

Financial Summary for the Third Quarter of FY2023 (IFRS)

February 14, 2024

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

Stock Code Number (Japan): 4887

Listed Stock Exchange: Tokyo Stock Exchange

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

Representative: Mitsuo Sawai, President and Representative Director

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Filing Date of Quarterly Report: February 14, 2024

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 FY2023 (for the nine-month period ended December 31, 2023)

(1) Consolidated Operating Results

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

	Revenue		Operating profit		Profit before tax		Profit for the period		Profit attributable to owners of the Company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine-month Period Ended December 31, 2023	136,056	10.4	17,263	17.7	17,071	17.2	9,243	(14.2)	13,501	24.5
Nine-month Period Ended December 31, 2022	123,230	-	14,672	-	14,570	-	10,770	(34.4)	10,845	(31.7)

Note: Comprehensive Income: Nine-month Period Ended December 31, 2023: 10,754 million yen <(31.1)%> Nine-month Period Ended December 31, 2022: 15,604 million yen <(27.6)%>

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month Period Ended December 31, 2023	308.25	307.40
Nine-month Period Ended December 31, 2022	247.66	247.13

Note: As described in "Discontinued Operation" in Notes, the Company has classified its U.S. Business as a discontinued operation since the third quarter of FY2023. Therefore, in this summary, the amounts of revenue, operating profit, profit before tax and profit from continued operations comprise those of the Company's continued operations, excluding those of the discontinued operations, while the amounts of profit for the period and profit attributable to owners of the Company total those of both the continued and discontinued operations. As the amounts for the the third quarter of FY2022 have also been adjusted to reflect this change, the percent change from the previous year's result is not presented.

(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, 2023	390,798	217,848	210,278	53.8
As of March 31, 2023	364,165	212,738	201,643	55.4

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, 2023	—	65.00	—	65.00	130.00
For the Fiscal Year Ended March 31, 2024	—	65.00	—		

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

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, 2023: 43,803,339 shares
 - March 31, 2023: 43,791,339 shares
 - (ii) Number of treasury stock at the end of each period:
 - December 31, 2023: 366 shares
 - March 31, 2023: 336 shares
 - (iii) Average number of shares issued and outstanding in each period:
 - Nine-month period ended December 31, 2023: 43,798,328 shares,
 - Nine-month period ended December 31, 2022: 43,791,003 shares

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, 2024. 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, 2023

(1) Operating Results

Sawai Group Holdings Co., Ltd. (the “Company”) and subsidiaries (collectively, “Sawai”) has adopted International Financial Reporting Standards (IFRS) in order to increase the international comparability of its financial information within the capital market. As described at “(5) Selected Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operation) in “2. Condensed Quarterly Consolidated Financial Statements and Selected Notes,” we have classified our U.S. Business as a discontinued operation since the third quarter of FY2023. Therefore, in these statements, the amounts of revenue, operating profit, profit before tax, and profit from the continued operations comprise those of our continued operations, excluding those of the discontinued operation, while the amounts of profit for the period and profit attributable to owners of the Company total those of both the continued and discontinued operations. In the wake of the classification of its U.S. Business as a discontinued operation, Sawai has shifted to a single-segment organization only with manufacturing and sale of pharmaceutical and other products since the third quarter of FY2023.

During the nine-month period ended December 31, 2023, revenue increased to JPY 136,056 million (by 10.4%), operating profit increased to JPY 17,263 million (by 17.7%), profit before tax increased to JPY 17,071 million (by 17.2%), and profit attributable to owners of the Company increased to JPY 13,501 million (by 24.5%) compared to the nine-month period ended December 31, 2022.

(Millions of yen, except percentages)

	Nine-month period ended December 31, 2022	Nine-month period ended December 31, 2023	Change	Change (%)
Revenue	123,230	136,056	12,826	10.4
Operating profit	14,672	17,263	2,590	17.7
Profit before tax	14,570	17,071	2,501	17.2
Profit attributable to owners of the Company	10,845	13,501	2,656	24.5

Note: The above figures for revenue, operating profit, and profit before tax represent the results of our continued operations, while the figure for profit attributable to owners of the Company represents the total results of the continued and discontinued operations.

