Always Putting Patients First

sawai

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Sawai Pharmaceutical Co., Ltd.

Integrated Report Financial Section 2020

For the Year Ended March 31, 2020

Eleven-Year Summary (Years Ended March 31)

IFRS	Millions of yen 2020	2019	2018	2017	Japanese-GAAP
Sales revenues	**¥182,537**	¥184,341	¥ 168,068	¥ 132,392	Net sales
Cost of sales	**109,037**	109,442	98,628	80,548	Cost of sales
Gross profit	**73,500**	74,899	69,440	51,844	Gross profit
Selling, general and administrative expenses (including research and development (R&D) expenses)	**46,862**	49,051	47,264	28,497	Selling, general and administrative expenses
Operating income	**26,793**	25,798	22,209	22,943	Operating income
Profit before tax	**26,497**	25,666	20,251	22,757	Profit before income taxes
Profit attributable to owners of the parent	**19,279**	19,376	14,017	17,969	Profit attributable to owners of parent
Total assets	**384,814**	372,889	358,453	225,609	Total assets
Inventories	**75,460**	63,449	65,217	61,924	Inventories
Total current liabilities	**80,124**	70,350	72,275	55,490	Total current liabilities
Total non-current liabilities	**71,004**	79,334	83,737	28,882	Total long-term liabilities
Total equity	**233,686**	223,204	202,441	141,237	Net assets
Cash flows from operating activities	**30,256**	42,923	28,472	23,270	Net cash provided by operating activities
Cash flows used in investing activities	**(18,173)**	(16,820)	(127,900)	(18,827)	Net cash used in investing activities
Cash flows from (used in) financing activities	**(12,747)**	(9,513)	108,597	(6,761)	Net cash provided by (used in) financing activities
Cash and cash equivalents at the end of the year	**56,082**	57,067	39,992	30,771	Cash and cash equivalents at end of year
R&D expenses	**13,487**	16,671	14,533	7,238	Research and development (R&D) expenses
Capital expenditures	**18,173**	10,709	16,807	18,839	Capital expenditures
Depreciation and amortization	**17,954**	16,280	14,239	8,520	Depreciation and amortization
	%				
Ratio of R&D expenses to sales revenues	**7.4**	9.0	8.6	5.5	Ratio of R&D expenses to sales
Return on equity	**9.4**	10.2	8.7	13.4	Return on equity
Ratio of equity attributable to owners of the parent to total assets	**54.6**	53.4	50.6	62.6	Shareholders'equity to total assets
	Yen				
Amounts per share					Amounts per common share:
Basic earnings per share	**¥ 440.37**	¥ 442.62	¥ 360.49	¥ 487.38	Net income–basic
Diluted earnings per share	**440.00**	442.32	360.26	487.08	Net income–diluted
Dividends per share	**130.00**	135.00	130.00	130.00	Cash dividends applicable to period
Equity attributable to owners of the parent per share	**4,796.40**	4,551.50	4,143.15	3,830.84	Net assets

Notes: 1. Capital expenditures are presented on a cash flow basis.
2. 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.
3. The Company has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2018. In applying IFRS,"Core Operating Income" has been introduced as an ordinary profitability index.
4. Dividend per share in 2019 included our 90th anniversary commemorative dividend of 5 yen.

Millions of yen							
2017	2016	2015	2014	2013	2012	2011	2010
¥132,428	¥123,492	¥105,454	¥ 89,824	¥ 80,503	¥ 67,603	¥ 63,853	¥ 50,070
80,309	71,858	60,048	48,353	42,511	34,411	33,736	26,275
52,119	51,634	45,406	41,471	37,992	33,192	30,117	23,795
31,486	28,449	24,718	22,380	20,607	18,188	16,531	15,276
20,633	23,185	20,688	19,091	17,385	15,004	13,586	8,519
19,871	23,092	20,298	18,990	18,098	14,928	12,289	8,372
15,914	17,156	14,053	12,193	12,022	9,026	7,183	4,982
221,539	206,492	166,180	149,348	127,843	123,400	117,056	81,236
61,777	55,668	44,663	39,182	29,529	25,780	21,218	18,081
54,876	50,078	42,209	39,097	30,105	26,932	25,811	25,441
29,063	30,692	11,572	8,949	36,258	37,893	40,382	9,537
137,600	125,722	112,399	101,302	61,480	58,575	50,863	46,258
20,628	19,975	12,112	13,422	12,256	7,814	5,937	7,907
(16,206)	(22,937)	(14,123)	(8,283)	(1,373)	(2,371)	(20,362)	(5,329)
(6,740)	13,473	(922)	(178)	(10,970)	(4,578)	24,756	348
30,771	33,096	22,604	25,537	20,584	20,671	19,805	9,474
10,208	8,019	6,110	5,170	4,551	4,317	3,902	3,593
16,194	17,775	13,251	7,353	4,599	4,599	2,805	5,370
8,645	7,044	5,863	4,989	3,793	3,389	3,066	3,025

%							
7.7	6.5	5.8	5.8	5.7	6.4	6.1	7.2
12.1	14.4	13.2	15.0	20.1	16.5	15.1	11.8
62.0	60.8	67.6	67.8	48.0	47.4	43.4	54.5

Yen							
¥ 431.65	¥ 465.57	¥ 382.26	¥ 365.18	¥ 386.71	¥ 285.25	¥ 228.04	¥ 158.66
431.39	465.25	381.85	330.41	318.17	235.07	203.67	158.43
130.00	120.00	105.00	95.00	85.00	70.00	55.00	35.00
3,722.90	3,405.20	3,053.29	2,755.29	2,027.15	1,846.84	1,605.16	1,408.83

Consolidated Statements of Income

	Note	Yen in millions (except per share data)	
		Year ended March 31,	
	Note	2019	2020
Revenue	**5**	**184,341**	**182,537**
Cost of sales	6	(109,442)	(109,037)
Gross profit		**74,899**	**73,500**
Selling, general and administrative expenses	6	(32,380)	(33,375)
Research and development expenses	6	(16,671)	(13,487)
Other income		269	238
Other expenses		(319)	(83)
Operating profit		**25,798**	**26,793**
Finance income	7	421	295
Finance expenses	7	(553)	(591)
Profit before tax		**25,666**	**26,497**
Income tax expense	8	(5,939)	(6,720)
Profit for the year		**19,727**	**19,777**
Profit attributable to:			
Owners of the Company		19,376	19,279
Non-controlling interests		351	498
Total		19,727	19,777
Earnings per share (yen)			
Basic earnings per share	9	442.62	440.37
Diluted earnings per share	9	442.32	440.00

Consolidated Statements of Comprehensive Income

		Yen (in millions)	
		Year ended March 31,	
	Note	2019	2020
Profit for the year		19,727	19,777
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Changes in fair value of financial assets measured at fair value through other comprehensive income	10	(26)	(728)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	10	4,900	(2,438)
Other comprehensive income (loss) for the year, net of tax	10	4,874	(3,166)
Total comprehensive income for the year		**24,601**	**16,611**
Total comprehensive income attributable to:			
Owners of the Company		23,302	16,583
Non-controlling interests		1,299	28
Total		24,601	16,611

Consolidated Statements of Financial Position

		Yen (in millions) March 31,	
	Note	**2019**	**2020**
Assets			
Current assets			
Cash and cash equivalents		57,067	56,082
Trade and other receivables	23	63,676	58,685
Inventories	11	63,449	75,460
Other financial assets	12	-	141
Other current assets		716	996
Total current assets		**184,907**	**191,364**
Non-current assets			
Property, plant and equipment	13	81,233	81,013
Goodwill	14	39,403	38,636
Intangible assets	14	55,134	61,669
Other financial assets	12	6,939	5,914
Other non-current assets		631	705
Deferred tax assets	8	4,641	5,513
Total non-current assets		**187,981**	**193,450**
Total assets		**372,889**	**384,814**

	Note	Yen (in millions) March 31, 2019	2020
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	15	43,434	44,038
Bonds and borrowings	16	4,802	14,456
Income tax payables		4,841	4,318
Refund liabilities	23	8,071	7,989
Other financial liabilities	17, 18	530	2,412
Other current liabilities	19	8,672	6,911
Total current liabilities		**70,350**	**80,124**
Non-current liabilities			
Bonds and borrowings	16	75,004	60,567
Other financial liabilities	17, 18	2,523	8,391
Other non-current liabilities		1,742	1,985
Deferred tax liabilities	8	64	61
Total non-current liabilities		**79,334**	**71,004**
Total liabilities		**149,684**	**151,128**
Equity			
Share capital	21	41,184	41,199
Capital surplus	21	42,849	42,863
Retained earnings		113,342	126,719
Treasury shares	21	(1,385)	(1,385)
Other component of equity	21	3,259	604
Equity attributable to owners of the Company		199,250	210,000
Non-controlling interests		**23,954**	**23,686**
Total equity		**223,204**	**233,686**
Total liabilities and equity		**372,889**	**384,814**

Consolidated Statements of Changes in Equity

	Note	Yen (in millions)							
		Equity attributable to owners of the Company						Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other component of equity	Total		
Balance at April 1, 2018		41,170	42,574	99,657	(1,385)	(666)	181,350	21,091	202,441
Profit for the year				19,376			19,376	351	19,727
Other comprehensive income	10					3,926	3,926	947	4,874
Total comprehensive income		**-**	**-**	**19,376**	**-**	**3,926**	**23,302**	**1,299**	**24,601**
Issuance of new shares	21	15	15			(30)	0	1,098	1,098
Acquisition of treasury shares	21				(0)		(0)		(0)
Dividends	22			(5,691)			(5,691)		(5,691)
Share-based payments						29	29		29
Other			261				261	465	726
Total transactions with owners		**15**	**276**	**(5,691)**	**(0)**	**(1)**	**(5,401)**	**1,564**	**(3,837)**
Balance at March 31, 2019		**41,184**	**42,849**	**113,342**	**(1,385)**	**3,259**	**199,250**	**23,954**	**223,204**

	Note	Yen (in millions)							
		Equity attributable to owners of the Company						Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other component of equity	Total		
Balance at April 1, 2019, as previously reported		41,184	42,849	113,342	(1,385)	3,259	199,250	23,954	223,204
Adjustment on initial application of IFRS16, net of tax				8			8		8
Adjusted balances at April 1, 2019		41,184	42,849	113,350	(1,385)	3,259	199,257	23,954	223,211
Profit for the year				19,279			19,279	498	19,777
Other comprehensive income	10					(2,696)	(2,696)	(470)	(3,166)
Total comprehensive income		**-**	**-**	**19,279**	**-**	**(2,696)**	**16,583**	**28**	**16,611**
Issuance of new shares	21	15	14			(29)	0		0
Acquisition of treasury shares	21				(0)		(0)		(0)
Dividends	22			(5,910)			(5,910)	(296)	(6,206)
Share-based payments						70	70		70
Total transactions with owners		**15**	**14**	**(5,910)**	**(0)**	**41**	**(5,840)**	**(296)**	**(6,136)**
Balance at March 31, 2020		**41,199**	**42,863**	**126,719**	**(1,385)**	**604**	**210,000**	**23,686**	**233,686**

