

Financial Summary for the Fiscal Year Ended March 31, 2022 (IFRS)

May 11, 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

Contact Person: Yoshiaki Sakurai, Executive officer and Group Chief Financial Officer Tel: +81-6-6105-5818

Scheduled Date of Annual Meeting of Stockholders: June 24, 2022

Filing Date of Annual Security Report: June 24, 2022

Scheduled Date of Dividends Payment commencement: June 27, 2022

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 Fiscal Year Ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(1) Consolidated Operating Results

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

	Revenue		Operating profit (loss)		Profit (loss) before tax		Profit (loss) for the year		Profit (loss) attributable to owners of the Company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
For the Fiscal Year Ended March 31, 2022	193,816	—	(35,888)	—	(36,214)	—	(41,924)	—	(28,269)	—
For the Fiscal Year Ended March 31, 2021	—	—	—	—	—	—	—	—	—	—

Note: Comprehensive Income (loss): For the Fiscal Year Ended March 31, 2022: (35,022) million <(- %)> For the Fiscal Year Ended March 31, 2021: - million <(- %)>

	Basic earnings (loss) per share	Diluted earnings (loss) per share	Return on equity attributable to owners of the Company	Ratio of profit (loss) before income taxes to total assets	Ratio of operating profit (loss) to revenue
For the Fiscal Year Ended March 31, 2022	Yen (645.53)	Yen (645.53)	% (13.8)	% (9.8)	% (18.5)
For the Fiscal Year Ended March 31, 2021	—	—	—	—	—

Reference: Equity in net income of affiliated companies: For the Fiscal Year Ended March 31, 2022: - million For the Fiscal Year Ended March 31, 2021: - million

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	Equity attributable to owners of the Company per share
As of March 31, 2022	Million yen 349,502	Million yen 200,083	Million yen 190,067	% 54.4	Yen 4,340.32
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.

(3) Consolidated Cash Flows

	Net cash from operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of the year
For the Fiscal Year Ended March 31, 2022	Million yen 34,310	Million yen (30,395)	Million yen (11,262)	Million yen 47,717
For the Fiscal Year Ended 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					Total dividends	Dividend pay-out ratio	Ratio of dividends to net assets (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million Yen	%	%
For the Fiscal Year Ended March 31, 2021	—	—	—	—	—	—	—	—
For the Fiscal Year Ended March 31, 2022	—	65.00	—	65.00	130.00	5,693	—	2.8

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

2. The capital surplus was used to fund part of the dividends paid for the fiscal year ended March 31, 2022. Please refer to the details provided under “Breakdown of Dividends Paid Out of Capital Surplus”.

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 year end:

March 31, 2022: 43,791,339 shares

March 31, 2021: N/A

(ii) Number of treasury stock at year end:

March 31, 2022: 336 shares

March 31, 2021: N/A

(iii) Average number of shares issued and outstanding for the fiscal year ended March 31:

March 31, 2022: 43,791,075 shares

March 31, 2021: 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 year-end earnings conference for institutional investors and analysts is scheduled on May 12, 2022. Presentation and related materials of the conference will be promptly posted on our website.

Breakdown of Dividends Paid Out of Capital Surplus

The following provides a breakdown of the part of dividends for the fiscal year ended March 31, 2022 that will be paid out of the capital surplus.

Record date	Fiscal year-end	Total
Dividend per share (Yen)	65	65
Total dividend payments (Million Yen)	2,846	2,846

(Note) Proportional reduction in net assets 0.013

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1. Financial Highlights for the Year Ended March 31, 2022

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 consolidated financial statements for year ended March 31, 2022, with the comparative information being derived from the consolidated financial statements of Sawai Pharmaceutical for the year ended March 31, 2021 and the consolidated financial position of Sawai Pharmaceutical as of March 31, 2021.

(1) Performance Highlights - Operating Results

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

For the year ended March 31, 2022, revenue increased to JPY 193,816 million (by 3.5%) compared to the year ended March 31, 2021, and operating loss was JPY 35,888 million (JPY 18,888 million of operating profit for the year ended March 31, 2021), loss before tax was JPY 36,214 million (JPY 18,460 million of profit before tax for the year ended March 31, 2021), and loss attributable to owners of the Company was JPY 28,269 million (JPY 12,340 million of profit attributable to owners of the Company for the year ended March 31, 2021).