In May 2021, the Company announced its long-term vision, “Sawai Group Vision 2030,” and its medium-term business plan for the three-year period ending March 31, 2024 titled “START 2024.” Sawai Group Vision 2030 defines the world Sawai wants to build by 2030 as “A world where more people receive healthcare services and live a full life with peace of mind among society” and the ideal state it hopes to reach by 2030 as “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.” START 2024 defines three categories for growth: 1) expanding share of the Japanese generics market, 2) business investment for future growth in the U.S., and 3) cultivating new growth areas. The plan also envisions that Sawai will increase sales of new products and strengthen its stable supply capabilities in the generics business while focusing resources on the three areas of the digital medical device business, the orphan drugs (including drugs for ALS) business, and the health food business with a view to entry into new businesses.

The “Basic Policy on Economic and Fiscal Management and Reform 2021,” approved by the Japanese Cabinet in June 2021, states, “With the aim of ensuring the reliability of the quality and stable supply of generic drugs as the main pillar, the Government and the private sector will work together to strengthen the manufacturing control system, strengthen the supervision of manufacturing sites, and implement quality inspections of commercial products. The goal is to increase the volume share of generic drugs to 80% or more in all prefectures by the end of FY2023.” On the occasion of the April 2022 medical fee revision, the evaluation standards were revised in favor of pharmacies dispensing a high percentage of generic drugs and medical institutions using a high percentage

of generic drugs in order to further encourage the use of generic pharmaceuticals. As a result, the results of the Japanese government's drug price survey in September 2022 showed that the latest share of generic drugs was 79.0% on a volume basis.

On the other hand, Sawai has experienced increasing difficulty earning greater profits. This is attributable to drug price revisions recently made for several consecutive years: regular revision in April 2018, temporary revision in October 2019 due to an increase in the Japanese consumption tax rate, regular revision in April 2020, the first-ever interim revision in April 2021, regular revision in April 2022, and interim revision in April 2023. As a result, according to the Japanese government's National Health Insurance (NHI) drug price survey in September 2023, the latest volume-based share of generic drugs was 80.2% (a preliminary figure). Moreover, from October 2024, an additional financial burden will be imposed on patients who use some long-listed drugs to which generic alternatives are available, which is expected to further accelerate the shift to generic drugs.

Under such circumstances, the entire Japanese drug market has faced the uncertainty of product supply due to health problems caused by pharmaceutical products of a second-tier generic drug company at the end of 2021 and violations committed by a number of generic drug companies, including major ones, against the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. In response to this situation, the Expert Panel on Comprehensive Measures to Achieve Rapid and Stable Supply of Pharmaceuticals, which the Ministry of Health, Labour and Welfare convened in August 2022, discussed a wide range of subjects, including the distribution of pharmaceuticals, the National Health Insurance (NHI) drug pricing system, and structural problems faced by the Japanese generic pharmaceutical industry, resulting in a report compiled in June 2023. This panel and other related deliberating bodies are currently further discussing countermeasures in each field.

In this business environment, Sawai, as a leading generic drug manufacturer in Japan, works according to START 2024 to reinforce its quality control system, increase sales of new products, and strengthen its capability for stable product supply with the aim of achieving its medium-term target of expanding its share of the Japanese generics market, while striving to restore public trust in the entire generic drug industry.

Given that the Japanese generic drug industry has seen serious quality control violations committed by certain companies, Sawai Pharmaceutical Co., Ltd. ("Sawai Pharmaceutical"), the core company in the Sawai Group, has focused on several issues such as ensuring the good quality of active pharmaceutical ingredients (APIs) in compliance with Good Manufacturing Practice (GMP) standards, maintaining the effectiveness of the quality control system through constant checks on GMP compliance at manufacturing facilities, and exerting manufacturing and quality control based on the internationally accepted Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S) GMP Guide. (The PIC/S is a non-binding, informal cooperative arrangement between Regulatory Authorities in the field of GMP of medicinal products for human or veterinary use.) Furthermore, Sawai has implemented various initiatives to ensure that medical professionals are able to use its products without concern, including disclosing the names of all its manufacturing subcontractors and API suppliers and the dates of audits performed over their operations. Sawai also released a video introducing its efforts to improve quality control last fiscal year.