Consolidated Statements of Cash Flows

		Yen (in millions)	
		Year ended March 31,	
	Note	2019	2020
Cash flows from operating activities			
Profit before tax		25,666	26,497
Depreciation and amortization		16,280	17,954
Impairment loss		3,339	1,467
Financial income		(322)	(295)
Financial expenses		450	582
Loss on sale and disposal of property, plant and equipment and intangible assets		2,173	218
Decrease (increase) in trade and other receivables		(6,839)	4,664
Decrease (increase) in inventories		2,176	(12,208)
Increase (decrease) in trade and other payables		4,513	239
Increase (decrease) in refund liabilities		1,193	26
Increase (decrease) in other financial liabilities		(214)	115
Other		2,803	(975)
Subtotal		51,217	38,284
Interest received		186	173
Dividends received		126	138
Interest paid		(445)	(487)
Income taxes paid		(8,161)	(7,852)
Cash flows generated from operating activities		**42,923**	**30,256**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(7,500)	(5,501)
Acquisition of intangible assets		(3,208)	(12,672)
Acquisition of business, net of cash and cash equivalents	26	(5,546)	-
Other		(566)	(0)
Cash flows used in investing activities		**(16,820)**	**(18,173)**
Cash flows from financing activities			
Repayment of long-term borrowings	16	(4,718)	(4,802)
Payment of lease liabilities (2019: payment of finance lease liabilities)		(276)	(1,715)
Proceeds from partial sales of shares of a subsidiary		74	-
Dividends paid	22	(5,691)	(5,910)
Dividends paid to non-controlling interests		-	(296)
Other		1,098	(24)
Cash flows generated from (used in) financing activities		**(9,513)**	**(12,747)**
Effect of exchange rate on cash and cash equivalents		484	(321)
Net increase (decrease) in cash and cash equivalents		**17,074**	**(985)**
Cash and cash equivalents at the beginning of the year		39,992	57,067
Cash and cash equivalents at the end of the year		**57,067**	**56,082**

SAWAI PHARMACEUTICAL CO., LTD. and SUBSIDIARIES

Notes to the Consolidated Financial Statements

1. Reporting Entity

Sawai Pharmaceutical Co., Ltd. (the "Company") is a public company incorporated and domiciled in Japan. The Company and its consolidated subsidiaries (collectively, "Sawai") are engaged in research, development, manufacturing, and marketing of generic pharmaceutical products in Japan and the United States of America.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

Sawai's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). The term IFRS also includes International Accounting Standards ("IAS") and the related interpretations of the interpretations committees (SIC and IFRIC).

(2) Authorized for issue of Financial Statements

The consolidated financial statements as of and for the year ended March 31, 2020 were authorized by Representative Director, President & Chief Executive Officer, Kenzo Sawai, and Director, Senior Executive Officer, Vice President of Corporate Administration & Chief Financial Officer, Kazuhiko Sueyoshi, on June 23, 2020.

(3) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain assets and liabilities recorded at fair value separately stated in Note 3.

(4) Functional and Presentation Currency

The consolidated financial statements are presented in Japanese yen ("Yen" or "JPY"), which is the Company's functional currency. All amounts have been rounded to the nearest million Yen, unless otherwise indicated.

(5) Significant Accounting Estimates, Judgements and Assumptions

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amount of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on a continuous basis. Changes in accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgments and estimates that have been made in the process of applying accounting policies and information about accounting estimates and assumptions that have significant effects on the amounts reported in the consolidated financial statements, are as follows:

- Variable considerations in revenue recognition: (Note 3(5))
- Impairment of intangible assets and goodwill: (Note 14)

Sawai assessed the impact of the novel coronavirus ("COVID-19") pandemic on its current and future business operations and operational performance. Sawai deemed that its supply chain (including the ability to procure essential raw materials), manufacturing capabilities, sales and marketing activities, and other essential business functions have not been significantly disrupted by the COVID-19 pandemic. Sawai also considered the possible effects that may result from the COVID-19 pandemic on the carrying amounts of financial assets, tangible and intangible assets, and goodwill. In estimating the future cash flows associated with these assets, Sawai utilized internal and external sources of information including credit reports, economic forecasts, and other relevant information available to Sawai as of the date the consolidated financial statements were authorized by management. Cash flow estimates were subjected to sensitivity analyses commensurate with the heightened level of uncertainty resulting from the COVID-19 pandemic. Based on current estimates, Sawai expects the carrying amount of these assets is recoverable. However, the actual impact of COVID-19 on Sawai's consolidated financial statements may differ from the estimate should there be material unforeseen impacts to actual cash flows.

(6) New Accounting Standards and Interpretations not yet Adopted

There are no new or amended accounting standards and interpretations that have been issued as of the authorized date of the consolidated financial statements that are expected to have a significant impact on Sawai's consolidated financial statements.

(7) New Accounting Standards and Interpretation Adopted

During the year ended March 31, 2020, Sawai has adopted the following new accounting standards:

[1] IFRS 16 *Lease* ("IFRS 16")

Sawai adopted the provisions of IFRS 16 as of April 1, 2019 and updated its accounting policies for lease transactions as described in Note 12. Under the new standard, lease transactions are, in general, required to be recognized on the statements of financial position at the lease commencement date. As a lessee, Sawai recognizes right-of-use ("ROU") assets representing its right to use the underlying leased assets and recognizes lease liabilities representing its obligation to make future lease payments.

Depreciation expense on ROU assets are recognized as a component of operating income and interest expense on lease liabilities is recorded under other financial expenses. Lease payments are presented within cash outflow from financing activities to the extent those payments are allocated to repayment of the lease liability. The provisions of IFRS 16 apply to leases that had previously been classified as operating leases under IAS 17 *Leases* ("IAS 17"). Sawai has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of April 1, 2019. The details of the changes in accounting policies and the impact of adopting IFRS 16 to the consolidated financial statements are presented below.

Definition of Lease

Prior to the adoption of IFRS 16, Sawai determined at contract inception whether an arrangement is, or contains, a lease based on IFRIC 4 *Determining whether an Arrangement contains a Lease*. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, Sawai elected to apply the practical expedient to grandfather the assessment of which transaction are leases. Sawai applied the definition of a lease under IFRS 16 to contracts entered into, or changed, on or after April 1, 2019.

As a Lessee

For the leases previously classified as operating leases under IAS 17, Sawai recognized and measured lease liabilities at the present value of the remaining lease payments and ROU assets at either its carrying amount as if IFRS 16 had been applied since the commencement date or an amount equal to the lease liabilities on a lease-by-lease basis. In addition, Sawai used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize ROU assets and liabilities to leases for which the lease term ends within 12 months from April 1, 2019.
- Excluded initial direct costs when measuring ROU assets at the date of initial application.

Impact of Adoption

Upon the adoption of IFRS 16, Sawai additionally recognized JPY 4,788 million of ROU assets (included in property, plant and equipment) and JPY 5,454 million of lease liabilities (included in other financial liabilities), with the difference recorded as an adjustment to retained earnings at April 1, 2019. In the consolidated statements of cash flows, cash outflow of JPY 1,406 million for the year ended March 31, 2020 was presented as an outflow from financing activities, which was previously presented as an outflow from operating activities. Interest expense was not material to Sawai's consolidated statements of income for the year ended March 31, 2020.

When measuring lease liabilities, Sawai discounted lease payments using its incremental borrowing rate of 1.62% as of April 1, 2019. The following table represents the difference between the operating lease commitments under IAS 17 as of March 31, 2019 and lease liabilities recognized in the consolidated statements of financial position at April 1, 2019:

	Yen (in millions)
Undiscounted operating lease commitments under IAS 17 as of March 31, 2019	358
Effect of discounting	(15)
Finance lease liabilities recognized at April 1, 2019	577
Extension and termination options reasonably certain to be exercised	5,112
Lease liabilities recognized at April 1, 2019	**6,032**

[2] IFRS 3 *Business Combinations* Amendments

The IASB issued an amendment to IFRS 3 *Business Combinations* that revised the definition of a business, which assists entities with the evaluation of when an asset or group of assets acquired should be considered a business. Sawai early adopted this amended standard in April 1, 2019. The amended standard allows an entity to apply an optional concentration test, on a transaction-by-transaction basis, to evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If this optional concentration test is met, the entity may choose to consider the transaction an acquisition of an asset or set of assets. The adoption of the amendment to IFRS 3 did not have a significant impact on the consolidated financial statements.

[3] IFRIC 23 *Uncertainty over Income Tax Treatment*

Sawai applied IFRIC 23 at April 1, 2019. The interpretation clarifies the accounting for income tax treatments considering whether it is probable that a tax authority will accept the treatment in tax return. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the consolidated financial statements. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter. The adoption of IFRIC 23 did not have a significant impact on the consolidated financial statements.

3. Significant Accounting Policies

The accounting policies set forth below have been continuously applied for the entire period presented in the consolidated financial statements, unless otherwise stated.

(1) Basis of Consolidation

The consolidated financial statements include the Company and its subsidiaries over which the Company directly or indirectly controls (generally, as a result of owning more than 50% of the entity's voting interest). The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is obtained until the date when control is lost. Those subsidiaries' financial statements have been adjusted to comply with the Company's accounting policies as necessary.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration transferred or received, is recognized directly in equity attributable to owners of the Company. When control over a subsidiary is lost, the investment retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss on such remeasurement and disposal of the interest sold is recognized in profit or loss.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated when the Company prepares the consolidated financial statements.

Sawai does not have any investments that are accounted for using the equity method at March 31, 2019 and 2020.

(2) Business Combination

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values as of the acquisition date. Goodwill is measured as the excess of the sum of the fair value of consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, less the fair value of identifiable assets acquired, net of liabilities assumed at the acquisition date.

The consideration transferred for an acquisition of a subsidiary is measured as the fair value of the assets transferred and the liabilities incurred to former owners of the acquiree. The consideration for acquisitions may include amounts contingent upon future events, such as the achievement of development milestones and sales targets.

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value as of the acquisition date. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate discount rates. An obligation to pay contingent consideration that meets the definition of a financial instrument classified as liability is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in financial income or expenses in the consolidated statements of income. If contingent consideration is classified as equity, then it is not remeasured and its settlement is accounted for within equity.

Acquisition related costs are recognized as expenses in the period they are incurred. Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over a subsidiary are treated as equity transactions and therefore, do not result in adjustments to goodwill.

