



SAWAI GROUP HOLDINGS CO., Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2027

August 10, 2026

[Time] 15:00 – 15:50

[Venue] Webcast

[Speakers]

Mitsuo Sawai	Representative Director, Chairman and President, Group Chief Executive Officer and Group Chief Operating Officer
Toshiomi Nakate	Director, Senior Managing Executive Officer, Representative Director and President of Sawai Pharmaceutical
Taku Nakaoka	Director, Managing Executive Officer and Group Chief Financial Officer
Yoshihiro Nishihara	General Manager, Group Finance Department

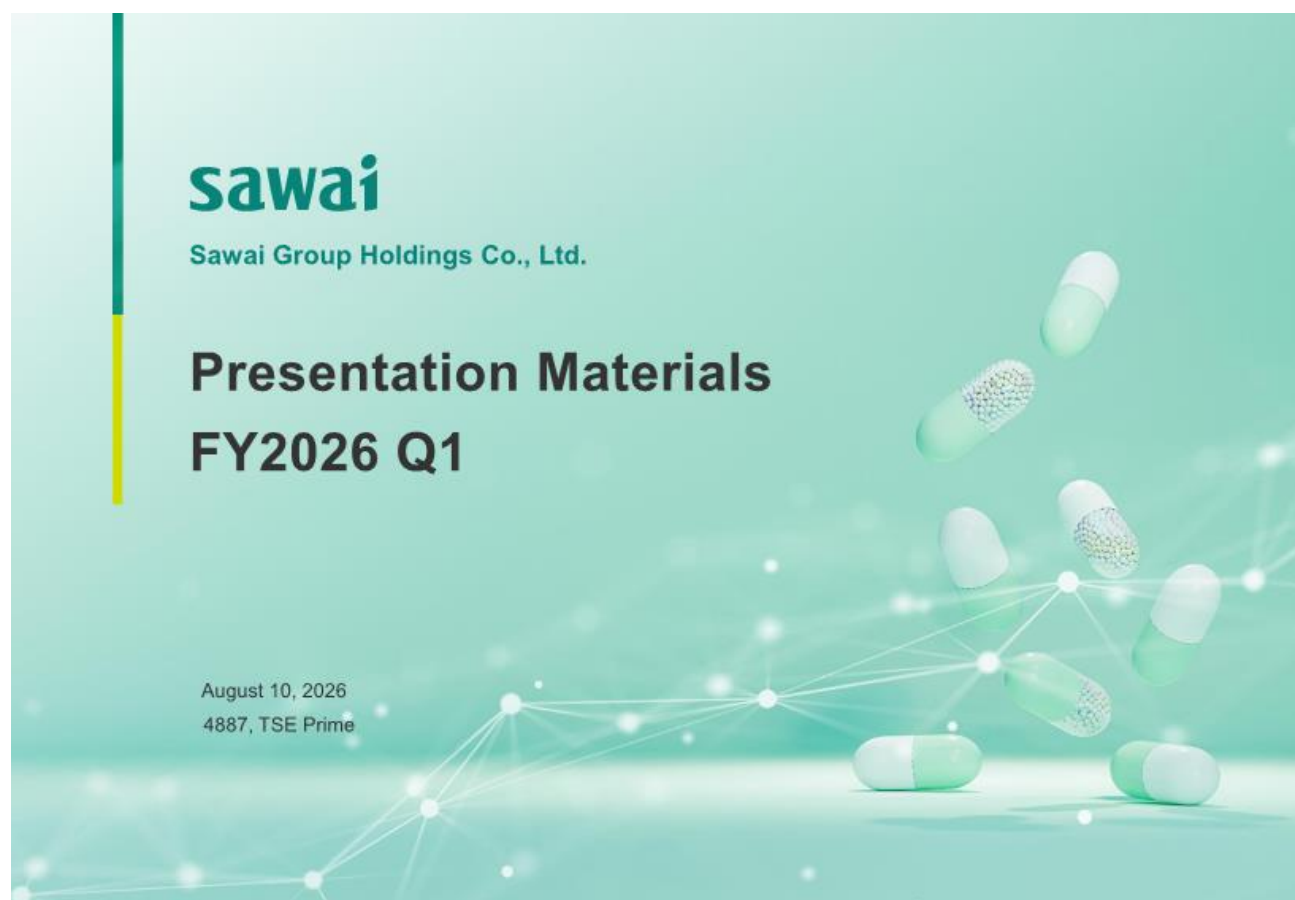
[Analyst Names*]

*Analyst who spoke during the Q&A session

Hidemaru Yamaguchi
Masao Yoshida
Kazuaki Hashiguchi
Akinori Ueda
Jaeheon Lee
Kyoichiro Shigemura
Ritsuo Watanabe

Citigroup Global Markets
Tokai Tokyo Intelligence Laboratory
Daiwa Securities
Goldman Sachs
Morgan Stanley MUFG Securities
Nomura Securities
Bank of America

Presentation



Nakaoka: First, before I begin my explanation, I would like to express my deepest condolences to those who lost their lives in the 2026 Kumamoto earthquake, and I extend my heartfelt sympathies to all those affected by the disaster.