However, Sawai Pharmaceutical revealed that Teprenone Capsules 50 mg "Sawai" manufactured at its Kyushu Plant was inappropriately tested in the dissolution test for stability monitoring for a long time. In addition, in December 2023, Sawai received an administrative penalty from the Ministry of Health, Labour and Welfare, Osaka Prefecture and Fukuoka Prefecture, for a violation against the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. The continued inappropriate testing is primarily attributed to human and structural factors. The human factors include (1) a prevalent disregard for stability monitoring; (2) an inclination to unquestioningly follow superiors' instructions; (3) a lack of understanding of GMP among those conducting the tests. The structural factors include (1) an inadequate supervisory system for quality control and assurance; (2) insufficient management of test records; and (3) overwork and understaffing in the quality control department responsible for overseeing these processes. We have developed the following measures aimed at preventing any recurrence and are dedicated to rebuilding trust; (1) commence a corporate culture reform project under the direct leadership of the president, (2) re-evaluate existing market products in terms of manufacturing and quality and implement corrective measures and (3) implement recurrence prevention measures in the production division including reintroduction of GMP education for all employees, clarification of the roles and responsibilities of managers and supervisors and recruitment both internally and externally

for the quality control and quality assurance divisions within the plant.

We are also pursuing even higher efficiency and lower cost for our production and supply systems by utilizing the unique characteristics of each of our six factories throughout Japan with the aim of eliminating the uncertainty of generic drug supply by accommodating growing demand, as well as addressing soaring energy and raw material prices. As part of such efforts, in September 2022, we completed construction of an injection production facility at the Kyushu Factory site and began construction of a new solid-formulation production facility with a maximum capacity to produce three billion tablets at the Daini Kyushu Factory site. Additionally, Trust Pharmatech Co., Ltd., a Sawai Group company established by taking over assets related to production activities from Kobayashi Kako Co., Ltd., including the staff of the relevant departments, has begun contract manufacturing products of Sawai Pharmaceutical. This new company will continue its efforts to build a solid production system with a view to becoming capable of manufacturing 20 billion or more tablets a year as soon as possible. Furthermore, Sawai opened and began to operate the East Japan Daini Distribution Center and the West Japan Daini Distribution Center last fiscal year with the aim of further strengthening its product supply system from the aspect of distribution.

In terms of marketing, as a countermeasure against the steep rise in costs, we have passed on the cost increases to the prices of some of our products, mainly low-priced ones, while working to further improve production efficiency. In June 2023, two generic drugs with 8 strengths, including Azilsartan tablets from Sawai Pharmaceutical were inscribed on the Japanese National Health Insurance drug price list. In addition, in December 2023, a lenalidomide capsule drug with two strengths from Sawai was added to the NHI drug price list.

In the field of product development, Sawai Pharmaceutical has selected six technologies in three categories from technologies that can add value to medicines and create harmony in their formulation, such as technologies for making medicines more comfortable to take and for increasing the efficiency of pharmaceutical production. These original formulation technologies are collectively named “SAWAI HARMOTECH[®]” and have been publicly disclosed since February 2022.

As a new initiative for the personal health record (PHR) business, we link SaluDi, a PHR management app from the Sawai Pharmaceutical brand, and Smart One Health, a PHR management system developed by Integrity Healthcare Co., Ltd., with specified health guidance based on MIRAMED[®], a behavior modification support system developed by the Precision Health Department (Project Research Associate Akiko Kishi) of the University of Tokyo Center of Innovation (COI). Through this collaboration, we will verify the feasibility and effectiveness of a one-stop service for health, disease prevention, specified health guidance, and recommendation for medical consultation. In September 2022, we launched the “Health Support Community supported by SaluDi” in collaboration with QON Inc. to facilitate close communication between community members and thereby raise public awareness of healthy lifespans, healthcare and the PHR. Furthermore, in January 2023, SaluDi was selected for use in the Yabu Digital Healthy Aging Project implemented by the municipality of Yabu City, Hyogo Prefecture. In May 2023, SaluDi was also chosen as the official PHR app for Ajsai Net, a regional medical collaboration network in Nagasaki Prefecture. In July 2023, we also agreed with TOPPAN INC. (currently TOPPAN Holdings Inc.) to consider partnering in a PHR-based business. Leveraging this app, we will take the lead utilizing digital technology to further enhance people’s lifestyles and well-being. In addition, in August 2022, we concluded a licensing agreement with CureApp, Inc. to gain the right to develop and sell digital therapeutics (DTx) in the field of non-alcoholic steatohepatitis (NASH) with the aim of utilizing apps in this field to not only enhance digital-healthcare technology and expertise but also deliver IT-based solutions directly to patients and healthcare professionals. In the medical device business, we will focus on SWD001, a non-invasive neuromodulation device for acute-phase treatment of migraine, for which we submitted an application for manufacturing and marketing authorization to the Pharmaceuticals and Medical Devices Agency (PMDA) in December 2022. In the health food business, in July 2023, we launched the “Kukkiri-ryoku Eye,” our second eye health supplement labeled as a food with function claims, at our official online store.

