

## Financial Summary for Third Quarter of FY2021 (IFRS)

February 14, 2022

Company Name: **Sawai Group Holdings Co., Ltd.**

Stock Code Number (Japan): 4887

Listed Stock Exchange: Tokyo Stock Exchange

URL: <https://www.sawaigroup.holdings>

Representative: Kazuhiko Sueyoshi, President and Representative Director

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Filing Date of Quarterly Report: February 14, 2022

Scheduled Date of Dividends Payment commencement: N/A

Supplemental Materials for the financial results: Yes

IR Conference on the financial Results: Scheduled (for institutional investors and analysts)

(Amount are rounded to the nearest million yen)

### 1. Financial Highlights for the Third Quarter of FY2021 (for the nine-month period ended December 31, 2021)

#### (1) Consolidated Operating Results

(% of changes over the same period of the previous year)

	Revenue		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of the Company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine-month Period Ended December 31, 2021	148,627	—	23,936	—	23,731	—	16,417	—	15,883	—
Nine-month Period Ended December 31, 2020	—	—	—	—	—	—	—	—	—	—

Note: Comprehensive Income: Nine-month Period Ended December 31, 2021: 21,552 million <(- %)> Nine-month Period Ended December 31, 2020:- million <(- %)>

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month Period Ended December 31, 2021	362.69	362.35
Nine-month Period Ended December 31, 2020	—	—

Note: Comparative information is not disclosed since the company was established on April 1, 2021 through a sole-share transfer.

#### (2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets
	Million yen	Million yen	Million yen	%
As of December 31, 2021	411,128	256,658	232,715	56.6
As of March 31, 2021	—	—	—	—

Note: Comparative information is not disclosed since the company was established on April 1, 2021 through a sole-share transfer.

### 2. Cash Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
For the Fiscal Year Ended March 31, 2021	—	—	—	—	—
For the Fiscal Year Ended March 31, 2022	—	65.00	—	—	—

Notes: Revision to the cash dividend estimates since the latest announcement : No

Note: Comparative information is not disclosed since the company was established on April 1, 2021 through a sole-share transfer.

## Additional Information

- (1) Material changes in subsidiaries during this period: N/A
- (2) Changes in accounting policies and accounting estimates
  - (i) Changes in accounting policies required by IFRS: N/A
  - (ii) Changes in accounting policies other than (i): N/A
  - (iii) Changes in accounting estimates: N/A
- (3) Number of shares issued and outstanding (common stock)
  - (i) Number of shares issued and outstanding (including treasury stock) at the end of each period:
    - December 31, 2021: 43,791,339 shares
    - March 31, 2021: N/A
  - (ii) Number of treasury stock at the end of each period:
    - December 31, 2021: 314
    - March 31, 2021: N/A
  - (iii) Average number of shares issued and outstanding in each period:
    - Nine-month period ended December 31, 2021: 43,791,095 shares,
    - Nine-month period ended December 31, 2020: N/A

Note: Comparative information is not disclosed since the company was established on April 1, 2021 through a sole-share transfer.

**This financial summary is not subject to audit by certified public accountants or audit firms.**

## Cautionary Statement with Respect to Forward-Looking Statements, and Other Information

The third quarter earnings conference for institutional investors and analysts is scheduled on February 14, 2022. Presentation and related materials of the conference will be promptly posted on our website.

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## 1. Financial Highlights for the Nine-month Period Ended December 31, 2021

Sawai Group Holdings Co., Ltd. (the “Company”) was established on April 1, 2021, through a sole-share transfer from Sawai Pharmaceutical Co., Ltd. (“Sawai Pharmaceutical”). Because it was a transaction under common control, there is no substantial change in the scope of the consolidated financial statements. Accordingly, the Company prepares the condensed quarterly consolidated financial statements for the nine-month period ended December 31, 2021, with the comparative information being derived from the condensed quarterly consolidated financial statements of Sawai Pharmaceutical for the nine-month period ended December 31, 2020 and the consolidated financial position of Sawai Pharmaceutical as of March 31, 2021.

### (1) Operating Results

The Company and subsidiaries (collectively, “Sawai”) has adopted International Financial Reporting Standards (IFRS) since the year ended March 31, 2018, in order to increase the international comparability of its financial information within the capital market.