Hoping for a swift recovery, our company has decided to donate JPY10 million in relief funds through the Japanese Red Cross Society.

We would also like to report that the damage to our personnel and facilities caused by this earthquake was minor and that there has been no impact on our product supply system.

I would now like to explain the financial results for Q1 of the fiscal year ending March 2027.

Results for the First Three Months of FY2026 (Ended March 31, 2027)

- Revenue increased 4.3% YoY, core operating profit decreased 15.4% YoY, and operating profit decreased 29.0% YoY.
 - + Increased sales of products listed in FY2025 and FY2026
 - Sales decline in existing products due to NHI drug price revisions
 - Incurrence of inventory valuation and disposal losses
 - Increased in fixed costs due to higher headcount

Production volume (included outsourced production)

- Production volume for Q1 FY2026 was 4.4 billion tablets (Increased 13.0% YoY / Increased 500 million tablets YoY)
- Progress rate 24.5% (annual plan for FY2026 of 18.0 billion tablets)

Sales volume

- Sales volume for Q1 FY2026 4.3 billion tablets (Increased 2.7% YoY / Increased 100 million tablets YoY)
- Progress rate 24.8% (annual plan for FY2026 of 17.6 billion tablets)

Supply status

- Current number of items for which shipment is restricted or suspended: 139 items; regular shipment: 603 items (as of June 30, 2026)
- Increased number of shipment-restricted items due to supply tightness in some products
- Reviewing item-by-item production plans to promote strengthening of supply capacity with priority given to products that are difficult to substitute

First, here's a summary.

Revenue increased by 4.3% YoY, while core operating profit decreased by 15.4% and operating profit decreased by 29% YoY, resulting in higher revenue but lower profits.

As for the main factors, on the positive side, strong sales of new products have contributed to the increase in revenue.

On the other hand, a negative factor is the decline in sales revenue from existing products due to price reductions resulting from the drug price revision.

In addition, during the current fiscal year, starting in Q1, we took steps to reduce excess inventory resulting from AG and reviewed our profitability in light of changes in the external environment. As a result, temporary expenses such as valuation losses and disposal losses totaling approximately JPY1.2 billion have been incurred.

In addition, there was an impact from the increase in fixed costs resulting from the expansion of our workforce.

I will explain the overview of the financial results again on the next page.

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Next, we'll look at production and sales.

Production volume for Q1 totaled 4.4 billion tablets, representing an increase of 500 million tablets, or 13%, compared to the same period last year. Since this year's production plan calls for an increase in production volume in Q2 and Q3, we view this as a strong start toward meeting our annual target. We view this as evidence that the staff we added last fiscal year have now become productive members of the team and are achieving the expected level of production.

Sales volume totaled 4.3 billion tablets, representing an increase of 100 million tablets, or 2.7%, compared to the same period last year. Last fiscal year, sales volume reached 17.1 billion tablets, compared to a production volume of 16.6 billion tablets, meaning that sales exceeded production. This fiscal year, we will ensure a stable supply to meet demand while also managing our inventory levels.

Lastly, supply status.

As of the end of June, the total number of items subject to limited shipments or shipment suspensions stood at 139 items. Compared to the end of March, the number of items has increased by about 30. The number of items subject to limited shipments is currently increasing due to supply and demand tightness in some products. In addition, as part of our management decision-making, we have begun reviewing production plans for each product category and will work to strengthen our supply capacity by prioritizing the production of items that are difficult to substitute.

Overview of Financial Results for Q1 FY2026

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YoY change

- Sales growth driven by strong sales of products listed in December 2025 and in June 2026
- Gross profit margin declined due to inventory valuation and disposal losses
- Incurrence of R&D impairment losses

(Unit: million yen)

	Q1 FY2025 results	Q1 FY2026 results	YoY	Full-Year forecasts	Progress
Revenue	49,511	51,622	+4.3%	208,400	24.8%
Gross profit	15,438	15,076	(2.3)%	65,500	23.0%
Core operating profit	7,597	6,425	(15.4)%	29,600	21.7%
Operating profit	6,979	4,953	(29.0)%	27,200	18.2%
Profit before tax	6,802	4,445	(34.7)%	26,000	17.1%
Profit attributable to owners of the Company	4,891	2,429	(50.3)%	18,600	13.1%

Average rate US\$1=¥145 US\$1=¥159

* The line items from revenue through profit before tax show the amount of the Japan business as continuing operations. Profit attributable to owners of the Company shows the combined amount of the continuing operations and the discontinued operations.

* Core operating profit is calculated by excluding profits and losses attributed to non-recurring factors from operating profit.