As a result, the Sawai Group achieved net sales of JPY 136,056 million (an increase of 10.4% year on year) and an operating profit of JPY 17,263 million (an increase of 17.7% year on year), with an operating profit from the core business of JPY 19,754 million (a reference value; an increase of 11.8% year on year).

(2) Financial Position

Assets

As of December 31, 2023, current assets amounted to JPY 242,774 million, an increase of JPY 37,427 million from March 31, 2023. The increase was mainly due to an increase of JPY 56,043 million in assets held for sale caused by the shift of our U.S. Business to the category of discontinued operation, while cash and cash equivalents decreased by JPY 4,778 million as described at “Cash Flows” below. In addition, trade and other receivables also decreased by JPY 8,503 million, resulting from the shift of our U.S. Business to the category of discontinued operation. Non-current assets as of December 31, 2023 amounted to JPY 148,024 million, a decrease of JPY 10,794 million from March 31, 2023. The decrease was primarily due to a decrease of JPY 17,340 million in the value of property, plant and equipment, resulting from the shift of our U.S. Business to the category of discontinued operation.

Total assets as of December 31, 2023 were JPY 390,798 million, an increase of JPY 26,633 million compared to the balance as of March 31, 2023.

Liabilities

As of December 31, 2023, current liabilities amounted to JPY 111,266 million, an increase of JPY 26,111 million from March 31, 2023. The increase was mainly due to an increase of JPY 18,633 million in (short term) borrowings based on the Company’s financing plan and a decrease of JPY 5,121 million in trade and other payables due to an excess of payments for accounts payable. Non-current liabilities as of December 31, 2023 was JPY 61,684 million, a decrease of JPY 4,588 million from March 31, 2023, primarily due to a decrease of JPY 2,338 million in (long term) borrowings as a result of the transfer of a certain portion of long term borrowings to current liabilities based on the repayment schedule. Total liabilities as of December 31, 2023 were JPY 172,950 million, an increase of JPY 21,523 million compared to the balance as of March 31, 2023.

Equity

Total equity as of December 31, 2023 was JPY 217,848 million, an increase of JPY 5,110 million compared to the balance as of March 31, 2023, primarily due to the net profit for the nine-month period ended December 31, 2023 and the favorable effect of foreign exchange rates, offset by dividend payments. As a result, the ratio of equity attributable to owners of the Company to total assets as of December 31, 2023 became 53.8% (down from 55.4% as of March 31, 2023).

(3) Cash Flow

Cash and cash equivalents as of December 31, 2023 decreased by JPY 4,778 million to JPY 28,298 million, compared to the balance as of March 31, 2023.

The results of cash flow for each activity, including the cash flow of the discontinued operation, are as follows:

Cash flows generated from operating activities was JPY 14,237 million for the current period (an increase of JPY 10,823 million compared to the same period of the previous year) which mainly consists of profit before tax (JPY 17,071 million), loss before tax on the discontinued operation (JPY 21,136 million), depreciation and amortization (JPY 13,585 million), loss recognized on the measurement to the fair value less cost to sell the disposal group constituting the discontinued operation (JPY 20,793 million), increase in trade and other receivables (JPY 12,474 million), increase in inventories (JPY 6,354 million).

Cash flows used in investing activities was JPY 19,780 million for the current period (increase of JPY 3,230 million compared to the same period of the previous year) which mainly consists of acquisition of property, plant and equipment (JPY 16,343 million) and acquisition of intangible assets (JPY 4,984 million).