During the nine-month period ended December 31, 2021, revenue increased to JPY 148,627 million (by 4.2%), operating profit increased to JPY 23,936 million (by 4.8%), profit before tax increased to JPY 23,731 million (by 5.0%), and profit attributable to owners of the Company decreased to JPY 15,883 million (by 8.7%) compared to the nine-month period ended December 31, 2020.

(Millions of yen, except percentages)

	Nine-month period ended December 31, 2020	Nine-month period ended December 31, 2021	Change	Change (%)
Revenue	142,697	148,627	5,930	4.2
Operating profit	22,850	23,936	1,086	4.8
Profit before tax	22,595	23,731	1,136	5.0
Profit attributable to owners of the Company	17,388	15,883	(1,505)	(8.7)

In May 2021, the Company announced its long-term vision, “Sawai Group Vision 2030,” and its medium-term business plan, “START 2024,” which contains the operating plan through the fiscal year ending March 2024. “Sawai Group Vision 2030” defines the corporate image to be achieved by 2030 as: “The world we want to build: A world where more people receive healthcare services and live a full life with peace of mind among society”; and “Our ideal state: A company with a strong presence that continues to contribute to people’s health by providing a multifaced mix of products and services based on scientific evidence that meets individual needs.” Additionally, our long-term vision identifies the “expansion of shares in the Japanese generics market”, “business investment for future growth in the U.S.”, and “cultivation of new growth areas” as the plan’s three core targets. As per START 2024, the Company will increase sales of new products and strengthen stable supply capabilities in the generics sector along with increasing investments in new sectors, specifically the digital medical devices, orphan drugs (ALC, etc.), and health food businesses.

## **(i) Japan Business Segment**

In the Japan Business segment, the Cabinet approved the “Basic Policy for Economic and Fiscal Management and Reform 2017: Improving Productivity Through Investment in Human Resources” in June 2017, which seeks to promote the usage of generic drugs in order to promptly realize the 80% use of generic drugs by September 2020. To achieve this goal, the Cabinet approved the “Basic Policy on Economic and Fiscal Management and Reform 2019 – A New Era of Reiwa: Challenges toward Society 5.0” (Basic Policy 2019) in June 2019, which states that: “With regard to the promotion of the use of generic drugs, while ensuring stable supply and greater reliability of quality, the government will continue to strive to realize the 80 percent use of generic drugs by September 2020, strengthening incentives.” Moreover, to promote the use of generic drugs, the April 2020 revisions introduced measures to further incentivize pharmacies and medical institutions to dispense or prescribe a higher percentage of drugs using the generic names of the active ingredients, as opposed to original drugs which are often called by their brand names.

In addition, in the “Basic Policy on Economic and Fiscal Management and Reform 2021” (the “Framework Policy”) approved by the Cabinet in June 2021, the new goals for generic drugs were set to ensure the quality of generic drugs and the reliability of their stable supply with the public and private sectors collaborating to strengthen manufacturing control systems, tighten supervision of manufacturing facilities, and conduct quality verification inspections of products distributed in the market. At the same time, it targeted to increase the volume and share of generic drugs to more than 80 percent in all prefectures by the end of the fiscal year ending March 2024. As a result, the share of generic drugs was expanded to 79.0% in September 2021, according to the (preliminary) price list survey conducted by the Japanese government.

On the other hand, Sawai has experienced downward pressure on prices at an accelerated rate. This is attributable to continuous price revisions of drugs every year: regular price revision in April 2018, the temporary price revision in October 2019 due to the increase in the Japanese consumption tax rate, the price revision in April 2021 and regular price revision scheduled for April 2022.

Under such circumstances, since the end of 2020, there has been an outbreak of health hazards in medicines manufactured by semi-major generic drug companies and supply uncertainty in generic drugs as a whole due to violations of the Pharmaceutical Affairs Law by a number of generic drug companies, prominently by major drug companies. For this reason, the “Pharmaceutical Industry Vision 2021”, which the Japanese Ministry of Health, Labour and Welfare (MHLW) announced in September 2021, states that “only those who are able to understand the actual situation in manufacturing facilities and manage and supervise whether products are manufactured under appropriate GQP (Good Quality Practice) should become manufacturers and distributors” and “the importance of continuous and stable supply to the medical field should be reaffirmed.” Quality and supply chain are considered priority issues in the generic drug industry and among generic drug companies.