(Millions of yen, except percentages)

	Year ended March 31, 2021	Year ended March 31, 2022	Change	Change (%)
Revenue	187,219	193,816	6,597	3.5
Operating profit (loss)	18,888	(35,888)	(54,776)	-
Profit (loss) before tax	18,460	(36,214)	(54,674)	-
Profit (loss) attributable to owners of the Company	12,340	(28,269)	(40,609)	-

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 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 sought to promote the usage of generic drugs in order to promptly realize the 80 percent 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 were 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 percent 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 in April 2022 (public notice in March 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 throughout 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. acquired the assets from Kobayashi in March, 2022 and is working on the prompt establishment of a production capacity of more than 20 billion tablets annually through utilizing transferred employees. As a result of fair value measurement of fixed assets, fair value of net assets acquired exceeded consideration transferred, which resulted in 8,704 million yen of gain on bargain purchase. Furthermore, Sawai opened and began the operation of the East Japan Daini Distribution center in November 2021 and West Japan Daini Distribution center in February 2022, 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, Sawai selected six technologies from “technologies that add value to medicines and create harmony in their formulation, such as technologies that make medicines more comfortable to take and more efficiently manufactured medicines,” and divided them into three technology categories with these original formulation technologies collectively named “SAWAI HARMOTECH®” and released to the public in February 2022.

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 163,841 million (6.7% increase compared to the year ended March 31, 2021) and segment profit of JPY 32,361 million (23.1% increase compared to the year ended March 31, 2021).

(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 year ended March 31, 2022, Sawai recognized JPY 4,122 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 29,975 million (10.9% decrease compared to the year ended March 31, 2021). The segment recognized JPY 68,770 million of impairment loss on the segment assets, including goodwill, as a result of a detailed review of its future plan by considering how USL should attain sustainable growth and deciding to embark on business restructuring, which resulted to JPY 68,249 million of segment loss (822.8% decrease compared to the year ended March 31, 2021).

(2) Financial Position

Assets

As of March 31, 2022, current assets amounted to JPY 202,123 million, a decrease of JPY 3,551 million from March 31, 2021. The decrease was primarily due to a decrease in cash and cash equivalents (JPY 6,552 million) and trade and other receivables (JPY 5,048 million), partially offset by increase in inventories (JPY 6,733 million). The increase in inventory was a result of an increase in raw materials and the decrease in trade and other receivables was due to an increase in its liquidation resulting from its timing and extension of the maximum limit of liquidation. Non-current assets as of March 31, 2022 amounted to JPY 147,379 million, a decrease of JPY 40,288 million from March 31, 2021. The decrease was primarily due to a decrease in fixed assets, intangible assets, and goodwill (JPY 68,770 million) resulting from an impairment loss on fixed assets, including goodwill, in the U.S. Business Segment, partially offset by an increase in property, plant, and equipment (JPY 22,367 million) through an acquisition of the assets pertaining to production from Kobayashi Kako in the Japan Business Segment. Total assets as of March 31, 2022 were JPY 349,502 million, a decrease of JPY 43,839 million compared to the balance as of March 31, 2021.

Liabilities

As of March 31, 2022, current liabilities amounted to JPY 88,840 million, an increase of JPY 8,388 million from March 31, 2021. The increase was due to an increase in bonds and borrowings (JPY 9,282 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 2,024 million) due to payments. Non-current liabilities as of March 31, 2022 was JPY 60,579 million, a decrease of JPY 11,560 million from March 31, 2021, primarily due to the reclassification of bonds to current liabilities described above and other factors leading to a JPY 13,108 million decrease in bonds and borrowings. Total liabilities as of March 31, 2022 were JPY 149,419 million, a decrease of JPY 3,172 million compared to the balance as of March 31, 2021.