(3) Foreign Currency

[1] Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or rates that approximate the exchange rates at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the end of each reporting period. Non-monetary assets and liabilities measured based on historical cost that are denominated in foreign currencies are translated at the exchange rate at the date of the initial transaction.

Gains or losses on exchange differences arising from the settlement of foreign currency denominated monetary assets and liabilities, or from their translations to functional currency at the end of the reporting date, are recognized in Finance income or Finance expenses in the consolidated statements of income.

[2] Foreign Operations

Assets and liabilities of foreign subsidiaries, which use a functional currency other than Yen, are translated into Yen using the exchange rate at the end of the reporting period. Revenue and expenses of foreign operations are translated into Yen using the exchange rate at the transaction date or the rate that approximates the exchange rate at the transaction date (e.g., average exchange rate for the period).

Exchange differences arising from the translation are recognized in other comprehensive income and accumulated in other components of equity in the consolidated statements of financial position. In the event a foreign operation is disposed, the cumulative amount of exchange differences related to the foreign operation is reclassified from equity to profit or loss in the disposal period.

(4) Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. When Sawai becomes a party to the contractual provision of a financial instrument, the financial instrument is recognized either as a financial asset or as a financial liability. Sawai does not have any derivative assets or liabilities.

[1] Financial Assets

(i) Initial recognition and measurement

Sawai initially recognizes all financial assets as of the trade date when Sawai becomes a party to the contract. In principle, financial assets are initially measured at fair value plus the transaction costs directly attributable to the financial assets. Trade receivables, however, are initially measured at the transaction price (provided that there are no significant financing components thereto).

Financial assets are classified as financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income ("FVTOCI") at initial recognition. The classification, depending on whether financial assets are debt instruments or equity instruments, is made as follows:

(a) Financial assets which are debt instruments

If both of the following conditions are met, they are classified as financial assets measured at the amortized cost:

- Assets are held within the business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of financial assets give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding.

All debt instruments held by Sawai are classified as financial assets measured at amortized cost as both conditions above are met.

(b) Financial assets which are equity instruments

For financial assets which are equity instruments, Sawai made an irrevocable election at initial recognition to present subsequent changes in fair value in OCI (designation as at FVTOCI).

Sawai does not hold financial assets for trading purpose under its policy. In addition, Sawai does not hold any financial assets measured at fair value through profit or loss as of March 31, 2019 and 2020.

(ii) Subsequent measurement

(a) Financial assets measured at amortized cost

These assets are measured at amortized cost using the effective interest method. Amortization under the effective interest method, impairment loss and any gain or loss in case of derecognition are recognized in profit or loss.

(b) Financial assets measured at fair value

For equity instruments, changes in the amount of fair value are recognized in other comprehensive income and cumulative gains or losses are transferred to retained earnings when those assets are derecognized.

(iii) Impairment loss

Sawai recognizes allowance for expected credit losses (“ECLs”) on (a) trade receivables and contract assets, and (b) debt instruments other than trade receivables and contract assets.

(a) Trade receivable and contract assets
Sawai measures loss allowance for trade receivables and contract assets at an amount equal to lifetime ECLs.

(b) Debt instruments other than trade receivables and contract assets
Loss allowance for debt instruments other than trade receivables and contract assets are generally measured at an amount equal to 12 months ECLs, except when it is determined that the credit risk has significantly increased from initial recognition. In that case, the loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, Sawai considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses based on Sawai’s historical experience and continuous credit assessment that includes forward-looking information.

Sawai assumes that the credit risk on a financial asset has increased significantly if it is more than one day past due without reasonable explanation as past due financial assets have historically resulted in increase in default rates.

In addition, Sawai considers financial assets to be in default when there is an evidence indicating that a debtor is delinquent with the following observable data;

- significant financial difficulty of the debtor;
- a breach of contract; or
- it is probable that the debtor will enter bankruptcy or other means of financial reorganization.

Sawai considers the defaulted financial asset as credit-impaired.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls such as the difference between the contractual cash flows due to Sawai and the cash flows that Sawai expects to receive.

ECLs are discounted using the effective interest rate of the financial asset.

(iv) Derecognition

Sawai derecognizes a financial asset when the contractual right to receive cash flows from the financial asset expires, or the contractual right to receive cash flows from the financial asset is transferred and substantially all the risks and rewards related to ownership of the financial asset are transferred to another party.

[2] Financial Liabilities

(i) Measurement

Sawai initially recognizes all financial liabilities when Sawai becomes a party to the contract. While financial liabilities are initially measured at fair value, for financial liabilities measured at amortized cost, transaction costs directly attributable to the financial liability are deducted from the initial carrying amount.

After the initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Amortization under the effective interest method and any gain or loss in case of derecognition are recognized in profit or loss as financial income or expenses.

(ii) Derecognition

Sawai derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

[3] Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Sawai currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(5) Revenue

Sawai solely earns revenue from sale of generic pharmaceutical products, primarily generic medicines, to distributors, wholesalers and retailers in Japan and the United States. Revenue on sales of products is recognized when control of the products is passed to the customer in an amount that reflects the consideration to which Sawai expects to be entitled in exchange for those products. Control is generally transferred at the point in time of acceptance of the products by customer. The amount of revenue to be recognized is based on the consideration Sawai expects to receive in exchange for the goods.

The consideration Sawai receives in exchange for the goods may be fixed or variable. Variable consideration is only recognized when it is highly probable that a significant reversal will not occur. The most common elements of variable consideration are listed below:

[1] Rebates and Chargebacks

Rebates are incentive programs payable upon the achievement of certain pre-determined sales volumes, which are granted to customers. Chargebacks are programs payable to certain wholesalers to compensate the difference between the invoice price paid by wholesalers to Sawai for a particular product and the price agreed to between Sawai and the wholesalers' customers for that product.

Rebates and chargebacks are estimated and recorded as a deduction from revenue at the time the related revenues are recorded. They are calculated on the basis of historical experience, regulations, and the specific terms in the individual agreements. Rebates and chargebacks are presented in the statements of financial position as refund liability, while certain chargebacks with rights of offset are presented by deducting from trade receivables.

[2] Sales Return

Sawai customarily accepts returns for expired or defective products. Sales return provisions are estimated based on historical rate of return, taking into consideration other factors such as time lag between the sales and return and estimated levels of inventory in the distribution channel.

Sales returns are recorded as revenue deductions and refund liability is recognized in the consolidated statements of financial position for the expected future returns. Returned products are disposed of and no returned assets are recorded.

(6) Research and Development Expenses

Expenditure on research activities is recognized in profit or loss as incurred. Expenditure on development activities is capitalized only if the expenditure can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and Sawai intends to and has sufficient resources to complete the development project and to use or sell the related asset.

(7) Income Taxes

Income taxes, comprised of current and deferred taxes, are recognized in profit for the year, except for the items resulting from business combination and items directly recognized in equity or other comprehensive income.

Current tax is calculated at the amount expected to be paid or recovered from the taxation authority by applying the tax rate enacted or substantively enacted at the reporting date. Sawai`s current taxes also include liabilities related to uncertain tax positions.

Deferred tax assets and liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at the end of the reporting period. However, deferred tax assets and liabilities are not recognized in the following cases:

- Taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences on the initial recognition of assets or liabilities in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (loss); and
- Temporary differences related to investments in subsidiaries to the extent that Sawai is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax loss, and unused tax credits can be utilized. Deferred tax assets are reviewed at the end of each period and reduced for the portion where it is not probable to gain the taxable income sufficient to realize the benefit of part or all of deferred tax assets.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and liabilities are related to income taxes levied by the same taxation authority on the same taxable entity.

(8) Earnings Per Share

Basic earnings per share is calculated by dividing profit for the period attributable to owners of ordinary shares of the Company by the weighted average number of ordinary shares outstanding for the reporting period, adjusted by the number of treasury shares. Diluted earnings per share is calculated by adjusting the dilutive effect of potential ordinary shares.

(9) Cash and Cash equivalents

Cash and cash equivalents are cash on hand, demand deposits and short-term, highly liquid investments with maturities of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. As of March 31, 2019 and 2020, Sawai had only cash on hand and bank deposits as cash and cash equivalents.

(10) Inventories

Inventories are mainly comprised of finished goods, work-in-progress, and raw materials and supplies. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined mainly using the weighted average cost method. The cost of inventories includes purchase cost, processing cost, and any other related manufacturing costs. Net realizable value is calculated based on the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

(11) Property, Plant and Equipment

Property, plant and equipment are measured using the cost model and is stated at cost less accumulated depreciation and accumulated impairment loss. Acquisition cost includes those costs that are directly attributable to the acquisition and the initial estimated dismantlement, removals and restoration costs associated with the asset. Except for assets that are not subject to depreciation, such as land and construction in progress, assets are depreciated using the straight-line method over the estimated useful life of the asset. ROU assets are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life unless it is reasonably certain that Sawai will obtain ownership by the end of the lease term. These assets depreciation begins when they are available for use.

The estimated useful life by type of major assets is as follows:

- Building and structures: 2 to 50 years
- Machinery and equipment: 2 to 20 years
- Tools, furniture and fixtures: 2 to 20 years

Depreciation method, residual value and useful life are reviewed at least at the end of each reporting period and revised as necessary.

(12) Leases

Sawai has applied IFRS 16 using the modified retrospective approach from April 1, 2019 and therefore the comparative information has not been restated and the previous years continue to be reported under IAS 17 and IFRIC 4. The detail of transition to IFRS 16 is disclosed in Note 2.

Policy applied to contracts entered into, on or after April 1, 2019

Sawai recognizes ROU assets and lease liabilities at the commencement date of the lease except for short-term leases with a lease term of 12 months or less and leases of low-value assets for which Sawai has elected not to recognize ROU assets and lease liabilities. For short-term leases and leases of low-value assets, Sawai recognizes lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liabilities are initially recognized at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Sawai's incremental borrowing rate. Generally, Sawai uses its incremental borrowing rate as the discount rate. The lease liabilities are subsequently measured at amortized cost using the effective interest method. After the commencement date, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Sawai's estimate of the amount expected to be payable under a residual value guarantee, or if Sawai changes its assessment of whether it will exercise a purchase, extension or termination option.

ROU assets are measured at an amount equal to the lease liability, adjusted by any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset.
The ROU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU assets or the end of the lease term applying a cost model. The estimated useful lives of ROU assets are determined on a same basis as those of underlying assets.

The carrying amount of ROU assets are included in Property, plant and equipment as disclosed in Note 17 and the lease liabilities are included in Other financial liabilities in the consolidated statements of financial position.

The cash payments for the principal portion of the lease liabilities are presented in the cashflow in financial activities in the consolidated cashflow statements.

Policy applicable before April 1, 2019

Sawai, as a lessee, classified the leases that transfer substantially all of the risks and rewards of ownership as finance leases; if not, as an operating lease.