Within this environment and under our medium-term business plan titled, “START 2024,” Sawai, as the leading generic company in Japan, is working to reinforce the quality control system, increase sales of new products, and strengthen our capability to provide a stable supply to restore trust in the generic industry as well to achieve our mid-term target of “expansion of shares in the Japanese generics market”.

In terms of quality control, although there have been critical Good Manufacturing Practice (GMP) violations by certain companies in the generic drug industry, we, as the industry leader, have minimized quality-related risks by taking measures such as ensuring the quality of Active Pharmaceutical Ingredients (APIs) in compliance with GMP, implementing a quality control system through the ongoing confirmation of GMP compliance at manufacturing facilities, and adopting manufacturing and quality control measures based on the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S-GMP), a non-binding, informal co-operative arrangement between Regulatory Authorities in the field of GMP of medicinal products for human or veterinary use. Furthermore, to ensure that medical professionals are able to use our products comfortably, we disclosed the names of all the manufacturing subcontractors and active pharmaceutical ingredient suppliers and dates of the audit performed over their operations as well as released a video introducing Sawai’s efforts to improve quality control in June 2021.

In terms of our production and supply systems, we are pursuing even higher efficiency and lower costs to further accommodate growing demand and declining supply for generic drugs through utilizing the unique characteristics of each of the six factories scattered across Japan. In our effort to do so, in October 2021, we began construction of a new solid dosage form facility at the

site of Daini Kyushu Factory that will eventually have a production capacity of 3 billion tablets. Additionally, in December 2021, Sawai reached an agreement with Kobayashi Kako Co., Ltd. (Kobayashi) to take over its assets and employees related to production activities and signed a transfer agreement. The newly established Trust Pharmatech, Inc. will accept the assets and employees to be transferred from Kobayashi and will work on the prompt establishment of a production capacity of more than 20 billion tablets annually. In November 2021, Sawai opened and began the operation of the East Japan Daini Distribution center, which would further strengthen our supply system and logistics.

In terms of product development and marketing, we launched 8 generic drugs with 23 strengths, including “Eszopiclone tablets,” in June 2021. In addition, 5 generic drugs with 9 strengths, including “Levetiracetam Tablets” have been listed in the National Health Insurance drug price list in December 2021.

Furthermore, we began collaborating with Integrity Healthcare Co., Ltd. in the field of personal health records (PHR) from May 2021, as PHR has become more important with the rapid growth and spread of online medical consultations. In October 2021, Sawai has released Integrity Healthcare’s PHR management system “Smart One Health,” as “SaluDi”, a PHR management app under the Sawai brand. Also, as a service that contributes to the prevention and treatment of chronic diseases, primarily lifestyle-related diseases, we plan to provide various solutions for medical institutions, companies, health insurance unions, and local governments through the management and sharing of PHR data.

For our COVID-19 countermeasures, we have established a Crisis Management Office based on the Rules on Crisis Management and the Disaster BCP in February 2020 and have taken steps to prevent COVID-19 contagion by strengthening internal office ventilation and disinfection and ensuring that employees maintain hand hygiene, wear masks, and undertake temperature screenings. We also have mandated web-based meetings and revised internal rules regarding long-distance business trips, as well as modifying work policies to accommodate flex time, staggering work hours, and implementing work-from-home, while continuing to operate each plant in Japan and to ensure a stable supply of products. Under the Government of Japan’s state of emergency, our medical representatives (MR) have refrained from visiting medical institutions and shifted to utilize digital technology to provide services. If the impacts of the pandemic were to be prolonged, among other things, it is expected to affect the supply of pharmaceuticals due to stagnation of raw material imports and logistics, the demand for pharmaceuticals due to the restraints on patient consultations, and the restrictions on sharing pharmaceutical information. As a company primarily manufacturing and selling pharmaceuticals, even as the vaccination rates increase, we continue to adopt measures that prevent infections and maintain a stable supply of pharmaceuticals, which are essential to people’s lives and health.

As a result, the segment reported net sales of JPY 125,291 million (8.1% increase compared to the same period of the previous year), and segment profit of JPY 21,210 million (6.9% decrease compared to the same period of the previous year).