Equity

Total equity as of March 31, 2022 was JPY 200,083 million, a decrease of JPY 40,667 million compared to the balance as of March 31, 2021, primarily because of net loss for the year ended March 31, 2022 and dividend payments, which is partially compensated by the favorable exchange effects. As a result, the ratio of equity attributable to owners of the Company to total assets as of March 31, 2022 became 54.4% (55.5% as of March 31, 2021).

(3) Cash Flow

Cash and cash equivalents as of March 31, 2022, decreased by JPY 6,552 million to JPY 47,717 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 34,310 million for the year ended March 31, 2022 (an increase of JPY 2,453 million compared to the year ended March 31, 2021), which mainly consists of loss before tax (JPY 36,214 million), depreciation and amortization (JPY 17,045 million), impairment loss (JPY 71,003 million), gain on bargain purchase (JPY 8,704 million), decrease in trade and other receivables (JPY 6,711 million), increase in inventories (JPY 5,625 million), and income taxes paid (JPY 6,010 million).

Cash flows used in investing activities was JPY 30,395 million for the year ended March 31, 2022 (an increase of JPY 8,601 million compared to the year ended March 31, 2021), which mainly consists of the acquisition of property, plant, and equipment (JPY 14,513 million), proceeds from sale of property, plant and equipment (JPY 3,122 million), acquisition of intangible assets (JPY 8,831 million), and payments for acquisition of business (JPY 10,114 million).

Cash flows used in financing activities was JPY 11,262 million for year ended March 31, 2022 (a decrease of JPY 729 million compared to the year ended March 31, 2021), which mainly consists of payments of dividends (JPY 5,693 million) and repayments of long-term borrowings (JPY 3,834 million).

2. Consolidated Financial Statements and Selected Notes

(1) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

	Yen in millions (except per share data)
	Year ended March 31, 2022
Revenue	193,816
Cost of sales	(127,164)
Gross profit	66,652
Selling, general and administrative expenses	(46,690)
Research and development expenses	(24,413)
Other income	15,181
Other expenses	(46,618)
Operating profit (loss)	(35,888)
Finance income	145
Finance expenses	(471)
Profit (loss) before tax	(36,214)
Income tax expenses	(5,710)
Profit (loss) for the year	(41,924)
Profit (loss) attributable to:	
Owners of the Company	(28,269)
Non-controlling interests	(13,655)
Total	(41,924)
Earnings (loss) per share (Yen)	
Basic earnings (loss) per share	(645.53)
Diluted earnings (loss) per share	(645.53)

(Consolidated Statements of Comprehensive Income)

Yen in millions

Year ended March 31, 2022	
Profit (loss) for the year	(41,924)
Other comprehensive income	
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	608
Items that may be reclassified to profit or loss:	
Exchange differences on translation of foreign operations	6,294
Other comprehensive income for the period, net of tax	6,902
Total comprehensive income (loss) for the year	(35,022)
Total comprehensive income (loss) attributable to:	
Owners of the Company	(22,566)
Non-controlling interests	(12,456)
Total	(35,022)

(2) Consolidated Statements of Financial Position

Yen in millions

As of March 31, 2022

Assets

Current assets

Cash and cash equivalents	47,717
Trade and other receivables	65,059
Inventories	85,853
Other financial assets	146
Other current assets	3,348

Total current assets	202,123
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Non-current assets

Property, plant, and equipment	111,218
Intangible assets	26,289
Other financial assets	7,223
Other non-current assets	2,303
Deferred tax assets	346

Total non-current assets	147,379
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Total assets	349,502
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Yen in millions

As of March 31, 2022

Liabilities and equity	
Liabilities	
Current liabilities	
Trade and other payables	50,912
Bonds and borrowings	13,116
Income taxes payable	3,430
Refund liabilities	7,581
Provisions	1,062
Other financial liabilities	4,419
Other current liabilities	8,320
Total current liabilities	88,840
Non-current liabilities	
Bonds and borrowings	53,633
Provisions	319
Other financial liabilities	2,889
Other non-current liabilities	1,435
Deferred tax liabilities	2,303
Total non-current liabilities	60,579
Total liabilities	149,419
Equity	
Share capital	10,000
Capital surplus	73,672
Retained earnings	98,709
Treasury shares	(2)
Other component of equity	7,688
Equity attributable to owners of the Company	190,067
Non-controlling interests	10,016
Total equity	200,083
Total liabilities and equity	349,502