In a finance lease, the leased assets were measured initially at an amount equal to the lower of its fair value and the present value of minimum lease payments. The leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under operating leases were not recognized in the consolidated statements of financial position. Payment made under operating leases were recognized in an expense on a straight-line basis over term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(13) Goodwill

Goodwill arising from business combination is presented at cost less accumulated impairment losses. Goodwill is not to be amortized but allocated to a cash-generating unit (“CGU”) or groups of CGUs based on expected synergies and tested for impairment annually and whenever there is an indication that CGU may be impaired. Impairment losses of goodwill are recognized in profit or loss and reversal is not be made thereafter.

(14) Intangible Assets

Research and Development

Research and Development are intangible assets related to products in development stage that are not yet available for use. These intangible assets are not amortized but tested for impairment annually or more frequently if indicators of a potential impairment exist. If a project fails or ceases development, or is no longer considered to achieve the expected cash flow, the intangible assets are written down to their recoverable amount. The impairment charges are recognized in research and development expenses in the consolidated statements of income. Upon successful completion of the development project, these intangible assets are reclassified from Research and Development to Marketed Products.

Marketed Products

Intangible assets associated with marketed products are amortized on a straight-line basis over estimated useful lives, which range from 6 to 10 years. If there is an indication of impairment, each asset’s recoverable amount is estimated. If the recoverable amount of an asset is lower than the carrying amount, the carrying amount of the asset is reduced to the recoverable amount and impairment losses are recognized in profit or loss. Amortization and impairment charges of the internally developed intangible assets are recognized in research and development expenses while those charges of separately acquired intangible assets or intangible assets acquired in a business combination are recognized in selling, general and administrative expenses in the consolidated statements of income.

Trademarks

Trademarks represent the Upsher-Smith trademark that was acquired in conjunction with the acquisition of Upsher-Smith Laboratories, LLC (“USL”), that is determined to have an indefinite useful life based on a historical sales and cash flow performance of USL-branded products. The trademark related to Upsher-Smith are not amortized, but evaluated for potential impairment on an annual basis.

Software

Software is recognized at cost and amortized on a straight-line basis over the expected useful life. The useful life used for this purpose is 3 to 5 years. Amortization of Software is recognized in cost of sales, selling, general and administrative expenses, and research and development expenses in the consolidated statements of income.

(15) Impairment of Non-financial Assets

Sawai assesses, at the end of reporting period, whether there is any indication of impairment of non-financial assets, excluding inventories and deferred tax assets. If there is an indication of impairment or annual impairment test is required, each asset's recoverable amount is estimated. If estimating the recoverable amount for an individual asset is not possible, then Sawai estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount of assets or CGU is measured at the higher of fair value less costs of disposal or its value in use. Value in use is determined by discounting the estimated future cash flow to the present value using a discount rate that reflects the time value of money and risk specific to the asset. Only if the recoverable amount of an asset or cash-generating unit is lower than the carrying amount, the carrying amount of the asset is reduced to the recoverable amount and impairment losses are recognized in profit or loss.

For assets or CGU other than goodwill, Sawai assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If such an indication exists, then Sawai estimates the recoverable amount of the asset or CGU and if the recoverable amount exceeds the carrying amount, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods. The reversal of impairment loss is recognized in profit or loss.

(16) Employee Benefits

Sawai sponsors defined contribution plan for its employees. Under the plan, Sawai as a sponsor pays fixed contributions into an independently administrated fund and employees also pay fixed contributions into the fund. Sawai has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. Defined contribution retirement benefit expenses are recognized as expenses in the period when an employee renders related service.
Short-term employee benefits are recorded as the expenses for the period during which employees rendered related services.

(17) Shareholders' Equity

For Company-issued equity instruments, the issuance proceeds are recorded as share capital and capital surplus. Costs directly attributable to the issuance (after considering the tax effect) are deducted from equity.

When the Company acquires treasury shares, it is recognized at acquisition cost and deducted from equity. Transaction expense directly arising from the acquisition is deducted from capital surplus. When the Company sells the treasury shares, the difference between the carrying amount and the consideration received is charged to capital surplus.

4. Operating Segment

Sawai's operating segments are the components for which separate financial information is available, and the Board of Directors as the chief operating decision maker, regularly assesses the financial information in deciding how to allocate resources, measure performance and forecast future periods.

Sawai manufactures and sells generic pharmaceutical products with operations in Japan and the United States, each requiring differing marketing strategies. Accordingly, Sawai has designated two operating segments, Japan Business segment, and U.S. Business segment.

(1) Segment Information

Year ended March 31, 2019

	Yen (in millions)				
	Japan Business	**U.S. Business**	**Total**	**Adjustments and elimination**	**Amount recorded in the consolidated statement of income**
Segment revenue					
Revenue from external customers	144,098	40,242	184,341	-	**184,341**
Segment (operating) profit	24,230	1,568	25,798	(1)	**25,798**
Finance income					**421**
Finance expenses					**(553)**
Profit before tax					**25,666**
Other items					
Depreciation and amortization	10,898	5,382	16,280	-	**16,280**
Impairment loss	467	2,872	3,339	-	**3,339**

Year ended March 31, 2020

	Yen (in millions)				
	Japan Business	**U.S. Business**	**Total**	**Adjustments and elimination**	**Amount recorded in the consolidated statement of income**
Segment revenue					
Revenue from external customers	144,130	38,407	182,537	-	**182,537**
Segment (operating) profit	24,401	2,388	26,789	4	**26,793**
Finance income					**295**
Finance expenses					**(591)**
Profit before tax					**26,497**
Other items					
Depreciation and amortization	11,893	6,061	17,954	-	**17,954**
Impairment loss	1,043	424	1,467	-	**1,467**

(2) Products and Services

See Note 5 for revenue by key therapeutic category and its operating segment.

(3) Geographic Information

Revenue from contracts with customers

	Yen (in millions)	
	Year ended March 31,	
	2019	**2020**
Japan	144,098	144,130
U.S.	40,162	38,296
Other	81	111
Total	**184,341**	**182,537**

Non-current Assets

	Yen (in millions)	
	March 31,	
	2019	**2020**
Japan	83,006	81,686
U.S.	93,395	100,337
Total	**176,401**	**182,023**

(4) Information by Major Customer

External customers account for more than 10% of revenue are as follows:

	Yen (in millions)		
	Year ended March 31,		**Related segment**
	2019	**2020**	
Mediceo Corporation	23,857	24,513	Japan Business
Alfresa Corporation	20,485	24,029	Japan Business

5. Revenues

(1) Revenue Stream and Disaggregation of Revenue

Sawai solely recognizes revenue from sale of generic pharmaceutical products to distributors, wholesalers and retailers. Revenue is recognized at a point in time when customers obtain control of products. There is no contract for which revenue is recognized over time.

The following table shows revenue for our key therapeutic category by operating segment (see Note 4 for geographic information):

Year ended March 31, 2019

	Yen (in millions)		
	Operating segment		
Products	**Japan Business**	**U.S. Business**	**Total**
Cardiovascular drugs	41,842	17,432	59,274
Central nervous system drugs	12,241	17,277	29,518
Gastro-intestinal drugs	21,659	80	21,739
Blood/body fluid pharmaceutical products	15,756	-	15,756
Other metabolic drugs	10,448	-	10,448
Antibiotics drugs	7,831	293	8,124
Antineoplastic agents	3,864	739	4,603
Chemotherapeutic agent	5,899	-	5,899
Antiallergic drugs	5,467	-	5,467
Other	19,091	4,421	23,513
Total	**144,098**	**40,242**	**184,341**

Year ended March 31, 2020

	Yen (in millions)		
	Operating segment		
Products	**Japan Business**	**U.S. Business**	**Total**
Cardiovascular drugs	40,749	14,817	55,566
Central nervous system drugs	14,267	17,389	31,656
Gastro-intestinal drugs	19,733	252	19,985
Blood/body fluid pharmaceutical products	15,538	-	15,538
Other metabolic drugs	9,863	-	9,863
Antibiotics drugs	7,704	356	8,060
Antineoplastic agents	4,951	1,004	5,955
Chemotherapeutic agent	5,328	-	5,328
Antiallergic drugs	5,244	-	5,244
Other	20,753	4,589	25,342
Total	**144,130**	**38,407**	**182,537**

(2) Contract Balances

There is no advanced receipt from customers and unsatisfied performance obligation at the end of reporting period, therefore no contract liability is recognized.

Contract assets relate to the rights to consideration in exchange for the products that Sawai has transferred to a customer, a certain pharmaceutical company, but are conditioned on resale from the customer to its customers. The contract assets are reclassified to trade receivables when the company resells the products to its customers.

Trade receivables and contract assets balances as of March 31, 2019 and 2020 are as follows:

	Yen (in millions)	
	March 31,	
	2019	**2020**
Trade receivables	62,274	57,601
Contract assets	843	231

6. Expense by Nature

The breakdown of expenses by nature is as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	**2020**
Raw materials and supplies	48,591	55,686
Employee benefits	34,300	31,888
Depreciation and amortization	16,280	17,954
Subcontractor costs	20,618	26,870

7. Financial Income and Financial Expenses

The composition of financial income is as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	**2020**
Interest income		
Financial assets measured at amortized cost	196	157
Dividend income		
Equity instruments measured at FVTOCI held at the end of the year	126	138
Foreign exchange gains	97	-
Other	2	-
Total	421	295

The composition of financial expenses is as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	**2020**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds	109	109
Borrowings	322	294
Other	98	155
Foreign exchange losses	-	9
Other	24	24
Total	**553**	**591**

8. Income Tax Expense

(1) Income Tax Expense

The composition of income tax expense is as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	**2020**
Current tax expense	5,681	7,342
Deferred tax expense		
Origination and reversal of temporary differences	258	(622)
Change in tax rate	-	-
Subtotal	258	(622)
Total	**5,939**	**6,720**

The Company is principally subject to income taxes, inhabitant tax and enterprise tax in Japan. The statutory tax rate applicable to the Company for the years ended March 31, 2019 and 2020 were 30.6% and 30.6%, respectively. Foreign subsidiaries are subject to income taxes applicable in the countries of domicile.