## **(ii) U.S. Business Segment**

We entered the U.S. market by acquiring Upsher-Smith Laboratories, LLC (USL) in May 2017. As per the medium-term business plan, “START 2024,” Sawai will make investments towards our future growth in the U.S. business segment with “contribution to sales by promoting sales of existing brand drugs and generics”, “further expansion of product lineup mainly in niche generics”, and “strengthening of product pipeline with high complexity and product lineup in cooperation with Sawai Pharmaceutical” as growth drivers. To accelerate our growth strategy in the U.S. Business segment, we will be working closely with Sumitomo Corporation of the Americas, a U.S. subsidiary of Sumitomo Corporation who owns a 20% interest in USL.

In the U.S. generic drug market, generic drug prices have consistently declined, although there were some signs of recovery observed recently. These events are plausibly the result of the three major purchasing groups holding approximately 90% of the market share, with the formation of alliances amongst wholesalers and pharmacies, and also the high number of approvals for Abbreviated New Drug Applications (ANDA) by the U.S. Food and Drug Administration (FDA). For USL, the COVID-19 pandemic’s negative impact, which has been affecting the sales of Tosymra, acquired in 2019, has lessened, and the quantities of sales of Tosymra are showing signs of recovery. However, the business environment remains challenging from increasing competition in the generic market, as seen in the introduction of generics to our core branded product, Qudexy.

Given the surrounding environment, we expanded our product offerings by launching “Moxifloxacin Ophthalmic Solution” in May 2021, “Isotretinoin Capsules” in June 2021 and “Carbamazepine extended-release tablet” in August 2021.

In April 2021, USL sold and leased back its factory in Denver, Colorado, intending to gradually transfer its manufacturing operation to the newly built factory at USL’s headquarter in Minnesota, to improve quality control and production efficiency.

In early March 2020, USL established COVID-19 Response Team, a cross-departmental response team, to gather a wide range of information and develop countermeasures. Apart from certain employees essential for on-site operations, such as those in manufacturing and R&D departments, USL transitioned to telework, implemented measures to prevent the spread of infection among employees, introduced other human resource measures, and switched to technology-based sales activities. However, COVID-19 vaccination has been progressing steadily in the U.S., and economic activities are on the verge of returning to normal. Although the pandemic has discouraged patients from seeking medical assistance and restricted business activities, USL continues to adopt measures that prevent infection and maintain a stable supply system for pharmaceutical products, which are essential to maintaining people’s life and health.

In addition, during the third quarter ended December 31, 2021, Sawai recognized JPY 4,066 million of gain on early termination of the escrow account based on an agreement with the seller of USL to accelerate the release date of the escrow account, which was set up to protect Sawai from the risk of potential costs and damages associated with those legal proceedings.

As a result, the segment reported net sales of JPY 23,336 million (12.8% decrease compared to the same period of the previous year) and segment profit of JPY 2,726 million (4,152.5% increase compared to the same period of the previous year).

## (2) Financial Position

### *Assets*

As of December 31, 2021, current assets amounted to JPY 221,475 million, an increase of JPY 15,801 million from March 31, 2021. The increase was primarily due to an increase in cash and cash equivalents (JPY 4,887 million), trade and other receivables (JPY 4,755 million), and inventories (JPY 4,541 million). The increase in inventory was a result of an increase in production to secure a stable supply. Non-current assets as of December 31, 2021 amounted to JPY 189,653 million, an increase of JPY 1,986 million from March 31, 2021. The increase was primarily due to a net of an increase of property, plant, and equipment resulted from capital investments by subsidiaries (JPY 1,948 million), and a decrease in intangible assets by amortization of intangible assets (JPY 2,136 million). In addition, goodwill was increased by JPY 1,530 due to the appreciation of USD against JPY. Total assets as of December 31, 2021 were JPY 411,128 million, an increase of JPY 17,787 million compared to the balance as of March 31, 2021.

### *Liabilities*

As of December 31, 2021, current liabilities amounted to JPY 94,952 million, an increase of JPY 14,500 million from March 31, 2021. The increase was due to an increase in bonds and borrowings (JPY 11,061 million), mainly as a result of reclassification from non-current liabilities of bonds that are to be matured in June 2022, offset by a decrease in other financial liabilities (JPY 1,775 million) due to payments. Conversely, trade and other payables had an increase (JPY 2,602 million) due to increased production to ensure a stable supply, and an increase in refund liabilities (JPY 2,750 million) due to increased revenue. Non-current liabilities as of December 31, 2021 was JPY 59,518 million, a decrease of JPY 12,621 million from March 31, 2021, primarily due to the reclassification of bonds to current liabilities described above and other factors leading to a JPY 12,246 million decrease in bonds and borrowings. Total liabilities as of December 31, 2021 were JPY 154,470 million, an increase of JPY 1,879 million compared to the balance as of March 31, 2021.