(3) Consolidated Statements of Changes in Equity

Year ended March 31, 2022

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 (loss) for the year			(28,269)			(28,269)	(13,655)	(41,294)
Other comprehensive income					5,703	5,703	1,199	6,902
Total comprehensive income (loss)	—	—	(28,269)	—	5,703	(22,566)	(12,456)	(35,022)
Acquisition of treasury shares				(2)		(2)		(2)
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
Total transactions with owners	(31,219)	31,219	(5,451)	(2)	(192)	(5,645)	—	(5,645)
Balance at March 31, 2022	10,000	73,672	98,709	(2)	7,688	190,067	10,016	200,083

(4) Consolidated Statements of Cash Flows

Yen in millions

Year ended March 31, 2022

Cash flows from operating activities	
Profit (loss) before tax	(36,214)
Depreciation and amortization	17,045
Impairment loss	71,003
Financial income	(152)
Financial expenses	461
Gain on bargain purchase	(8,704)
Gain on sale and disposal of property, plant and equipment and intangible assets	(2,070)
(Increase) decrease in trade and other receivables	6,711
(Increase) decrease in inventories	(5,625)
Increase (decrease) in trade and other payables	(170)
Increase (decrease) in refund liabilities	(378)
Increase (decrease) in provisions	292
Increase (decrease) in other financial liabilities	194
Other	(1,704)
Subtotal	40,689
Interest received	2
Dividends received	141
Interest paid	(512)
Income taxes paid	(6,010)
Cash flows generated from operating activities	34,310
Cash flows from investing activities	
Acquisition of property, plant and equipment	(14,513)
Proceeds from sale of property, plant and equipment	3,122
Acquisition of intangible assets	(8,831)
Payments for acquisition of business	(10,114)
Other	(59)
Cash flows used in investing activities	(30,395)
Cash flows from financing activities	
Repayments of long-term borrowings	(3,834)
Payments of lease liabilities	(1,715)
Dividends paid	(5,693)
Others	(20)
Cash flows used in financing activities	(11,262)
Effect of exchange rate change on cash and cash equivalents	795
Net increase (decrease) in cash and cash equivalents	(6,552)
Cash and cash equivalents at the beginning of the year	54,269
Cash and cash equivalents at the end of the year	47,717

(5) Selected Notes to Condensed Quarterly Consolidated Financial Statements

(Significant Uncertainty Regarding Going Concern Assumption)

Not applicable

(Basis of preparation of the consolidated financial statements)

1. Consolidated financial statements are in accordance with IFRS.

Sawai meets all of the requirements for a “Specified Company under Designated International Financial Reporting Standards” as stipulated under Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Ordinance No. 28, 1976, “the Ordinance”). Hence, in accordance with Article 93 of the Ordinance, the Consolidated Financial Statements have been prepared in accordance with IFRS.

2. Basis of measurement

The consolidated financial statements have been prepared using the historical cost convention except for items that are required to be accounted for at fair value such as financial instruments.

3. Presentation currency

The Consolidated Financial Statements are presented in Japanese yen, which is Company’s functional currency. All amounts have been rounded to the nearest million yen, unless otherwise indicated.

(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.

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.

With respect to the accounting policies for business combinations, Sawai newly adopted the following bargain purchase accounting policy for financial statements.

At the time of initial recognition, if the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest, and the acquisition-date fair value of the acquirer’s previously-held equity interest in the acquiree is less than the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, the difference is recognized immediately in the consolidated statements of income as gain on bargain purchase.

(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.