Cash flows generated from financing activities was JPY 9,348 million for the current period (increase of JPY 9,271 million compared to the same period of the previous year) which mainly consists of net proceeds from short-term borrowings (JPY 18,549 million), repayments of long-term borrowings (JPY 2,255 million) and payments of dividend (JPY 5,694 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)

Yen in millions (except per share data)

	Nine-month period ended December 31,2022	Nine-month period ended December 31,2023
Continued Operations		
Revenue	123,230	136,056
Cost of sales	(84,763)	(94,183)
Gross profit	38,467	41,873
Selling, general and administrative expenses	(16,046)	(16,853)
Research and development expenses	(8,014)	(7,620)
Other income	301	112
Other expenses	(36)	(250)
Operating profit	14,672	17,263
Finance income	193	197
Finance expenses	(296)	(389)
Profit before tax	14,570	17,071
Income tax expenses	(3,499)	(5,441)
Profit for the period from continued operations	11,070	11,629
Discontinued Operation		
Loss for the period from the discontinued operation	(300)	(2,386)
Profit for the period	10,770	9,243
Profit attributable to:		
Owners of the Company	10,845	13,501
Non-controlling interests	(75)	(4,258)
Total	10,770	9,243
Earnings per share (Yen)		
Basic earnings (loss) per share		
Continued operations	252.80	265.52
Discontinued operation	(5.14)	42.73
Basic earnings (loss) per share	247.66	308.25
Diluted earnings (loss) per share		
Continued operations	252.25	264.79
Discontinued operation	(5.13)	42.61
Diluted earnings (loss) per share	247.13	307.40

(Condensed Quarterly Consolidated Statements of Comprehensive Income)

Yen in millions

	Nine-month period ended December 31,2022	Nine-month period ended December 31,2023
Profit for the period	10,770	9,243
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	164	669
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	4,670	842
Other comprehensive income for the period, net of tax	4,834	1,511
Total comprehensive income for the period	15,604	10,754
Total comprehensive income attributable to:		
Owners of the Company	14,833	14,279
Non-controlling interests	771	(3,525)
Total	15,604	10,754

(2) Condensed Quarterly Consolidated Statements of Financial Position

Yen in millions

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	33,076	28,298
Trade and other receivables	67,007	58,504
Inventories	101,805	97,453
Other financial assets	179	162
Other current assets	1,677	712
Subtotal	203,744	185,129
Assets held for sale	1,602	57,645
Total current assets	205,347	242,774
Non-current assets		
Property, plant and equipment	121,330	103,990
Intangible assets	27,096	21,258
Other financial assets	7,791	8,397
Other non-current assets	2,429	482
Deferred tax assets	173	13,897
Total non-current assets	158,818	148,024
Total assets	364,165	390,798

Yen in millions

	As of March 31, 2023	As of December 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	52,815	47,693
Borrowings	13,034	31,667
Income taxes payable	1,460	3,775
Refund liabilities	5,440	3,899
Provisions	190	78
Other financial liabilities	4,444	4,948
Other current liabilities	7,771	5,404
Subtotal	85,154	97,465
Liabilities directly related to assets held for sale	—	13,801
Total current liabilities	85,154	111,266
Non-current liabilities		
Borrowings	60,098	57,760
Provisions	101	101
Other financial liabilities	2,492	3,018
Other non-current liabilities	1,488	249
Deferred tax liabilities	2,092	556
Total non-current liabilities	66,272	61,684
Total liabilities	151,426	172,950
Equity		
Share capital	10,000	10,020
Capital surplus	37,714	37,734
Retained earnings	141,642	149,451
Treasury shares	(2)	(2)
Other component of equity	12,289	13,074
Equity attributable to owners of the Company	201,643	210,278
Non-controlling interests	11,095	7,570
Total equity	212,738	217,848
Total liabilities and equity	364,165	390,798

(3) Condensed Quarterly Consolidated statements of Changes in Equity

Nine-month period ended December 31, 2022

	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, 2022	10,000	73,672	98,709	(2)	7,688	190,067	10,016	200,083
Profit for the period			10,845			10,845	(75)	10,770
Other comprehensive income					3,987	3,987	846	4,834
Total comprehensive income	—	—	10,845	—	3,987	14,833	771	15,604
Dividends		(2,846)	(2,846)			(5,693)		(5,693)
Transfer to retained earnings from capital surplus		(33,112)	33,112			—		—
Share based payment					145	145		145
Total transactions with owners	—	(35,959)	30,266	—	145	(5,548)	—	(5,548)
Balance at December 31, 2022	10,000	37,714	139,821	(2)	11,819	199,352	10,787	210,139