### *Equity*

Total equity as of December 31, 2021 was JPY 256,658 million, an increase of JPY 15,908 million compared to the balance as of March 31, 2021, primarily because of net profit for the nine-month period ended December 31, 2021, offset by dividend payments and unfavorable exchange effects. As a result, the ratio of equity attributable to owners of the Company to total assets as of December 31, 2021 became 56.6% (55.5% as of March 31, 2021).

## (3) Cash Flow

Cash and cash equivalents as of December 31, 2021, increased by JPY 4,887 million to JPY 59,156 million, compared to the balance as of March 31, 2021.

The results of cash flow for each activity are as follows:

**Cash flows generated from operating activities** was JPY 26,475 million for the current period (an increase of JPY 10,018 million compared to the same period of the previous year), which mainly consists of profit before tax (JPY 23,731 million), depreciation and amortization (JPY 13,130 million), increase in trade and other receivables (JPY 4,028 million), increase in inventories (JPY 4,157 million), increase in trade and other payables (JPY 3,643 million), and income taxes paid (JPY 6,020 million).

**Cash flows used in investing activities** was JPY 13,731 million for the current period (a decrease of JPY 1,172 million compared to the same period of the previous year), which mainly consists of the acquisition of property, plant, and equipment (JPY 9,525 million), proceeds from sale of property, plant and equipment (JPY 3,088 million), and acquisition of intangible assets (JPY 7,256 million).

**Cash flows used in financing activities** was JPY 8,177 million for the current period (a decrease of JPY 765 million compared to the same period of the previous year), which mainly consists of payments of dividends (JPY 5,693 million).



**2. Condensed Quarterly Consolidated Financial Statements and Selected Notes**  
**(1) Condensed Quarterly Consolidated Statements of Income and Condensed Quarterly Consolidated Statements of Comprehensive Income**

(Condensed Quarterly Consolidated Statements of Income)

	<b>Yen in millions (except per share data)</b>
	<b>Nine-month period ended December 31, 2021</b>
<b>Revenue</b>	148,627
Cost of sales	(94,133)
<b>Gross profit</b>	<u>54,494</u>
Selling, general and administrative expenses	(24,088)
Research and development expenses	(12,867)
Other income	6,407
Other expenses	(10)
<b>Operating profit</b>	<u>23,936</u>
Finance income	143
Finance expenses	(348)
<b>Profit before tax</b>	<u>23,731</u>
Income tax expenses	(7,314)
<b>Profit for the period</b>	<u><u>16,417</u></u>
<b>Profit attributable to:</b>	
Owners of the Company	15,883
Non-controlling interests	534
Total	<u><u>16,417</u></u>
<b>Earnings per share (Yen)</b>	
Basic earnings per share	362.69
Diluted earnings per share	362.35

(Condensed Quarterly Consolidated Statements of Comprehensive Income)

Yen in millions

	Nine-month period ended December 31, 2021
<b>Profit for the period</b>	16,417
<b>Other comprehensive income</b>	
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	471
Items that may be reclassified to profit or loss:	
Exchange differences on translation of foreign operations	4,664
Other comprehensive income for the period, net of tax	5,135
<b>Total comprehensive income for the period</b>	<b>21,552</b>
<b>Total comprehensive income attributable to:</b>	
Owners of the Company	20,081
Non-controlling interests	1,471
Total	<b>21,552</b>

## (2) Condensed Quarterly Consolidated Statements of Financial Position

Yen in millions

As of December 31, 2021

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### Assets

#### Current assets

Cash and cash equivalents	59,156
Trade and other receivables	74,862
Inventories	83,661
Other financial assets	138
Other current assets	3,658

<b>Total current assets</b>	<b>221,475</b>
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#### Non-current assets

Property, plant, and equipment	86,656
Goodwill	40,834
Intangible assets	52,336
Other financial assets	6,992
Other non-current assets	1,228
Deferred tax assets	1,607