The following table represents reconciliation of the effective tax rate:

	Percent	
	March 31,	
	2019	**2020**
Tax using the Company's domestic tax rate	30.6	30.6
Non-deductible expenses	0.1	0.3
Tax credits	(3.9)	(3.7)
Changes in unrecognized differed tax assets	(0.6)	(0.8)
Effect of tax rates in foreign jurisdictions	(0.5)	(0.6)
Other	(2.6)	(0.4)
Effective tax rate	**23.1**	**25.4**

(2) Deferred Taxes

The composition of deferred tax assets and liabilities are as follows:

	Yen (in millions)	
	March 31,	
	2019	**2020**
Deferred tax assets	4,641	5,513
Deferred tax liabilities	(64)	(61)
Net deferred tax assets	**4,577**	**5,452**

The components of changes in deferred tax assets and liabilities are as follows:

Year ended March 31, 2019	Yen (in millions)				
	As of April 1, 2018	Recognized through profit or (loss)	Recognized in other comprehensive income	Other[1]	As of March 31, 2019
Deferred tax assets					
Investments in subsidiaries	3,035	(132)	-	594	3,497
Inventories	1,819	(482)	-	-	1,337
Property, plant and equipment	636	762	-	-	1,397
Refund liabilities	678	94	-	-	772
Accruals	727	(11)	-	-	715
Income tax payables	278	6	-	-	285
Other	718	32	-	1	749
Subtotal	**7,890**	**269**	**-**	**594**	**8,754**
Deferred tax liabilities					
Intangible assets	(2,137)	(526)	-	-	(2,664)
Property, plant and equipment	(532)	(64)	-	-	(597)
Financial assets measured at fair value through other comprehensive income	(857)	-	12	-	(845)
Other	(135)	64	-	-	(71)
Subtotal	**(3,662)**	**(527)**	**12**	**-**	**(4,177)**
Net deferred tax assets	**4,228**	**(258)**	**12**	**594**	**4,577**

[1] Other mainly includes translation adjustments of foreign operations.

Year ended March 31, 2020	Yen (in millions)				
	As of April 1, 2019[2]	Recognized through profit or (loss)	Recognized in other comprehensive income	Other[1]	As of March 31, 2020
Deferred tax assets					
Investments in subsidiaries	3,497	(124)	-	(68)	3,305
Inventories	1,337	586	-	-	1,923
Property, plant and equipment	1,397	272	-	-	1,669
Refund liabilities	772	35	-	-	807
Accruals	715	(8)	-	-	707
Income tax payables	285	20	-	-	305
Other	750	232	-	0	983
Subtotal	**8,754**	**1,013**	**-**	**(68)**	**9,699**
Deferred tax liabilities					
Intangible assets	(2,664)	(392)	-	-	(3,056)

Property, plant and equipment	(597)	(55)	-	-	(652)
Financial assets measured at fair value through other comprehensive income	(845)	-	321	-	(524)
Other	(71)	56	-	-	(15)
Subtotal	**(4,177)**	**(391)**	**321**	**-**	**(4,247)**
Net deferred tax assets	**4,577**	**622**	**321**	**(68)**	**5,452**

[1] Other mainly includes translation adjustments of foreign operations.

[2] Balance as of April 1, 2019 includes effect of initial application of IFRS 16.

(3) Unrecognized Deferred Tax Liabilities

There was a taxable temporary difference of ¥4,419 million and ¥4,013 million as of March 31, 2019 and 2020, respectively, related to investments in subsidiaries. However, this liability was not recognized as management has the ability to control any future reversal and does not consider such a reversal to be probable.

9. Earnings Per Share

The basis of calculation of basic and diluted earnings per share (“EPS”) is as follows:

	Year ended March 31,	
	2019	2020
Profit attributable to owners of parent (million Yen)	19,376	19,279
Weighted average number of ordinary shares outstanding during the year (thousand shares)	43,775	43,781
Average number of ordinary shares during the year (thousand shares)	43,775	43,781
Dilutive effect (thousand shares)	29	37
Weighted average number of ordinary shares outstanding during the year after dilutive effect (thousand shares)	43,804	43,818
Profit per share (attributable to the owners of parent)		
Basic earnings per share (Yen)	**442.62**	**440.37**
Diluted earnings per share (Yen)	**442.32**	**440.00**

There were 80 thousand and 54 thousand shares, such as stock options that are anti-dilutive, not included in the calculation of diluted earnings per share for the years ended March 31, 2019 and 2020, respectively.

10. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) are as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	2020
Changes in financial assets measured at FVTOCI during the year	(37)	(1,049)
Related tax effects	12	321
Net	(26)	(728)
Exchange differences on translation of foreign operations	4,900	(2,438)
Related tax effects	-	-
Net	4,900	(2,438)
Total other comprehensive income	4,874	(3,166)

11. Inventories

The components of inventories are as follows:

	Yen in million	
	March 31,	
	2019	**2020**
Finished goods	29,730	37,641
Work-in-process	14,782	16,232
Raw materials and supplies	18,937	21,587
Total	**63,449**	**75,460**

The write-downs of inventories recorded in cost of sales in within cost of sales were ¥3,945 million and ¥4,650 million for the years ended March 31, 2019 and 2020, respectively.

12. Other Financial Assets

The components of other financial assets are as follows:

	Yen in million	
	March 31,	
	2019	**2020**
Financial assets measured at amortized cost		
Guarantee deposits	275	262
Other	-	189
Equity instruments measured at fair value through other comprehensive income		
Equity securities	6,664	5,604
Total	**6,939**	**6,055**
Other financial assets (current)	-	141
Other financial assets (non-current)	6,939	5,914

The fair value of major shareholdings within equity instrument measured at fair value through other comprehensive income is as follows:

	Yen in million	
	March 31,	
	2019	2020
Sumitomo Corporation	1,314	1,063
Nippon Kayaku Co., Ltd.	1,145	871
Medical Ikkou Co., LTD.	580	497
Yakult Honsha Co., Ltd.	576	475
Alfresa Holdings Corporation	706	451
MEDIPAL HOLDINGS CORPORATION	574	440
Daito Pharmaceutical Co., Ltd	243	260
Other	1,527	1,547
Total	**6,664**	**5,604**

Other includes equity investment in private companies in the amount of ¥1,301 million and ¥1,358 million as of March 31, 2019 and 2020, respectively, all of which are classified as level 3 in the fair value hierarchy (see Note 23).

13. Property, Plant and Equipment

The components of property, plant and equipment are as follows:

Year ended March 31, 2019

	Yen (in millions)						
	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Lease assets	Total
Acquisition cost							
Balance at April 1, 2018	60,710	62,924	12,352	11,773	2,188	1,634	151,581
Acquisition	1,507	1,789	572	4	1,097	28	4,997
Sale and disposition	(1,538)	(1,118)	(570)	(16)	(25)	(403)	(3,670)
Transfer	793	764	115	-	(1,672)	-	-
Foreign currency translation differences	305	98	42	50	28	1	524
Other	-	-	-	-	105	-	105
Balance at March 31, 2019	**61,777**	**64,457**	**12,511**	**11,811**	**1,721**	**1,260**	**153,537**
Accumulated depreciation and impairment losses							
Balance at April 1, 2018	(21,888)	(32,754)	(7,968)	(467)	(3)	(442)	(63,522)
Depreciation expenses	(2,509)	(6,229)	(1,399)	-	-	(113)	(10,250)
Sale and disposition	227	665	466	-	3	145	1,506
Foreign currency translation differences	(9)	(20)	(8)	-	-	(1)	(38)

Balance at March 31, 2019	**(24,179)**	**(38,338)**	**(8,909)**	**(467)**	**-**	**(411)**	**(72,304)**
Carrying amount							
Balance at April 1, 2018	38,822	30,170	4,384	11,306	2,185	1,192	88,059
Balance at March 31, 2019	**37,598**	**26,119**	**3,602**	**11,344**	**1,721**	**849**	**81,233**

<u>Year ended March 31, 2020</u>

	Yen (in millions)							
	Building and structures	**Machinery and equipment**	**Tools, furniture and fixtures**	**Land**	**Construction in progress**	**Lease assets**	**ROU assets**	**Total**
Acquisition cost								
Balance at April 1, 2019	61,777	64,457	12,511	11,811	1,721	1,260	-	153,537
Adjustment on initial application of IFRS16	-	-	-	-	-	(1,260)	5,760	4,500
Acquisition	460	1,895	743	-	2,791	-	151	6,040
Sale and disposition	(163)	(1,165)	(296)	-	-	-	(35)	(1,659)
Transfer from construction in progress	37	1,433	170	97	(1,737)	-	-	-
Exchange differences on translation of foreign operations	(139)	(48)	(19)	(23)	(20)	-	(3)	(252)
Other	212	-	-	-	223	-	-	435
Balance at March 31, 2020	**62,184**	**66,572**	**13,109**	**11,885**	**2,978**	**-**	**5,873**	**162,601**
Accumulated depreciation and impairment losses								
Balance at April 1, 2019	(24,179)	(38,338)	(8,909)	(467)	-	(411)	-	(72,304)
Adjustment on initial application of IFRS16	-	-	-	-	-	411	(123)	288
Depreciation amount	(2,616)	(6,170)	(1,284)	-	-	-	(964)	(11,034)
Sale and disposition	78	1,037	289	-	-	-	27	1,431
Exchange differences on translation of foreign operation	8	16	7	-	-	-	-	31
Balance at March 31, 2020	**(26,709)**	**(43,455)**	**(9,897)**	**(467)**	**-**	**-**	**(1,060)**	**(81,588)**

Carrying amount

Balance at April 1, 2019	37,598	26,119	3,602	11,344	1,721	849	-	81,233
Balance at March 31, 2020	**35,475**	**23,117**	**3,212**	**11,418**	**2,978**	**-**	**4,813**	**81,013**

Depreciation expenses related to property, plant and equipment are included in cost of sales, selling, general and administrative expenses, and research and development expenses of the consolidated statements of income.