Year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Yen in millions				
	Japan Business	U.S. Business	Total	Adjustments and elimination	Amount recorded in the consolidated statements of income
Segment revenue					
Revenue from external customers	163,841	29,975	193,816	—	193,816
Intersegment revenue or transfers	—	—	—	—	—
Total	163,841	29,975	193,816	—	193,816
Segment profit (loss)	32,361	(68,249)	(35,888)	—	(35,888)
Finance income					145
Finance expenses					(471)
Loss before tax					(36,214)
Other items					
Depreciation and amortization	11,372	5,673	17,045	—	17,045
Impairment loss	2,233	68,770	71,003	—	71,003

(Consolidated statements of income)

(Impairment Loss of Assets Related to U.S. Business Segment)

The group's U.S. Business segment saw entries of competitors for its main products one after the other in Fiscal 2021 and even though it strived to expand the number of products placed on the market, the business environment was severe. Therefore, Sawai considered how its subsidiary Upsher-Smith Laboratories, LLC should attain sustainable growth and decided to embark on business restructuring. As a result of this review of its future plan for the U.S. Business segment, which represents a cash generating unit (CGU), Sawai determined that the recoverable amount of the CGU would be less than book value.

The recoverable amount of the CGU is determined based on the fair value less costs of disposal classified as level 3 inputs under the fair-value hierarchy for intangible assets (marketed products and research and development), and based on value-in-use for the rest of assets. They are derived from discounted forecast cash flow models using the pre-tax WACC of 8.5% - 10.5%.

Following is a summary of impairment losses recognized in the U.S. Business Segment in the year ended March 31, 2022:

	Amount of impairment loss Yen in millions
Buildings and structures (Property, plant and equipment)	858
Machinery and equipment (Property, plant and equipment)	286
Construction in progress (Property, plant and equipment)	1,717
Goodwill	39,897
Marketed products (Intangible assets)	16,302
Research and development (Intangible assets)	3,001
Trademark (Intangible assets)	6,709
Total	<u>68,770</u>

Impairment losses above are included in the following account on the consolidated statements of income.

	Amount of impairment loss Yen in millions
Cost of sales	2,299
Selling, general and administrative expenses	14,141
Research and development expenses	5,724
Other expenses	46,606
Total	<u><u>68,770</u></u>

(Business Combination)

Sawai, ORIX Corporation (Head office: Tokyo, Japan; hereinafter “ORIX”), and Kobayashi Kako Co., Ltd. (Head office: Fukui, Japan; hereinafter “Kobayashi Kako”) agreed 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”). Sawai established Trust Pharmatech Co., Ltd., which acquired the assets in exchange for cash consideration on March 31, 2022.

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 its 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 issue has been to obtain not only manufacturing facilities but also the personnel engaged in drug manufacturing. The greatest reason for the decision for the 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. We also believe this is one step toward contributing to the generics industry, and to medical practitioners and patients.

3. Date of acquisition

March 31, 2022

4. Percentage of voting equity interests acquired

Sawai has established Trust Pharmatech Co., Ltd. as a new subsidiary (100% of ownership ratio of voting rights), which received the facilities.

5. Fair value of assets acquired and the liabilities assumed, and breakdown of consideration transferred

Following is a summary of the assets acquired and liabilities assumed, and consideration transferred.

	Yen in millions
Property, plant, and equipment	22,367
Other assets	285
Deferred tax assets	36
Deferred tax liabilities	△3,870
Gain on bargain purchase	△8,704
Total net assets acquired	10,114
Cash	10,114
Total consideration transferred	10,114

As a result of fair value measurement of fixed assets, fair value of net assets acquired exceeded consideration transferred, which resulted in 8,704 million yen of gain on bargain purchase. Gain on bargain purchase is included in “other income” on the consolidated statements of income. Furthermore, acquisition related costs for the business combination in the amount of 50 million yen is included in “Selling, general and administrative expenses”.

(Earnings Per Share)

	Year ended March 31, 2022
Loss attributable to owners of the Company (million Yen)	(28,269)
Weighted average number of ordinary shares outstanding during the year (thousand shares)	43,791
Average number of ordinary shares during the year (thousand shares)	43,791
Dilutive effect (thousand shares)	-
Weighted average number of ordinary shares outstanding during the year after dilutive effect (thousand shares)	43,791
Profit per share (attributable to the owners of the Company)	
Basic earnings per share (Yen)	(645.53)
Diluted earnings per share (Yen)	(645.53)

There were 58 thousand shares such as stock options that are anti-dilutive, not included in the calculation of diluted earnings per share for the year ended March 31, 2022.