<b>Total non-current assets</b>	<b>189,653</b>
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<b>Total assets</b>	<b>411,128</b>
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Yen in millions

As of December 31, 2021

<b>Liabilities and equity</b>	
<b>Liabilities</b>	
<b>Current liabilities</b>	
Trade and other payables	53,004
Bonds and borrowings	14,895
Income taxes payable	4,388
Refund liabilities	10,291
Provisions	284
Other financial liabilities	4,668
Other current liabilities	7,422
<b>Total current liabilities</b>	<b>94,952</b>
<b>Non-current liabilities</b>	
Bonds and borrowings	54,495
Provisions	502
Other financial liabilities	2,875
Other non-current liabilities	1,496
Deferred tax liabilities	150
<b>Total non-current liabilities</b>	<b>59,518</b>
<b>Total liabilities</b>	<b>154,470</b>
<b>Equity</b>	
Share capital	10,000
Capital surplus	73,672
Retained earnings	142,861
Treasury shares	(1)
Other component of equity	6,183
Equity attributable to owners of the Company	<b>232,715</b>
<b>Non-controlling interests</b>	<b>23,943</b>
<b>Total equity</b>	<b>256,658</b>
<b>Total liabilities and equity</b>	<b>411,128</b>

### (3) Condensed Quarterly Consolidated Statements of Changes in Equity

Nine-month period ended December 31, 2021

Yen in millions

	Equity attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other component of equity			
Balance at April 1, 2021	41,219	42,453	132,429	—	2,177	218,278	22,472	240,750
Profit for the period			15,883			15,883	534	16,417
Other comprehensive income					4,198	4,198	937	5,135
<b>Total comprehensive income</b>	—	—	15,883	—	4,198	20,081	1,471	21,552
Acquisition of treasury shares				(1)		(1)		(1)
Dividends			(5,693)			(5,693)		(5,693)
Transfer	(31,219)	31,219				—		—
Forfeiture of share based payment			242		(242)	—		—
Share based payment					50	50		50
<b>Total transactions with owners</b>	<b>(31,219)</b>	<b>31,219</b>	<b>(5,451)</b>	<b>(1)</b>	<b>(192)</b>	<b>(5,644)</b>	<b>—</b>	<b>(5,644)</b>
<b>Balance at December 31, 2021</b>	<b>10,000</b>	<b>73,672</b>	<b>142,861</b>	<b>(1)</b>	<b>6,183</b>	<b>232,715</b>	<b>23,943</b>	<b>256,658</b>

#### (4) Condensed Quarterly Consolidated Statements of Cash Flows

Yen in millions

	Nine-month period ended December 31, 2021
<b>Cash flows from operating activities</b>	
Profit before tax	23,731
Depreciation and amortization	13,130
Impairment loss	1,645
Financial income	(143)
Financial expenses	348
Gain on sale and disposal of property, plant and equipment and intangible assets	(2,106)
Increase in trade and other receivables	(4,028)
Increase in inventories	(4,157)
Increase in trade and other payables	3,643
Increase in refund liabilities	2,550
Decrease in provisions	(314)
Increase in other financial liabilities	501
Other	(1,995)
Subtotal	<u>32,805</u>
Interest received	1
Dividends received	138
Interest paid	(449)
Income taxes paid	(6,020)
<b>Cash flows generated from operating activities</b>	<b><u>26,475</u></b>
<b>Cash flows from investing activities</b>	
Acquisition of property, plant and equipment	(9,525)
Proceeds from sale of property, plant and equipment	3,088
Acquisition of intangible assets	(7,256)
Other	(38)
<b>Cash flows used in investing activities</b>	<b><u>(13,731)</u></b>
<b>Cash flows from financing activities</b>	
Net proceeds from short-term borrowings	1,600
Repayments of long-term borrowings	(2,790)
Payments of lease liabilities	(1,276)
Dividends paid	(5,693)
Others	(18)
<b>Cash flows used in financing activities</b>	<b><u>(8,177)</u></b>
Effect of exchange rate change on cash and cash equivalents	320
<b>Net increase in cash and cash equivalents</b>	<b><u>4,887</u></b>
Cash and cash equivalents at the beginning of the period	54,269
<b>Cash and cash equivalents at the end of the period</b>	<b><u>59,156</u></b>

## **(5) Selected Notes to Condensed Quarterly Consolidated Financial Statements**

### **(Significant Uncertainty Regarding Going Concern Assumption)**

Not applicable

### **(Supplemental Information)**

(Business Combination)

Sawai has agreed with ORIX Corporation (Head office: Tokyo, Japan; hereinafter “ORIX”), and Kobayashi Kako Co., Ltd. (Head office: Fukui, Japan; hereinafter “Kobayashi Kako”) that Sawai will take over Kobayashi Kako’s assets pertaining to production activities and personnel of related divisions, and concluded a transfer agreement (hereinafter, this “Transfer Agreement”).