Carrying amount of lease assets by finance lease or ROU assets included in property, plant and equipment is as follows:

	Yen (in millions)			
	Building and structures	Machinery and equipment	Tools, furniture and fixtures	Total
Year ended March 31, 2019	777	4	68	**849**
Year ended March 31, 2020	3,936	657	220	**4,813**

14. Goodwill and Intangible Assets

The components of goodwill and intangible assets are as follows:

Year ended March 31, 2019

	Yen (in millions)						
		Intangible Assets					
	Goodwill	Marketed Products	Research and Development	Trademark	Software	Other	Total
Acquisition cost							
Balance at April 1, 2018	37,717	41,708	16,034	6,352	5,320	339	69,753
Addition	-	-	2,741	-	265	452	3,458
Disposition	-	(60)	-	(1)	(98)	(2)	(161)
Transfer	-	4,838	(4,838)	-	114	(95)	20
Exchange differences	1,686	1,559	471	284	27	-	2,340
Other	-	-	-	-	(0)	-	(0)
Balance at March 31, 2019	**39,403**	**48,045**	**14,408**	**6,634**	**5,627**	**695**	**75,409**
Accumulated amortization and impairment losses							
Balance at April 1, 2018	-	(5,100)	(2,099)	(9)	(3,611)	(16)	(10,835)
Amortization expenses	-	(5,333)	-	(0)	(692)	(4)	(6,030)
Impairment	-	-	(3,339)	-	(0)	-	(3,340)
Disposition	-	60	-	1	91	1	154
Exchange differences	-	(142)	(76)	-	(8)	-	(225)
Other	-	(233)	233	-	0	-	0
Balance at March 31, 2019	**-**	**(10,748)**	**(5,281)**	**(8)**	**(4,220)**	**(19)**	**(20,275)**
Carrying amount							
Balance at April 1, 2018	37,717	36,609	13,935	6,343	1,710	323	58,918
Balance at March 31, 2019	**39,403**	**37,297**	**9,127**	**6,626**	**1,408**	**676**	**55,134**

Year ended March 31, 2020

	Yen (in millions)						
		Intangible Assets					
	Goodwill	Marketed Products	Research and Development	Trademark	Software	Other	Total

Acquisition cost							
Balance at April 1, 2019	39,403	48,045	14,408	6,634	5,627	695	75,409
Addition	-	12,363	3,033	1	310	69	15,776
Disposition	-	-	-	-	(38)	(0)	(38)
Transfer	-	1,534	(1,534)	-	563	(597)	(35)
Exchange differences	(767)	(739)	(173)	(129)	(13)	-	(1,053)
Other	-	-	-	-	-	(2)	(2)
Balance at March 31, 2020	**38,636**	**61,203**	**15,734**	**6,506**	**6,449**	**165**	**90,057**
Accumulated amortization and impairment losses							
Balance at April 1, 2019	-	(10,748)	(5,281)	(8)	(4,220)	(19)	(20,275)
Amortization expenses	-	(6,209)	-	(0)	(706)	(5)	(6,920)
Impairment	-	(802)	(665)	-	-	-	(1,467)
Disposition	-	-	-	-	35	-	35
Exchange differences	-	146	85	-	6	-	237
Other	-	(577)	577	-	-	2	2
Balance at March 31, 2020	**-**	**(18,190)**	**(5,284)**	**(9)**	**(4,883)**	**(22)**	**(28,388)**
Carrying amount							
Balance at April 1, 2019	39,403	37,297	9,127	6,626	1,408	676	55,134
Balance at March 31, 2020	**38,636**	**43,013**	**10,450**	**6,497**	**1,566**	**143**	**61,669**

The table below provides information about significant intangible assets:

		Yen (in millions)		
		Carrying amount as of March 31,		**Remaining amortization period as of March 31, 2020**
Name	**Category**	**2019**	**2020**	
Zomig®	**Marketed Products**	2,370	1,842	4 years
Tosymra™	**Marketed Products**	-	4,988	9 years
Zembrace® Symtouch®	**Marketed Products**	-	6,687	9 years

Trademark was acquired in conjunction with the acquisition of USL. Trademark was determined to have an indefinite useful life, and therefore, it is carried at acquisition, not amortized and tested for impairment at least annually. Sawai is not aware of any material legal, regulatory, contractual, economic or other factors which would change the assessment over Trademark's useful life as of March 31, 2020.

Impairment

Goodwill, Trademark and Research and Development are tested annually for impairment and other intangible assets including Marketed Products are tested whenever indicators of impairment arise.

Entire amount of Goodwill and Trademark are allocated to the U.S. Business segment, a CGU of Sawai. The recoverable amount of the CGU, which is based on value-in-use, has been derived from discounted forecast cash flow models using the terminal growth rate of 2.3% and pre-tax WACC of 10.9% as of March 31, 2020. The forecast cash flow involves number of assumptions, including pricing and costs, technical development, market size and competition. A change in these assumptions may have a significant impact on the amount, if any, of an impairment charge.

The estimated recoverable amount of the CGU exceeded the carrying amount by approximately ¥33,706 million as of March 31, 2020. Management has identified that a reasonably possible reduction in the terminal growth rate by 2.2% and increase in pre-tax WACC by 2.8%, could individually cause the carrying amount to exceed the recoverable amount.

Research and Development are tested annually for impairment while Marketed Products are amortized and tested for impairment when indicators arise. This testing is performed separately for each on the value-in-use, which is derived from discounted forecast cash flow models using the pre-tax WACC ranging from 6.3% to 14.7% for the year ended March 31, 2020. The main assumptions include future sales price and volume growth, costs, the future expenditure required to maintain the product's marketability and registration in the relevant jurisdictions. These assumptions are based on historical experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition.

During the year ended March 31, 2019, Sawai wrote down ¥3,339 million of Research and Development due to decrease in expected profitability resulted from the entrance of authorized generics by competitors in Japan Business segment, as well as decrease in expected profitability caused by the competitor's entrance into certain therapeutic category in the U.S. Business segment.

During the year ended March 31, 2020, Sawai wrote down ¥802 million of Marketed Products and ¥1,372 million of Research and Development due to decrease in profitability both in the Japan and U.S. Business segment caused by increased competition within certain therapeutic category. Sawai recorded reversal of previously recorded impairment losses of ¥707 million related to Research and Development based on favorable change in the market condition lead by competitors.

Impairment losses (net) recognized by each segment are as follows:

	Yen (in millions)					
	Year ended March 31,					
	2019			2020		
	Marketed Products	Research and Development	Total	Marketed Products	Research and Development	Total
Japan Business	-	467	467	802	241	1,043
U.S. Business	-	2,872	2,872	-	424	424
Total	**-**	**3,339**	**3,339**	**802**	**665**	**1,467**

15. Trade and Other Payables

The components of trade and other payables are as follows:

	Yen (in millions)	
	March 31,	
	2019	2020
Trade accounts payable	24,302	24,140
Other accounts payable	19,132	19,898
Total	**43,434**	**44,038**

Trade payables and other payables are classified as financial liabilities measured at amortized cost.

16. Bonds and Borrowings

The components of bonds and borrowings are as follows:

	Yen (in millions)	
	March 31,	
	2019	2020
Current portion of long-term borrowings	4,802	4,464
Current portion of bonds	-	9,992
Long-term borrowings, less current portion	55,048	50,584
Bonds, less current portion	19,957	9,983
Total	**79,806**	**75,023**
Bonds and borrowings (current)	4,802	14,456
Bonds and borrowings (non-current)	75,004	60,567

The composition of the bonds are as follows:

		Yen (in millions)				
Name of Bond	Issue date	Principal amount in contractual currency	March 31, 2019	March 31, 2020	Interest rate	Maturity
1st Unsecured Bonds (with pari passu special clause only among bonds)	June 12, 2015	10,000	9,975	9,983	0.67%	June 10, 2022
2nd Unsecured Bonds (with pari passu special clause only among bonds)	December 3, 2015	10,000	9,981	9,992	0.42%	December 3, 2020
			19,957	**19,975**		

The composition of the borrowings are as follows:

Instruments	Principal amount	Carrying amount at March 31, 2019	Carrying amount at March 31, 2020	Interest rate	Maturity
		Yen (in millions)			
2010 fixed rate loans	1,000	150	50	1.550%	June 2020
2014 fixed rate loans	5,500	1,369	582	1.560%	December 2020
2015 variable rate loans	5,000	2,144	1,430	3-month TIBOR＋0.3%	March 2022
2017 fixed rate loans	13,000	13,000	13,000	0.670%	December 2027
2017 variable rate loans	47,000	43,186	39,986	3-month TIBOR＋0.35%	December 2032
		59,849	**55,048**		

Changes in liabilities accompanying changes in cash flows from financing activities are as follows:

Year ended March 31, 2019

	Balance at the beginning of the year	Cash flows from financing activities	Changes by non-cash elements: Acquisition	Changes by non-cash elements: Foreign exchange movement	Changes by non-cash elements: Other	Balance at the end of the year
	Yen (in millions)					
Bonds	19,938	-	-	-	19	19,957
Long-term borrowings	64,568	(4,718)	-	-	-	59,849
Total	**84,506**	**(4,718)**	**-**	**-**	**19**	**79,806**

Year ended March 31, 2020

	Balance at the beginning of the year	Cash flows from financing activities	Changes by non-cash elements: Acquisition	Changes by non-cash elements: Foreign exchange movement	Changes by non-cash elements: Other	Balance at the end of the year
	Yen (in millions)					
Bonds	19,957	-	-	-	19	19,975
Long-term borrowings	59,849	(4,802)	-	-	-	55,048
Total	**79,806**	**(4,802)**	**-**	**-**	**19**	**75,023**

17. Other Financial Liabilities

The components of other financial liabilities are as follows:

	Yen (in millions)	
	March 31,	
	2019	2020
Financial liabilities measured at amortized cost		
Guarantee deposits	2,476	2,590
Lease liabilities (2019: Finance lease liabilities)	577	5,024
Liabilities associated with deferred fixed payments for separately acquired intangible assets	-	3,189
Total	**3,053**	**10,803**
Other financial liabilities (current)	530	2,412
Other financial liabilities (non-current)	2,523	8,391

18. Leases

(1) Year ended March 31, 2019

[1] Finance Lease

	Yen (in millions)	
	Total minimum lease payment	Present value of total minimum lease payment
	As of March 31, 2019	As of March 31, 2019
Current portion	598	530
Over 1 year and within 5 years	48	46
Over 5 years	1	1
Total	647	577
Deduction: financial expenses	70	
Present value of total minimum lease payment	**577**	
Finance lease liabilities (current)	530	
Finance lease liabilities (non-current)	47	

Weighted average interest rate of finance lease liabilities as of March 31, 2019 is 3.5%.

[2] Operating Lease

Future total minimum lease payment payable under non-cancellable operating lease as of March 31 is as follows:

	Yen (in millions)
	2019
Current portion	124
Over 1 year and within 5 years	232
Over 5 years	3
Total	**358**

Total lease payment payable under operating lease contracts, recognized as expenses, is as follows:

	Yen (in millions)
	2019
Total lease payment	158

(2) Year ended March 31, 2020

As a Lessee

The amounts recognized in profit or loss are as follows:

	Yen (in millions)
	Year ended March 31, 2020
Interest expense on lease liabilities	97
The expense relating to short-term leases	404
The expense relating to leases of low-value assets	107
The expense relating to variable lease payments	2

The following table shows the depreciation expenses for right-of-use assets by class of underlying asset. Note 13 sets out the information of the carrying amount of right-of-use assets by class of underlying asset.

	Yen (in millions)			
	Building and structures	**Machinery and equipment**	**Tools, furniture and fixtures**	**Total**
Year ended March 31, 2020	656	242	66	964

The following table shows the maturity analysis of lease liabilities.

	Yen (in millions)
	As of March 31, 2020
Current portion	1,676
Over 1 year and within 5 years	2,321
Over 5 years	1,254
Total	5,251
Present value of total minimum lease payment	**5,024**
Lease liabilities (current)	1,656
Lease liabilities (non-current)	3,368

The total cash outflow for lease for the year ended March 31, 2020 was JPY 2,318 million.

