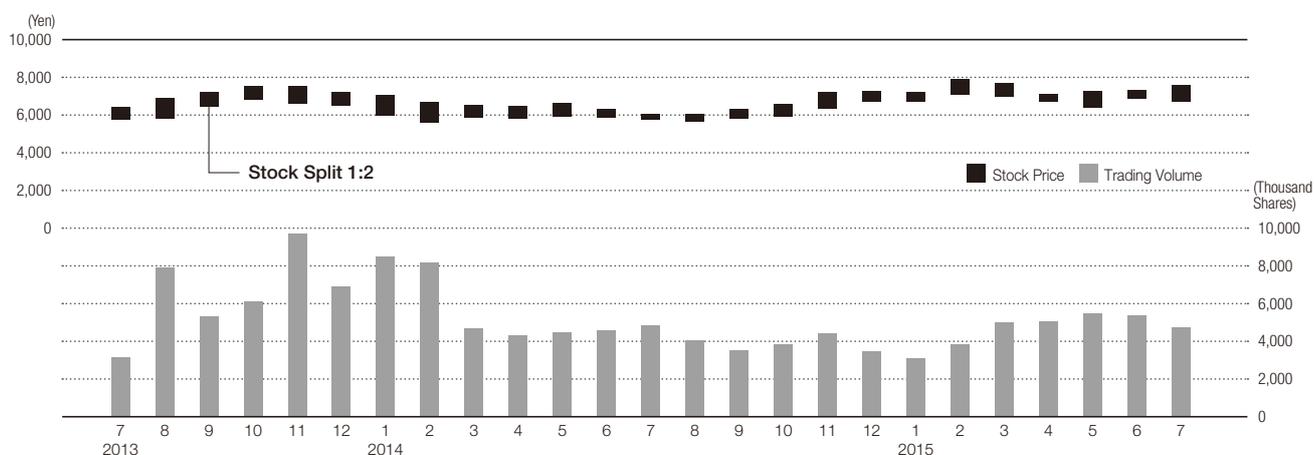
	Name of Shareholders	Number of Shares
1	The Master Trust Bank of Japan, Ltd. (Trust account)	1,740,700
2	The Bank of New York 133522	1,702,600
3	Japan Trustee Services Bank, Ltd. (Trust account)	1,339,000
4	Sawaken Co., Ltd.	994,000
5	Goldman, Sachs & Co. Reg	990,100
6	State Street Bank and Trust Company	968,617
7	Mitsuo Sawai	948,200
8	Kenzo Sawai	854,000
9	Sumitomo Mitsui Banking Corporation	650,000
10	Sumitomo Corporation	633,200

\* The Company owns 1,299,539 shares of treasury stock which is excluded from the major shareholders listed above.

## Distribution of Shareholdings:



## Trends in Stock Price (High/Low) and Trading Volume:



\* This computation was made with the assumption that stock prices and trading volumes before stock splits occurred after stock splits.  
(Stock prices and trading volume have been adjusted for stock splits.)