* (Breakdown of interim profit attributable to owners of the parent company) FY2025 Q1: Continuing operations 4,856 million yen, Discontinued operations 35 million yen
FY2026 Q1: Continuing operations 2,863 million yen, Discontinued operations (433) million yen

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Here is a summary of our Q1 financial results.

Revenue increased by 4.3% YoY to JPY51,622 million driven by strong sales of new products launched in December of FY2025 and June 2026, despite a negative impact of approximately 3% resulting from the drug price reduction following the 2026 drug price revision.

Next is about operating profit. While we worked to offset the trend of rising costs, driven by factors such as the situation in the Middle East and the weak yen, through management efforts, and while there were positive factors such as an improvement in our product mix due to strong sales of new products, during this quarter we took steps to address excess inventory resulting from the impact of AG as a one-time special factor and reviewed our profitability in light of changes in the external environment. As a result, temporary expenses such as valuation losses and disposal losses totaling approximately JPY1.2 billion have been incurred.

In addition, fixed costs associated with the increase in headcount have risen by approximately JPY900 million compared to the same period last year.

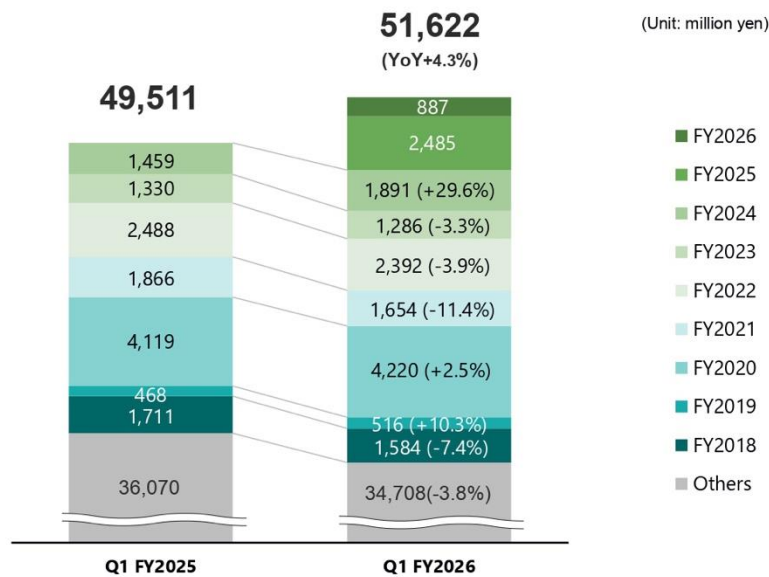
Furthermore, with regard to R&D expenses, following a review of their business viability, we have decided to record an impairment loss of approximately JPY500 million in this quarter.

As a result of these factors, core operating income, excluding one-time items, decreased 15.4% YoY to JPY6,425 million, while operating income decreased 29% to JPY4,953 million. Furthermore, profit attributable to owners of the Company decreased by 50.3% YoY to JPY2,429 million.

Revenue by Product Listed Year

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- Products listed in December 2025 performed strongly, led by Dapagliflozin
- Products listed in June 2026 are also off to a strong start
- Many products listed in or before 2023 saw revenue declines, mainly due to drug price revisions



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Next, we will present revenue by product listed year.

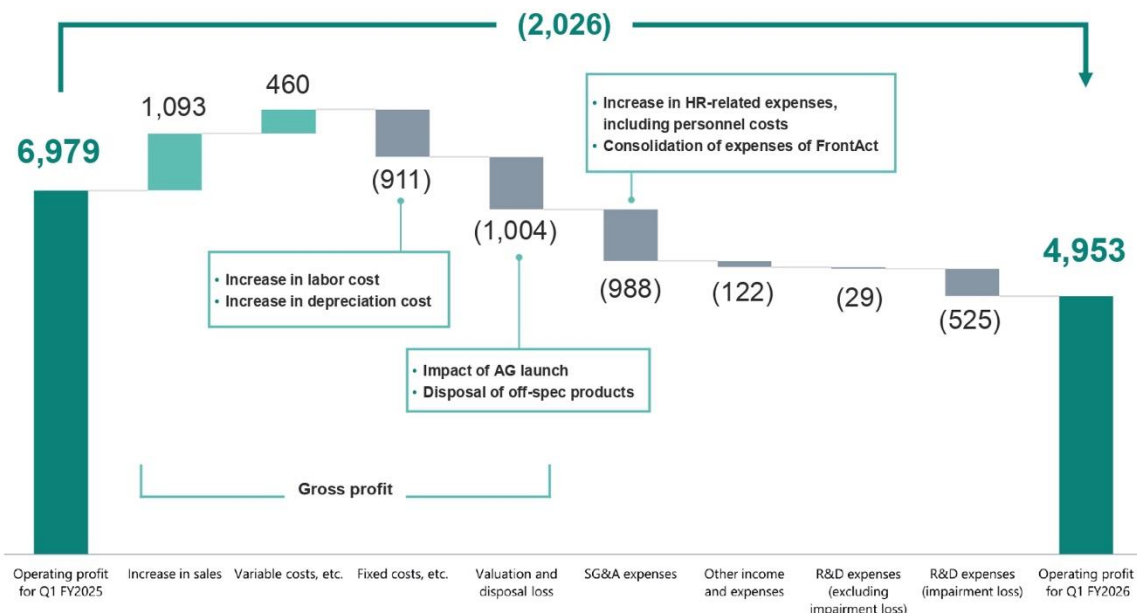
Revenue from new products is growing steadily and is driving the 4.3% YoY increase in revenue. In particular, products added to the portfolio in 2025, led by the diabetes treatment dapagliflozin, contributed significantly to revenue in Q1, generating JPY2,485 million. Furthermore, sales of products added to the list in June 2026, although limited to the single month of June, amounted to JPY887 million, representing a solid contribution to sales.