Nine-month period ended December 31, 2023

	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, 2023	10,000	37,714	141,642	(2)	12,289	201,643	11,095	212,738
Profit for the period			13,501			13,501	(4,258)	9,243
Other comprehensive income					778	778	733	1,511
Total comprehensive income	—	—	13,501	—	778	14,279	(3,525)	10,754
Issuance of new shares	20	20			(41)	0		0
Acquisition of treasury shares				(0)		(0)		(0)
Dividends			(5,694)			(5,694)		(5,694)
Share based payment			—		48	48		48
Other			1			1		1
Total transactions with owners	20	20	(5,692)	(0)	7	(5,645)	—	(5,645)
Balance at December 31, 2023	10,020	37,734	149,451	(2)	13,074	210,278	7,570	217,848

(4) Condensed Quarterly Consolidated Statements of Cash Flows

Yen in millions

	Nine-month period ended December 31,2022	Nine-month period ended December 31,2023
Cash flows from operating activities		
Profit before tax	14,570	17,071
Loss before tax from the discontinued operation	(300)	(21,136)
Depreciation and amortization	13,199	13,585
Impairment loss	1,523	566
Loss recognized on the measurement to the fair value less cost to sell the disposal group constituting the discontinued operation	—	20,793
Financial income	(201)	(392)
Financial expenses	305	391
Loss on sale and disposal of property, plant and equipment and intangible assets	126	181
Increase in trade and other receivables	(9,530)	(12,474)
Increase in inventories	(11,428)	(6,354)
Decrease in trade and other payables	3,175	1,188
Increase in refund liabilities	319	1,959
Decrease in provisions	(608)	(112)
Increase in other financial liabilities	667	541
Other	(2,054)	2,817
Subtotal	9,763	18,623
Interest received	1	189
Dividends received	192	196
Interest paid	(331)	(369)
Income taxes paid	(7,473)	(5,819)
Income taxes refund	1,263	1,417
Cash flows generated from operating activities	3,414	14,237
Cash flows from investing activities		
Acquisition of property, plant and equipment	(17,792)	(16,343)
Sale of property, plant and equipment	27	32
Acquisition of intangible assets	(5,265)	(4,984)
Other	20	1,515
Cash flows used in investing activities	(23,010)	(19,780)
Cash flows from financing activities		
Net proceeds from short-term borrowings	10,000	18,549
Proceeds from long-term borrowings	9,500	—
Repayments of long-term borrowings	(2,255)	(2,255)
Redemption of bonds	(10,000)	—
Payments of lease liabilities	(1,458)	(1,223)
Dividends paid	(5,693)	(5,694)
Others	(18)	(30)
Cash flows generated from financing activities	77	9,348
Effect of exchange rate change on cash and cash equivalents	705	582
Net increase in cash and cash equivalents	(18,815)	4,386
Cash and cash equivalents at beginning of the period	47,717	33,076
Decrease in cash and cash equivalents included in assets held for sale	—	(9,164)
Cash and cash equivalents at end of the period	28,902	28,298

(5) Selected Notes to Condensed Quarterly Consolidated Financial Statements

(Significant Uncertainty Regarding Going Concern Assumption)

Not applicable

(Assets Held for Sale and Liabilities Directly Related to Assets Held for Sale)

The components of “Assets held for sale” and “Liabilities directly related to assets held for sale” are as follows:

	Yen in millions	
	As of March 31, 2023	As of December 31, 2023
Assets held for sale		
Cash and cash equivalents	—	9,164
Trade and other receivables	—	23,302
Inventories	—	11,260
Property, plant and equipment	—	24,886
Intangible assets	1,602	6,239
Other Assets	—	3,375
Cumulative loss recognized on the measurement to the fair value less cost to sell of the disposal group constituting the discontinued operation	—	(20,581)
Total assets held for sale	1,602	57,645
Liabilities directly related to assets held for sale		
Trade and other payables	—	4,233
Other liabilities	—	9,567
Total liabilities directly related to assets held for sale	—	13,801

Assets held for sale at the end of the previous fiscal year represent a reversed portion of the impairment loss recognized on intangible assets related to certain products in previous terms, based on an estimated amount of money recoverable if the intangible assets are transferred.