# Corporate History

- 1929:** Hanpei Sawai and Noyo Sawai established Sawai Pharmacy in Asahi-ku, Osaka.
- 1948:** Sawai Pharmaceutical Co., Ltd. incorporated in Asahi-ku, Osaka.
- 1955:** Tokyo Branch Office (now Tokyo Daiichi Branch) opened.
- 1962:** Sapporo Sales Office (now Sapporo Branch), Tohoku Sales Office (now Sendai Branch), Nagoya Sales Office (now Nagoya Branch), and Fukuoka Sales Office (now Fukuoka Branch) opened.
- 1965:** Operations shifted from OTC drugs maker to ethical pharmaceutical maker.
- 1968:** Second Osaka Factory (now Osaka Factory) completed.
- 1974:** Former company head office building completed and head office relocated.
- 1979:** Company name changed to Sawai Pharmaceutical. Hiroshima Sales Office (now Hiroshima Branch) opened.
- 1981:** Kyushu Factory completed in Fukuoka Prefecture.
- 1983:** Second stage of construction of Kyushu Factory completed.
- 1984:** Osaka Laboratory opened to expand and improve research facilities.
- 1985:** Medisa Shinyaku Inc. incorporated. Third stage of construction of Kyushu Factory completed.
- 1987:** Medisa Shinyaku Inc. Kyushu Factory (now Daini Kyushu Factory) completed in Fukuoka Prefecture.
- 1989:** Fourth stage of construction of Kyushu Factory completed.
- 1990:** Research & Development Center established to enhance research and development functions. Osaka Branch opened.
- 1991:** Medisa Shinyaku Inc. set up as a wholly owned subsidiary.
- 1992:** Second stage of construction of Medisa Shinyaku Inc. Kyushu Factory (now Daini Kyushu Factory) completed. Sanda Factory completed in Hyogo Prefecture.
- 1994:** Former Pharmaceutical Research Center opened to improve pharmaceutical research.
- 1995:** Listed on the OTC stock market.
- 1996:** Third stage of construction of Medisa Shinyaku Inc. Kyushu Factory (now Daini Kyushu Factory) completed.
- 1997:** Newspaper advertising started. Fourth and fifth stages of construction of Medisa Shinyaku Inc. Kyushu Factory (now Daini Kyushu Factory) completed.
- 2000:** Production facilities for injections expanded in Kyushu Factory.  
Listed on the Second Section of the Tokyo Stock Exchange.
- 2002:** Fifth stage of construction of Kyushu Factory completed.
- 2003:** Listed on the First Section of the Tokyo Stock Exchange.
- 2004:** Nationwide TV advertising started.
- 2005:** Second stage of construction of Sanda Factory completed. Kanto Factory transferred from Nihon Schering K.K. (now Bayer Yakuhin. Ltd)
- 2006:** Head office and Research laboratories combined, and new premises completed. Relocated to current premises. Became majority shareholder in Kaken Shoyaku Co., Ltd. and made the company into a subsidiary.
- 2007:** New building for syringe production established in Kanto Factory. Corporate Philosophy and Code of Conduct established.
- 2008:** Sixth stage of construction of Medisa Shinyaku Inc. Kyushu Factory (now Daini Kyushu Factory) completed. Hiroyuki Sawai appointed to Chairman and Mitsuo Sawai appointed to President.
- 2009:** Third stage of construction of Sanda Factory completed. Saitama Branch opened. Research Center (now Pharmaceutical Technology Center) opened.
- 2012:** Medisa Shinyaku Inc. Kyushu Factory was newly established as Sawai Pharmaceutical Daini Kyushu Factory by absorbing the production business of Medisa Shinyaku Inc. through a spin-off.
- 2013:** First stage of construction of Kanto Factory completed (Scrap & Build). Tokyo Daiichi Branch, Tokyo Daini Branch and Kitakanto Branch reorganized through split and restructuring of Tokyo Branch, Saitama Branch and Joshinetsu Sales Office. Introduction of Executive Officer system. Revised "Health Diary" section of the Company website and opened the health information site "Sawai Health Promotion Section."
- 2014:** Sawai antiplatelet "CILOSTAZOL OD Tablets 'Sawai'" received the Asahi Chemical Formulation Development Award from the Pharmaceutical Society of Japan (Incorporated Foundation). Atsugi Sales Office opened (Business Base of 9 Branches and 12 Sales Offices).
- 2015:** Kashima Factory absorbed through a spin-off process from Mitsubishi Tanabe Pharma Factory Ltd.

# Main Networks

Sawai Pharmaceutical's principal networks are between the Head Office and Research Laboratories, the Pharmaceutical Development Center (scheduled to begin operation in October 2015), 6 factories, and 9 branches/12 sales offices. Especially as regards marketing, Sawai has structured a nationwide distribution and sales network, centered around branches and sales offices, including tie-ups with wholesalers and marketing agencies. Therefore, when necessary, with this network system, Sawai can deliver its products smoothly anywhere they are needed.



# Sawai Pharmaceutical Co., Ltd.

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