For our existing products, revenue declined by approximately 3% YoY due to price reductions resulting from the drug price revision. In addition, while sales of certain products fluctuate from period to period due to factors such as annual production conditions, we recognize that, overall, sales of existing products are lagging behind those of new products. However, we believe that these effects can be offset by ensuring sufficient supply as we expand our production capacity in the future.

Operating Profit Analysis

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(Unit: million yen)



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Lastly, I would like to show you the operating profit analysis with the waterfall chart.

Revenue increased by JPY1,093 million compared to the same period last year, and variable costs were positively impacted by JPY460 million due to an improvement in the product mix.

On the other hand, negative factors included a JPY911 million increase in fixed costs, such as labor expenses. Furthermore, and this was a major factor for this quarter, there was a negative impact of JPY1,004 million due to valuation losses and disposal losses.

Although SG&A expenses were in line with the plan, they had a negative impact of JPY988 million compared to the same period last year, primarily due to a JPY525 million write-down in R&D expenses.

As a result, operating profit for Q1 of FY2026 decreased by 29% YoY, or JPY2,026 million, to JPY4,953 million.

Going forward, we plan to recoup this decline in profit through our business activities and aim to achieve our full-year targets. We will work to turn our business performance around by taking all necessary measures, such as accelerating top-line growth through new products and optimizing costs, without letting up on our efforts.

The following is for your reference only. I won't go into detail here, but please take a look at the numerical data, including various financial indicators, provided below.

That concludes my overview of the financial results for Q1 of the fiscal year ending March 2027. Thank you very much for listening.

Question & Answer

Operator [M]: Now we would like to start the question-and-answer session.

We will then be happy to answer the first question. Mr. Yamaguchi of Citigroup Global Markets, please ask your question.

Yamaguchi [Q]: Thank you very much. I'm Yamaguchi, Citigroup Global Markets. I have two questions.

First, regarding your performance in Q1, despite some impairment losses and disposal losses, among other things, I got the impression that sales were quite strong, particularly for new products. Given that these temporary factors have arisen, I'd like to start by asking how the actual results differed from the Company's projections.

Nakaoka [A]: I'm Nakaoka.

As you mentioned, sales were slightly above plan, and while sales and profits were not particularly strong, SG&A expenses and other items are progressing as planned. As for operating profit, although it was slightly weaker than expected, it should have ended up more or less in line with the plan.

Yamaguchi [Q]: I see.

While valuation losses, disposal losses, and impairment charges related to the pipeline, among other items, did occur in Q1, they are not expected to occur in the remaining quarters. Although the amount seems a bit large to exceed the forecast, and you have not revised your full-year forecast, could you please comment on whether you believe you will be able to cover these costs?

Nakaoka [A]: This year, unlike in previous years, we have recorded this kind of temporary loss in Q1. While I wish I could say with certainty that this won't happen again, we intend to monitor this situation closely.

However, regarding the portion for which we recognized a temporary loss this time, we are determined to offset it through more rigorous control of future expenses and by growing our top line, primarily through new products, so that we can achieve our goals as planned. We are anticipating that.

Yamaguchi [Q]: Thank you very much.

Just one more small thing, you mentioned that AG had an impact. I'm not asking for specifics, but since my understanding is that AG listings will essentially cease going forward, is it correct to assume that situations where valuation losses occur, contrary to our initial expectations, will generally be less likely to arise in the future?

Nakaoka [A]: The loss from this AG is due to the impact of the subsequent AG, and we do not anticipate any such losses in the future.

Yamaguchi [M]: Thank you very much. That is all.

Operator [M]: Thank you very much.

Next, Mr. Yoshida, Tokai Tokyo Intelligence Laboratory, please.

Yoshida [Q]: I'm Yoshida, Tokai Tokyo Intelligence Laboratory. Thank you for your presentation. I also have two questions.

First of all, based on the explanation earlier, the number of items subject to limited shipments or shipment suspensions is 139, which gives the impression that this number has increased significantly. When I look at other companies, it seems like they aren't changing much, but your company is the only one that's really jumping up. I think it's increased by about 50, right? I may have missed this part, but you mentioned that there are supply and demand tightness for some products, could you please elaborate a bit more on that?