The lease of inventory warehouse represents major parts of lease transaction by Sawai, for which the typical lease term is one year. Sawai assesses to determine the lease term whether there is an option to extend or terminate lease to be exercised with reasonable certainty taking into a consideration if penalty imposed on the cancellation of lease is significant. Sawai has assessed that Sawai is not reasonably certain to exercise the option to extend lease after the period penalty is imposed on.

19. Other current liabilities

The components of other current liabilities are as follows:

	Yen (in millions)	
	March 31,	
	2019	**2020**
Accrued expenses	3,500	3,178
Accrued bonuses	2,911	2,886
Accrued consumption taxes	1,266	94
Other	995	753
Total	**8,672**	**6,911**

20. Employee Benefits

Amount recognized as expenses in relation to the defined contribution plan is ¥678 million in the previous consolidated fiscal year and ¥681 million in the current consolidated fiscal year.

21. Equity and other Equity Items

(1) Share Capital and Capital Surplus

The components of share capital and capital surplus are as follows:

	Number of shares authorized (Thousands of shares)	Number of shares issued (Thousands of shares)	Share capital (Yen in millions)	Capital surplus (Yen in millions)
Balance as of March 31, 2018	**77,600**	**44,071**	**41,170**	**42,574**
Increase	-	6	15	276
Decrease	-	-	-	-
Balance as of March 31, 2019	**77,600**	**44,076**	**41,184**	**42,849**
Increase	-	6	15	14
Decrease	-	-	-	-
Balance as of March 31, 2020	**77,600**	**44,082**	**41,199**	**42,863**

Increase in the number of shares issued during the year ended March 31, 2019 and 2020 was due to exercise of new share subscription rights.

(2) Treasury Shares

Number of shares of treasury shares and an increase/decrease in its amount are as follows:

	Number of shares (Thousands of shares)	Amount (Yen in millions)
Balance as of March 31, 2018	**300**	**1,385**
Increase	0	0
Decrease	-	-
Balance as of March 31, 2019	**300**	**1,385**
Increase	0	0
Decrease	-	-
Balance as of March 31, 2020	**300**	**1,385**

Increase in the number of treasury shares during the year ended March 31, 2019 and 2020 was due to claim for purchase of shares less than a unit.

(3) Other Components of Equity

Year ended March 31, 2019

	Yen (in millions)			
	Reserve for share-based payments	Changes in financial assets measured at FVTOCI	Foreign currency translation differences	Total
Balance at the beginning of the year	407	1,945	(3,018)	(666)
Other comprehensive income	-	(26)	3,952	3,926
Total current comprehensive income	-	(26)	3,952	3,926
Issuance of new shares	(30)	-	-	(30)
Share-based payment	29	-	-	29
Total transactions with owners	(1)	-	-	(1)
Balance at the end of the year	**406**	**1,919**	**934**	**3,259**

Year ended March 31, 2020

	Yen (in millions)			
	Reserve for share-based payments	Changes in financial assets measured at FVTOCI	Exchange differences on translation of foreign operations	Total
Balance at the beginning of the year	406	1,919	934	3,259
Other comprehensive income	-	(728)	(1,968)	(2,696)
Total current comprehensive income	-	(728)	(1,968)	(2,696)
Issuance of new shares	(29)	-	-	(29)
Share-based payments	70	-	-	70
Total transactions with owners	41	-	-	41
Balance at the end of the year	**447**	**1,191**	**(1,034)**	**604**

22. Dividends

Amount of dividends and dividends per share are as follows:

Year ended March 31, 2019

Date of resolution	Type of share	Total amount of dividends (Yen in millions)	Dividend amount per share (Yen)	Record date	Effective date
Annual general meeting of shareholders (June 26, 2018)	Ordinary shares	2,845	65	March 31, 2018	June 27, 2018
Board of Directors' meeting (November 14, 2018)	Ordinary shares	2,845	65	September 30, 2018	December 7, 2018

Year ended March 31, 2020

Date of resolution	Type of share	Total amount of dividends (Yen in millions)	Dividend amount per share (Yen)	Record date	Effective date
Annual general meeting of shareholders (June 25, 2019)	Ordinary shares	3,064	70	March 31, 2019	June 26, 2019
Board of Directors' meeting (November 8, 2019)	Ordinary shares	2,846	65	September 30, 2019	December 9, 2019

Dividends declared for which the effective date falls in the following year are as follows:

Year ended March 31, 2019

Date of resolution	Type of share	Total amount of dividends (Yen in millions)	Dividend amount per share (Yen)	Record date	Effective date
Annual general meeting of shareholders (June 25, 2019)	Ordinary shares	3,064	70	March 31, 2019	June 26, 2019

Year ended March 31, 2020

Date of resolution	Type of share	Total amount of dividends (Yen in millions)	Dividend amount per share (Yen)	Record date	Effective date
Annual general meeting of shareholders (June 23, 2020)	Ordinary shares	2,846	65	March 31, 2020	June 24, 2020

23. Financial Instruments

(1) Capital Management

Sawai sets a basic policy for capital management to maintain the optimum capital composition, which improves capital efficiency securing financial soundness and flexibility to continue corporate value improvement and realize return improvement to shareholders.

Sawai conducts monitoring of financial indices to maintain the optimum capital composition. Sawai continuously monitors its credit rating for soundness and flexibility of finance and return on the interest attributable to owner of the Company (ROE) for its capital efficiency.

There are no material capital regulations applied to Sawai.

(2) Risk Management Policy

Sawai is exposed to various financial risks (credit risk, market risk and liquidity risk) in performing business activities. Therefore, based on internal rules, Sawai monitors financial risks on a regular basis and carries out measures for avoiding or reducing risks as necessary.

Sawai does not conduct any derivative transactions.

(3) Credit Risk

[1] Overview

Credit risk means the risk of financial losses incurred by Sawai if customers or counterparties of financial instrument transactions cannot perform obligations under contracts, which mainly arises from the receivables and contract assets of Sawai from customers.

(i) Credit risk management

The credit risk in Sawai arises principally from receivables from customers, which resulted in Sawai mainly focusing on the credit risk management for its trade receivables. Sawai considers that its cash and cash equivalents have low credit risk based on the external credit ratings of banks that hold the cash and cash equivalents.
Sawai has established a credit policy under which each new customer is analyzed individually for creditworthiness before Sawai's standard payment and delivery terms and conditions are offered. Sawai's review includes financial statements, industry information and in some cases bank references. Sale limits are established for each customer and reviewed annually. Any increase from those limits requires approval of the person in charge, in accordance with Sawai's internal policy. In order to limit its exposure to credit risk from trade receivables, Sawai receives cash from small sized customers as guarantee deposits to secure the payment from these customers.

(ii) Concentration of credit risk

In the Japan Business segment, Sawai sells products mainly through a small number of wholesalers. Total revenue from the top four companies account for approximately 50% of revenue in the Japan Business. Trade receivables with the top four companies were ¥24,488 million and ¥22,566 as of March 31, 2019 and 2020, respectively.

[2] Credit Exposure

The maximum exposure to credit risk of financial assets equals to the carrying amount of the financial assets which is net of allowances for ECLs, while there was no record of recognition of material impairment loss in the previous years.

[3] Changes in Loss Allowance

Loss allowance for the years ended March 31, 2019 and 2020 were as follows:

Year ended March 31, 2019

	Yen (in millions)		
	Loss allowance measured at the amount equal to lifetime expected credit loss	**Loss allowance measured at the amount equal to 12-month expected credit loss**	**Total**
Balance at the beginning of the year	23	0	23
Increased amount during the year	31	0	31
Other (Note)	0	-	0
Balance at the end of the year	54	0	55

(Note)Other mainly includes changes from the effect of foreign exchanges.

Year ended March 31, 2020

	Yen (in millions)		
	Loss allowance measured at the amount equal to lifetime expected credit loss	**Loss allowance measured at the amount equal to 12-month expected credit loss**	**Total**
Balance at the beginning of the year	54	0	55
Increased amount during the year	3	-	3
Decreased amount during the year (utilization)	(22)	-	(22)
Decreased amount during the year (reversal)	(16)	(0)	(17)
Other (Note)	0	-	0
Balance at the end of the year	**19**	**0**	**19**

(Note) Other mainly includes changes from the effect of foreign exchanges.

[4] Exposure to Credit Risk for Financial Assets

The following table provides aging analysis of the exposure to credit risk of financial assets at the end of reporting period. The cash and cash equivalents are not included in the table below as the impairment allowance is not material for the cash and cash equivalents:

As of March 31, 2019

	Yen (in millions)		
	Trade receivables and contract assets for which loss allowance is measured at the amount equal to lifetime expected credit loss	**Other receivables for which loss allowance is measured at the amount equal to 12-month expected credit loss**	**Total**
Not past due	63,171	559	63,730
Within 30 days	-	-	-
Over 30 days within 60 days	-	-	-
Over 60 days within 90 days	-	-	-
Over 90 days within 1 year	-	-	-
Over 1 year	-	-	-
Total	**63,171**	**559**	**63,730**

As of March 31, 2020

	Yen (in millions)		
	Trade receivables and contract assets for which loss allowance is measured at the amount equal to lifetime expected credit loss	**Other receivables for which loss allowance is measured at the amount equal to 12-month expected credit loss**	**Total**
Not past due	57,848	802	58,650
Within 30 days	2	51	53
Over 30 days within 60 days	1	-	1
Over 60 days within 90 days	-	-	-
Over 90 days within 1 year	-	-	-
Over 1 year	-	-	-
Total	**57,851**	**853**	**58,704**

[5] Details of Security and Other Credit Supplementation

Sawai holds guarantee deposits as a security for some trade receivables. Balance of guarantee deposits recorded in other financial liabilities at the end of reporting period is as follows:

	Yen (in millions) March 31,	
	2019	**2020**
Guarantee deposits	2,476	2,590

(4) Liquidity Risk

[1] Overview

Liquidity risk is the risk that Sawai will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Sawai's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Sawai's reputation.

[2] Maturity Analysis

Balance by maturity date of financial liabilities of Sawai is as follows (see Note 16 for detail):

As of March 31, 2019

	Yen (in millions)							
	Carrying amount	**Contractual cash flow**	**Within 1 year**	**Over 1 year within 2 years**	**Over 2 years within 3 years**	**Over 3 years within 4 years**	**Over 4 years within 5 years**	**Over 5 years**
Bonds	19,957	20,240	91	10,080	59	10,010	-	-
Borrowings	59,849	60,149	4,832	4,489	3,849	3,131	3,047	40,801
Total	**79,806**	**80,389**	**4,922**	**14,569**	**3,909**	**13,141**	**3,047**	**40,801**

For lease liabiliteies, please refer to Note18.