Assets held for sale and liabilities directly related to assets held for sale for the third quarter of FY2023 have been classified so in line with the agreement that Sawai concluded on the share transfer, as described in “(8) U.S. Business” at “1. Business and Other Risks.” Details regarding the agreement on the transfer of the shares of Sawai America Holdings Inc. (SAH) are described in “11. Discontinued Operation.” The disposal group, classified as an asset held for sale related to SAH, is evaluated based on its fair value less cost to sell, which is lower than its book value. A resulting loss of JPY 20,793 million was recorded as “Loss on the discontinued operation” in the summary of the quarterly consolidated financial statements. The fair value is calculated based on the selling price of the asset and is positioned at Level 3 in the fair value hierarchy.

(Discontinued Operation)

(1) Outline of Discontinued Operation

At a meeting held on January 16, 2024, the Board of Directors resolved to transfer all shares of SAH, a holding company of Sawai’s U.S. Business, as well as its interests in Sawai America LLC (SAL) and interests in Upsher-Smith Laboratories, LLC (USL), both of which are subsidiaries of SAH, to Bora Pharmaceutical Holdings, Inc. (Bora). In line with the resolution, the Company concluded the agreement on the transfer of these shares on the same date.

As a result, the Company has recorded profit/loss related to the U.S. Business under the category of “discontinued operation.”

(2) Discontinued Operation

Yen in millions		
	Nine-month period ended December 31,2022	Nine-month period ended December 31,2023
Discontinued Operation		
Income	27,954	30,276
Expenses	(28,254)	(51,412)
Loss before tax on the discontinued operation	(300)	(21,136)
Income tax expenses	—	(18,750)
Loss for the period on the discontinued operation	(300)	(2,386)
Loss on the discontinued operation attributable to:		
Owners of the Company	(225)	1,872
Non-controlling interests	(75)	(4,258)
Total	(300)	(2,386)

Note: The calculations include a loss of JPY 20,793 million recognized on the measurement to the fair value less cost to sell the disposal group constituting the discontinued operation due to the agreement with Bora. The income tax expenses include a deferred tax asset of JPY 18,750 million recorded due to the high likelihood that a temporary difference caused mainly by gains and losses recognized in prior years on investments in SAH and the loss recognized on the measurement to the fair value less costs to sell the disposal group constituting the discontinued operation will be removed within a predictable period.

(3) Cash flows from discontinued operation

Yen in millions		
	Nine-month period ended December 31,2022	Nine-month period ended December 31,2023
Cash flows from operating activities	820	(1,539)
Cash flows from investing activities	(1,288)	992
Cash flows from financing activities	(242)	(49)
Total	(710)	(595)

(Segment Information)

The operating segments of the Sawai Group are the components for which separate financial information is available, and the Board of Directors, as the chief operating decision maker, regularly examines the financial information in deciding how to allocate management resources, assessing the Group's past performance, and forecasting its future performance.

Sawai used to manufacture and sell generic pharmaceutical products in Japan and the U.S., where different manufacturing and marketing strategies are required. Accordingly, Sawai had two operating and reporting segments: the Japan Business segment and U.S. Business segment. However, in response to the Board of Directors' decision made on January 16, 2024 to transfer all shares of SAH to Bora, the U.S. Business segment has been classified as a discontinued operation, leading to Sawai being a single-segment organization only with manufacturing and sale of pharmaceutical and other products.

The manufacturing and sale of pharmaceutical and other products mainly consist of four consolidated subsidiaries: Sawai Pharmaceutical Co., Ltd., which manufactures and sells generic pharmaceutical products; Kaken Shoyaku Co., Ltd.; Trust Pharmatech Co., Ltd.; and Medisa Shinyaku Inc., which sells generic pharmaceutical products.