Nakaoka [A]: First, I mentioned that the number of items subject to limited shipments or shipment suspensions is 139. As of the end of March 2026, there were 100 items, so this represents an increase of 30 items.

Yoshida [Q]: I see.

I feel like this is increasing significantly, could you please explain that a little more?

Nakate [A]: In that case, Nakate will answer the question.

Currently, as we are in the process of reviewing our production and other operations, the number of items with suspended shipments has temporarily increased slightly as of the end of June, as part of our review of our product portfolio. Since the numbers in this regard are constantly changing, we are working to address them as they arise.

Yoshida [Q]: Just to clarify, on August 7, sales of a number of items were suspended. I believe there were quite a few, 46 items, or maybe 64. I'm sorry, the numbers are a bit off, but are you including these discontinued items in that review? Is this something that wasn't included in the initial plan? Could you tell me about this effect a bit more?

Nakate [A]: Regarding this matter, we are currently reporting on 22 components across 46 items. We are currently in the process of reporting, announcing, and notifying medical institutions about this matter in due course, and we will proceed with this as a matter of priority.

While it is true that some of the factors contributing to this increase are related to product and production mix, as I mentioned earlier, and I realize I'm repeating myself, please understand that the number of product lines with suspended shipments has temporarily increased due to factors such as temporary production halts caused by product issues. Please also note that this number will change over time.

Nakaoka [A]: I'm Nakaoka.

I believe one of Mr. Yoshida's questions concerned the announcement made on August 7 and its impact on this fiscal year's plans, but this does not mean that supplies will be suspended immediately. We will proceed after consulting with various relevant parties, including our advisors, so we anticipate that this will have virtually no impact on our financial results for this fiscal period.

Yoshida [Q]: I see.

In that case, this area is expected to show promises going forward, or rather, since this review is expected to improve production efficiency, we can expect positive results starting next fiscal year and beyond.

Nakaoka [A]: Yes. Your understanding is correct.

Yoshida [Q]: Thank you very much.

Second, regarding the subsidies from the generic drugs manufacturing infrastructure improvement fund, it appears that the application period has finally begun, I would like to ask how your company plans to approach this matter. The deadline seems to be coming up soon, but I wonder if you'll be able to make it in time. I imagine your company may be taking steps to consolidate its atorvastatin manufacturing facilities as part of its collaboration with Nichi-Iko. Could you please let us know whether you will be able to meet the submission deadline, given these developments?

Nakate [A]: Thank you very much for your question. Nakate will answer the question.

Since the use of this fund was announced some time ago, we have been making systematic preparations. Therefore, we will submit the application. We are currently organizing the details of the project to ensure we meet this deadline, and we plan to prepare and submit the materials as ultimately instructed by the authorities.

As for the details, we are currently still considering several options, including whether or not to submit them, but we plan to make a decision on the items under consideration and submit them accordingly.

Yoshida [Q]: I see.

It seems the new factory is also included in the scope. Is it correct to assume that this involves only the installation of equipment? Sorry for being long.

Nakate [A]: We are proceeding with our consideration of the new plant as well, but we are currently reviewing this matter, including whether or not to submit a proposal, along with other projects.

Yoshida [M]: Thank you very much. That is all.

Operator [M]: Thank you very much.

Continuing on, Mr. Hashiguchi of Daiwa Securities, please.

Hashiguchi [Q]: I'm Hashiguchi from Daiwa Securities. Thank you very much.

Regarding the various points that came up during the explanation of profits, could you please clarify a bit more which of them were included in the plan and which were not? I believe the figures were approximately JPY1.2 billion in valuation and disposal losses, about JPY500 million in impairment losses on R&D expenses, and an increase of about JPY900 million in personnel expenses under SG&A. It would be helpful if you could break these down separately into those within and outside the plan.

Nishihara [A]: Nishihara will answer the question.

First, while we have recorded an initial impairment loss and valuation loss of JPY1.2 billion, we had partially anticipated this for the full year. While we had projected about JPY1.6 billion for the year, we view the situation as these losses emerging slightly faster and in larger amounts than expected.

In addition, the 500 million yen impairment loss on research and development expenses was not included in our initial plan.. As for labor costs, we can conclude that they fall within the range planned for the year.

Therefore, while some aspects were within our expectations, we have also encountered some unexpected setbacks. As Nakaoka explained earlier, we plan to thoroughly implement recovery measures starting in Q2 to address those issues.

Hashiguchi [Q]: Thank you very much.

I'd like to ask a bit more about the disposal and valuation losses. Of this JPY1.2 billion, how much of it is attributable to AG? Also, what kind of changes occurred in the external environment, and how significant was their impact? Also, to what extent were these results affected by factors such as production plans and a review of the product portfolio? I believe you mentioned earlier that, while you'd like to avoid such situations after Q2, you're not sure what will happen. I'd like to gain a better understanding of the extent to which such risks might arise in the future and how significant they might be. What are your thoughts on that?