As of March 31, 2020

	Yen (in millions)							
	Carrying amount	**Contractual cash flow**	**Within 1 year**	**Over 1 year within 2 years**	**Over 2 years within 3 years**	**Over 3 years within 4 years**	**Over 4 years within 5 years**	**Over 5 years**
Bonds	19,975	20,149	10,080	59	10,010	-	-	-
Borrowings	55,048	55,316	4,489	3,849	3,131	3,047	3,214	37,586
Total	**75,023**	**75,465**	**14,569**	**3,908**	**13,141**	**3,047**	**3,214**	**37,586**

For lease liabilities, please refer to Note 18.

(5) Market Risk

[1] Overview

Market risk is the risk related to market price changes, including foreign exchange rate, interest rate and stock price, which impacts Sawai's income or the value of financial instruments held by Sawai. The purpose of market risk management is to maximize returns while managing and controlling exposure to market risk within a tolerable scope.

[2] Exchange Risk

Sawai is mainly exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases are dominated. The currency in which these transactions are primarily denominated in U.S. dollars. Sawai hedges the estimated foreign currency exposure in its purchase transaction in U.S. dollars by investing a foreign currency deposit in U.S. dollars under its risk management policy.

(i) Exposure to exchange risk

Summary of quantitative data of Sawai's exchange risk exposure, which were submitted to Sawai's management based on the risk management policy, is as follows:

	U.S. Dollars (in thousands)	
	March 31,	
	2019	**2020**
Financial assets	162	846
Financial liabilities	(558)	(166)
Net amount of exposure in the consolidated statement of financial position	(396)	680
Net amount of exposure	**(396)**	**680**

(ii) Exchange sensitivity analysis

Sawai is exposed mainly to U.S. dollars exchange risk. The strengthening (weakening) of the U.S. dollars against Yen by 10% would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below (net of tax). This analysis assumes that all other variables, in particular interest rates, remain constant. In this regard, they do not include the impact on translation into Yen for assets, liabilities, revenues and expenses of foreign operations.

Year ended March 31, 2019

Yen (in millions)			
Profit or loss		**Equity, net of tax**	
Strengthening	**Weakening**	**Strengthening**	**Weakening**
3	(3)	3	(3)

Year ended March 31, 2020

Yen (in millions)			
Profit or loss		**Equity, net of tax**	
Strengthening	**Weakening**	**Strengthening**	**Weakening**
(5)	5	(5)	5

[3] Interest Rate Risk

Sawai conducts financing by interest-bearing liabilities. Variable interest rate applies to some interest-bearing liabilities, which are exposed to interest rate fluctuation risk.

If the interest rate increases by 1% on the financial instruments issued by Sawai as of the reporting date to which the variable interest rate applies, an impact on net profit or (loss) is ¥(453) million in the previous consolidated fiscal year and ¥(414) million in the current consolidated fiscal year.

Exposure to interest fluctuation risk is as follows:

	Yen (in millions)	
	March 31,	
	2019	2020
Borrowings to which variable interest rate applies	45,330	41,416

[4] Stock Price Risk

(i) Exposure to stock price risk

Sawai holds equity securities in certain companies and is exposed to the market price risks. These equity instruments were acquired for the strategic purposes, taking into consideration of various relationships and factors with customers or other business partners. Sawai periodically confirms the validity and reasonableness of holding the instruments, both from strategic and financial perspective.

(ii) Stock price sensitivity analysis

The following summarizes the impact to the equity of Sawai at the reporting date if equity instruments would have increased or decreased by 10%:

	Yen (in millions)	
	2019	2020
10% change in stock price	(372)	(295)

Equity securities whose fair value classified as Level 3 are not included in the above stock price sensitivity analysis, because the effect is not material.

(6) Classification of Accounting and Fair Value

[1] Calculation Method of Fair Value

(i) Equity securities

Fair value of equity securities is measured by market price. For investment in private company, fair value is measured using appropriate valuation method based on investees' financial condition and projections.

(ii) Bonds, borrowings and finance lease obligations

Fair value thereof is measured by the method calculating by discounting at the interest rate expected in the case of similar new financing for the total of principal and interest and with the same terms.

[2] Fair value Hierarchy Level

Each level is defined as follows:

Level 1: Market price (unadjusted) of the same assets and liabilities in active markets

Level 2: Input directly (that is, by price) or indirectly (that is, due to price) observable for assets and liabilities other than market price included in Level 1.

Level 3: Input about assets and liabilities not based on the observable market data (unobservable input)

Transfer between fair value hierarchy levels is recognized on the day of change of events or situations that caused transfer.

[3] Comparison between Fair Value and Carrying Amount

	Yen (in millions)			
	March 31,			
	2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds	19,957	20,175	19,975	20,119
Borrowings	59,849	58,955	55,048	54,252
Finance lease liabilities	577	585	-	-
Total	**80,384**	**79,715**	**75,023**	**74,371**

The carrying amount of financial assets and financial liabilities other than the above is a reasonable approximation of fair value.

The Level of fair value of bonds is Level 2 and level of fair value of borrowings and finance lease liabilities is classified as Level 3.

[4] Measurement of Fair Value Recognized in the Consolidated Statement of Financial Position

As of March 31, 2019

	Yen (in millions)			
	Level 1	Level 2	Level 3	Total
Equity instruments measured at fair value through other comprehensive income				
Equity securities	5,363	-	1,301	6,664
Total	**5,363**	**-**	**1,301**	**6,664**

There was no financial instrument transferred between levels of the fair value hierarchy.

As of March 31, 2020

	Yen (in millions)			
	Level 1	Level 2	Level 3	Total
Equity instruments measured at fair value through other comprehensive income				
Equity securities	4,245	-	1,358	5,604
Total	**4,245**	**-**	**1,358**	**5,604**

There was no financial instrument transferred between levels of the fair value hierarchy.

The following table illustrates a reconciliation from the beginning to the ending balance for Level 3 financial assets, which solely consists of equity investment in private companies:

	Yen (in millions)	
	March 31,	
	2019	2020
Balance at the beginning of the year	652	1,301
Gain recognized as changes in fair value of financial instruments measured at FVTOCI	93	68
Purchases	555	-
Other	0	(11)
Balance at the end of the year	**1,301**	**1,358**

Reasonableness of the valuations is reviewed by the accounting department and approved by the department manager.

(7) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position where Sawai currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Sawai gives chargeback programs to wholesalers. Under the term of the agreement, the amounts payable by Sawai are offset against receivables from the wholesalers and only the net amounts are settled.

The following table presents the recognized financial instruments that are offset as of March 31, 2019 and 2020:

	Yen (in millions)		
	Effect of offsetting on the statement of financial position		
	Gross Amounts	Gross amounts set off	Net amounts presented
As of March 31, 2019			
Financial assets:			
Trade receivables and others	67,762	(4,086)	63,676
Financial Liabilities:			
Refund liability	12,157	(4,086)	8,071
As of March 31, 2020			
Financial assets:			
Trade receivables and others	64,296	(5,611)	58,685
Financial Liabilities:			
Refund liability	13,600	(5,611)	7,989

24. Subsidiaries

The Company's major subsidiaries are as follows:

Names of Major Subsidiaries	Major Business Activities	Location	Ownership ratio of voting rights (%)
Medisa Shinyaku Inc.	Sale of ethical pharmaceuticals	Japan	100.0
Kaken Shoyaku Co., Ltd.	Manufacture and sale of ethical pharmaceuticals	Japan	100.0
Sawai America Holdings INC.	Holding Company	US	100.0
Sawai America, LLC	Management of subsidiaries through holding of interests in subsidiaries	US	80.0
Upsher-Smith Laboratories, LLC	Manufacture and sale of ethical pharmaceuticals	US	80.0

25. Related Parties

Compensation for key management personnel is as follows:

	Yen (in millions)	
	Year ended March 31,	
	2019	2020
Basic compensation and bonuses	332	359
Share-based compensation	16	40
Total	**348**	**399**

26. Commitment and Contingency

(1) Commitment

Commitment to acquire property, plant and equipment was ¥563 million and ¥574 million as of March 31, 2019 and 2020, respectively.

(2) Litigation

Sawai is involved in certain following legal and administrative proceedings. Sawai may become involved in legal proceedings for which it is not possible to make reasonable estimate of the expected financial effect, if any, which may result from ultimate resolution of the proceedings. Such cases will be disclosed in the notes but no provision will be provided.

Sawai is involved in government investigations and litigation arising from the marketing of its pharmaceutical products in the United States.

Government Investigation over USL

In January 2017, USL and its employees received subpoenas from the U.S. Department of Justice ("DOJ") Antitrust Division seeking documents and other information relating to the marketing and pricing of certain USL generic products and communications with competitors about such products. In May 2018, USL received a civil investigative demand from the DOJ Civil Division, pursuant to the Federal False Claims Act, seeking the same documents and information. USL is cooperating with these subpoena requests.

Civil Antitrust Litigation

Beginning in December 2016, numerous complaints have been filed in the United States against various manufacturers, including USL, on behalf of putative classes of direct and indirect purchasers of several generic drug products, as well as several individual direct and indirect purchaser opt-out plaintiffs. These complaints allege that the defendants engaged in conspiracies to fix prices and/or allocate market share of generic products. The plaintiffs generally seek injunctive relief and damages under federal antitrust law, and damages under various state laws. All such complaints have been transferred to the generic drug multidistrict litigation in the Eastern District of Pennsylvania.

Sawai has determined that outflow of economic resource is not probable from the complaints and thus has not recognized any liabilities related to the complaints as of March 31, 2020. Although Sawai may be required to reach an agreement with the plaintiffs to settle the complaints, the amount will be reimbursable under the escrow account in which the Company paid a portion of the consideration of the USL acquisition based on the agreement with the seller of USL. The escrow account is scheduled to be released to the seller in 2022. Sawai will be required to compensate the plaintiffs and recognize a loss if the settlement is made after the release of the escrow account.

27. Events after Reporting Period

On June 11, 2020, Sawai entered into a licensing agreement with Neugen Pharma Co., Ltd. ("Neugen") to acquire an exclusive license for the patent rights and know-how for WN1316, an active compound in the treatment of amyotrophic lateral sclerosis ("ALS"), and its back-up compounds. The agreement also includes joint research and development of the commercialization of therapeutic drugs containing WN1316. With the execution of this agreement, Sawai will make a one-time contract payment of USD 3 million to Neugen, and, may make additional development and sales milestone payments based on the progress of future ALS therapeutic drug development and total annual net sales. In addition, after launch, Sawai will pay a pre-determined percentage of the ALS therapeutic drug's annual net sales as a royalty. The impact on the consolidated financial statements is currently being caluculated.

Sawai Pharmaceutical Co., Ltd.

5-2-30, Miyahara, Yodogawa-ku, Osaka 532-0003, JAPAN
TEL: +81-(0)6-6105-5711 FAX: +81-(0)6-6394-7311
URL: https://www.sawai.co.jp/en

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