(Subsequent Events)

(Transfer of the shares of subsidiaries)

At a meeting held on January 16, 2024, the Board of Directors resolved to transfer all shares of SAH, a holding company of its U.S. Business, as well as its interests in SAL and interests in USL, both of which are subsidiaries of SAH, to Bora. In line with the resolution, the Company concluded the agreement on the transfer of these shares on the same date. As a result of the conclusion of this agreement, SAH, SAL and USL are expected to be excluded from our consolidated group. Accordingly, for the third quarter of FY2023, the assets and liabilities of SAH, SAL and USL have been classified as assets held for sale and liabilities directly related to assets held for sale, and the U.S. Business has been classified as a discontinued operation.

1. The Reason for the Transfer of These Shares

In 2017, the Sawai Group acquired Upsher-Smith with the aim of making a full-scale entry into the U.S. market, the world's largest generic drug market. Since the acquisition, we have pursued business growth by implementing a variety of measures, including consolidating or closing some plants, enhancing the production capability of other plants, and increasing the pipeline capacity.

Despite our dedicated efforts, the business environment became increasingly complex as the top three purchasing groups strengthened their buying capabilities, and the entry of competitors, particularly from India, into the markets for USL's main products intensified price competition. Consequently, the performance of USL so significantly deteriorated that it recorded significant impairment losses on its goodwill and other assets for the fiscal year ended March 2022. To address these challenges, we undertook proactive measures, such as streamlining back-office operations, implementing cost-cutting initiatives, and restructuring our R&D framework and development strategies.

Given these circumstances, the Sawai Group discussed various options with its co-investor, Sumitomo Corporation Group. Based on the discussion, we recognized that staying ahead of our competitors would require us to adopt bold product investment strategies and make additional investments in effective utilization of Upsher-Smith's new factory. Meanwhile, the Sawai Group also needs to prioritize the investment of management resources in the Japan Business to solve quality issues and expand demand in Japan. Therefore, the Sawai Group decided that the best option would be to sell the shares and interest of the U.S. Business to Bora, a globally recognized CDMO with a global commercialization arm, which is eager to invest in the U.S. pharma business and effectively utilize the capacity of Upsher-Smith's new factory. The Group thus concluded an agreement regarding the transfer of these shares.

2. Name of the Shares Transfer Recipient

Bora Pharmaceutical Holdings, Inc.

3. Dates

March 31, 2024 (scheduled)

4. Summary of the Subsidiary Transfer

I. Sawai America Holdings Inc.

1.	Name	Sawai America Holdings Inc.
2.	Address	6701 Evenstad Drive, Maple Grove, MN 55369, U.S.A.
3.	Title and name of the representative	Taku Nakaoka, President
4.	Business activities	Management of the subsidiary through the ownership of the subsidiary equity interests
5.	Capital	\$ 905 M

5. Summary of the Sub-subsidiary Transfer

I. Sawai America LLC

1.	Name	Sawai America LLC
2.	Address	6701 Evenstad Drive, Maple Grove, MN 55369, U.S.A.
3.	Title and name of the representative	Taku Nakaoka, President
4.	Business activities	Management of the subsidiary through the ownership of the subsidiary equity interests
5.	Capital	-

II. Upsher-Smith Laboratories, LLC

1.	Name	Upsher-Smith Laboratories, LLC
2.	Address	6701 Evenstad Drive, Maple Grove, MN 55369, U.S.A.
3.	Title and name of the representative	Rich Fisher, President & COO
4.	Business activities	Manufacturing and sales of generic drugs
5.	Capital	-

6. Transferred interest ratio and ownership ratio after sale

	Transferred interest ratio	Ownership ratio after sale
1. Sawai America Holdings Inc.	100%	—%
2. Sawai America LLC	80%	—%
3. Upsher-Smith Laboratories, LLC	80%	—%

(Issuance of Unsecured Bonds)

At a meeting held on February 14, 2024, the Board of Directors approved a comprehensive resolution with the following provisions regarding the issuance of domestic unsecured straight bonds.

1. Total amount of bonds that can be issued multiple times: Up to JPY 20,000 million
2. Scheduled period of issuance: From March 1, 2024 to September 30, 2024
3. Amount to be paid: 100 yen per bond with a face value of 100 yen
4. Maximum interest rate: Yield on JGBs with roughly the same remaining maturity as the redemption period + 1.00%
5. Redemption period: Within 10 years
6. Redemption method: Lump-sum redemption at maturity
7. Planned uses of funds: Capital investment, working capital, and repayment of borrowings