Nishihara [A]: Continuing on, Nishihara will answer the question.

As for the impact attributable to AG, we estimate it to be around 1/3. As for other factors, while we were drawing up production and sales plans, the outlook for the sales plan changed, for example, due to a [inaudible] change in the dosage form of the drug, or changes in the original procurement situation, so we determined it would be better to account for a small portion of it as impairment losses or disposal losses, and we made the necessary accounting adjustments accordingly. That is another 1/3.

For the remaining 1/3 or so, there are areas where the outlook is changing due to the inevitable decline in drug prices, so this impairment reflects our assessment of factors such as this decline in profitability.

Hashiguchi [Q]: Thank you very much.

Finally, regarding the announcement made on August 7, what is the possibility that costs will temporarily precede going forward? Also, will there be more of these initiatives in the future, or should we understand that what you are considering for the near future at this point has been bundled and announced all at once? What is your view on this?

Nishihara [A]: First, to explain the cost aspect, we are considering how to achieve a stable supply with a focus on products that are difficult to substitute. Since we will review our product portfolio with an appropriate lead time while firmly securing such alternative items, this is not in a form that will immediately affect the operating status of our production facilities at this moment.

Based on that, it appears that this review will not directly impact costs. Firstly, I explained about the cost perspective.

Nakaoka [A]: As for the outlook going forward, these are our current plans, but that does not mean we will not revise them in the future. Depending on the situation, there is a possibility that we may make another announcement.

Hashiguchi [M]: Thank you very much. That is all.

Operator [M]: Thank you very much.

Next, Mr. Ueda of Goldman Sachs, please.

Ueda [Q]: My name is Ueda from Goldman Sachs.

First, I would like you to tell us about the progress on the cost front. Regarding the cost-of-sales ratio and SG&A expenses, if we exclude the one-time valuation and disposal losses of JPY1.2 billion this time, I believe they are generally in line with the full-year plan. Can we consider this to be at a level in line with the full-year plan? Looking ahead, given the impact of the yen's depreciation since last year, we need to consider whether there is a risk that costs might rise further, for example, and whether we need to address issues like this.

Also, regarding SG&A expenses, I believe the rate of expenditure is quite high compared to previous years. Could you please explain whether this is within the scope of your plan, or if there are factors, such as the impact of inflation, which are causing it to be slightly higher than expected?

Nakaoka [A]: Thank you very much. I'm Nakaoka.

As for the cost-of-sales ratio, excluding temporary factors, while it is slightly higher than planned, we consider it to be largely in line with our projections.

Although the effects of the weak yen and rising prices are gradually becoming apparent, they have not yet translated into concrete figures, and I understand that the impact on this fiscal year will likely be somewhat limited.

Nishihara [A]: I'm Nishihara.

Regarding SG&A expenses, while it has been pointed out that the progress may be slightly ahead of previous years, based on our review of the details, we understand that progress is generally within the range projected in our plan at the beginning of the year.

Ueda [Q]: Thank you very much.

I would like to ask a follow-up question regarding the cost-of-sales ratio. We're slightly above plan, and while the background for this, with new products performing relatively well this time and existing products suggests the product mix is improving, why is this happening? Also, you mentioned that the impact of rising prices on this fiscal year will be limited, does this mean we should be a little more cautious starting next fiscal year? I would like to ask a follow-up question on this point only.

Nakaoka [A]: Due to improvements in the product mix, it has improved compared to Q3 and Q4 of last fiscal year. However, in our plan, we had expected it to improve a little more, so I believe that part is reflected in the figures. That being said, we understand the transition to be within a range that is not significantly different.

Looking ahead to the next fiscal year and beyond, the situation remains uncertain, and we anticipate that certain expenses will increase. While it is quite difficult for us to quantify exactly how much that will amount to, we will base our planning on the assumption that the costs of materials and other items will certainly rise.

Ueda [Q]: Thank you very much.

Second, I would like you to tell us about the trend of production volume. We were told that the current fiscal year has gotten off to a smooth start. Could you please explain the factors behind this, such as whether the Company's internal training programs are proceeding smoothly or whether outsourced operations are going well, and also tell us whether, if things continue to go very well and production volumes exceed expectations, there is a possibility that the sales volume target might be raised?

Nakate [A]: Nakate will answer the question.

One of the reasons we were unable to meet last fiscal year's production target of 16.6 billion tablets was a lack of training. Therefore, based on this reflection, we have revised our training system and are now able to fully focus on production this fiscal year. Since we hired more than 150 people over the past two years, including those hired last year and the year before, we believe this has contributed to our production exceeding expectations.

Looking ahead, including the current situation in July, we are on track to meet our targets. We will continue to work diligently to ensure that we successfully achieve the goals of this plan.

Within that, if there are any areas that upside a little, we intend to work on the sales side as well to increase and reflect that in the top line.