#### (1) Overview of this Transfer Agreement

##### 1. Name and principal business of the acquiree

Company name: Kobayashi Kako

Principal business: manufacturing of generic pharmaceutical products

##### 2. Primary reason for the business combination

Sawai is committed to strengthening stable supply capabilities to increase its share in the Japanese generics market, as stated in the Medium-Term Business Plan “START 2024” issued in May 2021. The core of the issue has been to obtain not only manufacturing facilities but also the personnel engaged in drug manufacturing. The greatest reason for the decision of this Transfer Agreement is that by having them unite and act together with Sawai under its quality culture, we will be able to contribute to resolving the supply problem in the generics industry and believe this is one step toward contributing to the generics industry, and to medical practitioners and patients.

##### 3. Scheduled date of acquisition

March 31, 2022

##### 4. Description of how Sawai will obtain control of the acquiree and percentage of voting equity interests acquired

Sawai will acquire assets pertaining to production activities and personnel of related divisions for a cash consideration. Sawai has established Trust Pharmatech Co., Ltd. as a new subsidiary (100% of ownership ratio of voting rights), which will receive the facilities and personnel to be transferred.

#### (2) Impact of the business combination

The impact of this Transfer Agreement is currently under evaluation.

### **(Key Accounting Policies)**

Sawai’s key accounting policies are the same as the “Key Accounting Policies” stated in the securities report filed by Sawai Pharmaceutical on June 28, 2021, except for the application of the newly adopted accounting policy described below. Hence, there are no material changes to the key accounting policies applied during the third quarter. Sawai calculated income tax expenses for the nine-month period ended December 31, 2021, based on the estimated average annual effective tax rate.

With respect to the accounting policies for leasing, Sawai newly adopted the following sale-and-leaseback accounting policy for financial statements.

For sale and leaseback transactions, Sawai considers when performance obligations are satisfied to confirm whether the transfer of assets should be accounted for as a sale. It is generally considered as such if legal title is transferred to the buyer-lessor, and there is no repurchase option on the asset.

If the transfer of the asset is a sale, Sawai discontinues the recognition of the underlying asset and recognizes a right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Any gain or loss that relates to the rights transferred to the buyer-lessor is recognized in profit or loss.

**(Segment Information)**

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 U.S., each requiring differing marketing strategies. Accordingly, Sawai has designated two operating segments, which are Japan Business segment and U.S. Business segment.

**Nine-month period ended December 31, 2021**

	Yen in millions				Amount recorded in the condensed quarterly consolidated statements of income
	Japan Business	U.S. Business	Total	Adjustments and elimination	
Segment revenue					
Revenue from external customers	125,291	23,336	148,627	—	148,627
Intersegment revenue or transfers	—	—	—	—	—
Total	125,291	23,336	148,627	—	148,627
Segment profit	21,210	2,726	23,936	—	23,936
Finance income					143
Finance expenses					(348)
Profit before tax					23,731

**(Contingent liabilities)**

Upsher-Smith Laboratories, LLC ("USL"), a subsidiary of the Group, is a defendant in a government investigation and civil antitrust litigation regarding the marketing of certain pharmaceutical products in the United States. Details are as described in the consolidated financial statements of Sawai Pharmaceutical Co., Ltd. for the previous year. As of the end of the third quarter of the current year, the Group did not recognize any liabilities related to the complaints as there had been no significant developments in these matters.

At the time of the USL acquisition, an escrow was set up to protect Sawai from the risk of potential costs and damages associated with those legal proceedings.

During the third quarter of the current year, Sawai agreed with the seller of USL to release the escrow account in its entirety.

As a result, Sawai will be required to compensate the plaintiffs out of its resources and recognize a loss if a settlement in the government investigation or private actions is reached in the future.