Ueda [M]: I see. Thank you very much. That's all from me.

Operator [M]: Thank you very much.

Continuing on, Mr. Lee of Morgan Stanley MUFG Securities, please go ahead.

Lee [Q]: I'm Lee of Morgan Stanley. Thank you very much for giving me this opportunity of question.

Mr. Ueda just asked a question about production, and I'd like to check on the sales side. While sales have increased YoY this time and sales volume has also risen significantly, could you briefly explain the current state of your marketing efforts and the pace at which your customer base is growing?

Nakate [A]: Nakate will answer the question.

Currently, there is an increase in revenue, mainly due to the steady sales of new products, and under such circumstances, we have achieved revenue growth this time.

Consequently, we are continuing to approach sales opportunities and sales recruitment in the same way we have been, and we intend to continue doing so while making full use of our new products.

Lee [Q]: I see, thank you.

On the other hand, looking at the full-year outlook, the Company stated that it would recover steadily starting in Q2 and aim to meet its full-year targets. However, cost pressures remain, and the Company plans to offset those increases with top-line growth, thereby managing to meet its full-year targets. Is that understanding correct? Since there have been various explanations, I'd like to confirm this just to be sure.

Nakate [A]: Regarding costs, as Nishihara mentioned earlier, some items can likely be managed within the budget, some may increase the cost slightly, and others are not included in the budget at all. Regarding products that exceed this budget, we will move in the direction of managing them through the top line as well as through savings in other expenses.

Lee [Q]: I see. Thank you very much.

Second, my final question concerns shareholder returns. Unfortunately, your company's stock price has been trending downward since the start of 2026. Although the market is looking a bit sluggish again today following the earnings announcement at 13:00, and the stock is trading at a significant discount, I'd like to conclude by asking whether, given these circumstances, there is room to consider measures such as a share buyback.

Nakaoka [A]: Nakaoka will answer your question.

First, regarding the decline and continued slump in our stock price, I would like to once again apologize for the various concerns and inconveniences this has caused our shareholders. We are determined to turn things around in our business operations and, in doing so, bring our stock price back up.

I believe your question just now was about share buybacks, right? Although we implemented this measure the year before last, we do not currently have any specific plans in place. Going forward, we plan to make flexible assessments and decisions while monitoring factors such as our ROE and stock price.

Meanwhile, in terms of shareholder returns, as we have reported, we are maintaining the target of a DOE of 3% or higher set out in our medium-term plan, and we have announced a dividend for the current fiscal year based on that policy.

Lee [M]: I see. Thank you very much. That is all.

Operator [M]: Thank you very much.

Continuing on, Mr. Shigemura of Nomura Securities, please.

Shigemura [Q]: I am Shigemura from Nomura Securities. Thank you.

I believe that most of the information has already come out, but I understand your explanation that despite the current impairment and valuation losses, you are heading toward achieving the full-year plan. Earlier, there was mention that costs are likely to rise in the next fiscal year as this process continues. In light of this, how is your company addressing this, specifically, in terms of cost reduction or efficiency improvements, whether through actions currently being taken or measures to address the expected cost increases in the next fiscal year? Can we expect to see the results of that effort in H2, or will they become apparent in the next fiscal year? Please answer this first question, thank you.

Nakaoka [A]: First, Nakaoka will explain it.

We must tighten our control over SG&A expenses and other operating expenses more than ever before. We plan to determine the specific reduction target within the next week or two and then communicate it internally.

Meanwhile, in terms of cost efficiency in other areas, we are currently developing a company-wide project to improve supply chain management across the entire organization, and this project has been underway since April of this year.

We expect to have a general outline in place by H2. To further streamline our operations, including organizational structure and the entire process from procurement to sales, we are incorporating this into our sales and production plans. We believe this will lead to improved production efficiency and, consequently, cost reductions. Please note that we are not yet at the stage to provide quantitative details.

In addition, we are simultaneously moving forward with initiatives related to DX, digital transformation, which were previously being pursued in parallel by individual departments. We have now incorporated these into a company-wide project to achieve overall optimization. While it is still difficult to assess the quantitative impact of this at this point, we intend to deliver tangible results in the next fiscal year or beyond.

Shigemura [Q]: Thank you.

The second point is regarding the article published on August 7. I believe it mentioned that the Sawai Group will be making improvements to the manufacturing methods and specifications for about 100 items. I briefly thought that in the short term, costs for specification changes might precede, but I wonder if that is really the case. Also, in terms of when the specification changes will be completed, production efficiency will improve, and it will lead to increased profitability, will that be next fiscal year, or will it be a bit further down the road?

Could you give us an indication of the timeline we should look at regarding how costs will come out and how effects will emerge for this initiative?

Nakate [A]: Nakate will answer the question.

First, regarding the 100 items, the purpose is to work on quality improvements so that risks do not materialize for products that currently have individual quality risks, and to maintain robust quality. Therefore, we are working on this with around 100 items as a target, or rather, as one of our targets.

Since there are 100 items on this list, we can't complete them all at once, so we'll proceed by prioritizing them. Since this is part of our regular quality improvement and other such activities, we do not anticipate that it will result in significant costs.

Regarding how this will lead to, for example, reducing disposal losses, these are areas we currently recognize as risks. If we do not address this in the future, we can avoid quality issues such as disposal occurring after making a few products or having to dispose of one out of every few lots. Therefore, this will lead to avoiding such losses.

We are currently working on this with those considerations in mind, so while I cannot provide a specific timeline or figures in response to your question at this time, we are proceeding with that in mind.

Shigemura [M]: Thank you. I understand that this isn't simply a matter of prioritizing cost savings, but rather part of an effort to improve efficiency and prevent future losses.

Thank you very much. That's all from me.

Operator [M]: Thank you very much.

Continuing on, Mr. Watanabe of Bank of America, please.

Watanabe [Q]: Thank you. I'm Watanabe of BofA. Thank you very much.

I'm very sorry for the many similar questions. Since there are significant valuation losses, disposal losses, and impairment losses this time, I'd like to take a closer look at the numbers.

First, regarding the valuation losses and disposal losses included in cost of sales, I believe the explanation was that while you had projected JPY1.6 billion for the year, JPY1.2 billion was already recorded in Q1. I'd like to know how much the figure exceeded expectations at Q1 stage, so I'd like to ask if it was about JPY1 billion higher than expected.

Also, looking back over the past five years or so, there have been many years when these valuation losses and disposal losses ranged from JPY3 billion to just under JPY5 billion annually. Since it's unclear whether this year will be similar, I'm wondering how much of a mindset or preparation should we have? Given the JPY1.6 billion figure, is it sufficient to simply add about JPY1 billion based on the better-than-expected Q1 results, or, as you mentioned, since the environment is changing, should we look to the past and aim for JPY3 billion or JPY4 billion? It would be helpful if you could explain what you can at this stage. This is the first question.

Nishihara [A]: I'm Nishihara.

It is very difficult to provide specific figures, but our actual feeling is that out of the JPY1.6 billion projected, JPY1.2 billion came out, and we perceive that around JPY700 million to JPY800 million of that portion came out quite ahead of schedule. Therefore, we view it in a way that we will catch up on that portion later by implementing other measures.

Watanabe [Q]: Regarding the valuation losses themselves, they'll continue to occur even after Q2, and even when looking at areas other than AG, I think a similar environment will continue running after Q2 in a tougher way than initially assumed. In that sense, even if it upsides by JPY700 million to JPY800 million, and if we wonder whether about JPY2.5 billion is fine, I get the impression that it might be better to look at it a bit more conservatively. Is that worrying a bit too much?

Nishihara [A]: It's not that it will stop at JPY1.6 billion, or rather, given that JPY1.2 billion has already been spent this time, if you ask whether it will stop at JPY1.6 billion, I think it's a fact that it probably won't.

As I mentioned earlier, I believe that the effects stemming from factors such as AG or drug price revisions have, to a certain extent, already become apparent. On the other hand, although we hope to gradually reduce portions arising from other factors, such as procurement-side issues and other problems, or deviations within production, deviations will realistically never become zero, so there will be things that emerge from such areas. Consequently, our understanding is that the amount will likely exceed the JPY1.6 billion further.

Watanabe [Q]: Thank you very much.

The second question is the impairment loss on R&D expenses. In previous fiscal years, I believe your company tended to have this impairment loss relatively frequently in specific quarters, such as Q2 or Q4. Is this the result of an internal change in procedure, for example, a decision to review and release results every quarter starting this year, or is that not the case?

Nakaoka [A]: Nakaoka will explain it.

As you know, we have been conducting an impairment test once a year to determine whether impairment has occurred. Because the variance is so significant, in addition to the formal impairment test, we conduct an internal impairment test of sorts at the end of H1. Therefore, we arrange such opportunities about twice a year. Under the current system, we hold these events twice a year.

Regarding the impairment loss recorded this time, we determined at the Q1 stage that the occurrence of the loss was inevitable. Based on a management decision that impairment risks should be recognized early and promptly reflected in our accounting, we recorded this loss in the first quarter of the current fiscal year.

Watanabe [Q]: Thank you very much.

That's the change starting this fiscal year, specifically, the current period, which began in the fiscal year ending March 2027, right?

Nakaoka [A]: Conducting the impairment test twice a year is a change starting from the current fiscal year ending March 2027.

Watanabe [M]: I understand very well.

Thank you very much. That's all from me.

Operator [M]: Thank you very much.

Then, if you have any further questions, please feel free to contact the IR group. With this, we would like to conclude today's meeting. Thank you very much.

[END]

Document Notes

• *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*

Contact for inquiries regarding this material:

IR Group, Group Finance Department, Sawai Group Holdings Co., Ltd.

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