



Always Putting Patients First

sawai



Sawai Pharmaceutical Co., Ltd.
Integrated Report 2020
For the Year Ended March 31, 2020

Always Putting Patients First

- 1 It is **sawai**'s mission to enable people to live healthy lives through pharmaceutical products imbued with our whole-hearted dedication.
- 2 It is **sawai**'s challenge to grow in tandem with society through innovation and cooperation, while pursuing creativity.
- 3 It is **sawai**'s hope that we will become an indispensable part of society through our desire to be of service.

All of Sawai's activities are based on its Corporate Philosophy of "Always Putting Patients First." By providing a stable supply of conscientiously prepared, high-quality, high-value-added generic pharmaceuticals to as many patients as possible, we are fulfilling our social responsibilities. We believe that doing this will contribute to the advancement of people, society, and medical care.

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Editorial Policy

In addition to the presentation of its financial and business information, Sawai has added environment-related and other non-financial information to produce an integrated report, based on the international integrated reporting framework of the International Integrated Reporting Council (IIRC).

This report presents information related to Sawai and its consolidated subsidiaries for FY2019 (April 1, 2019 to March 31, 2020).

* Some information is presented that does not fall within this period.

Approach to Integrated Reporting

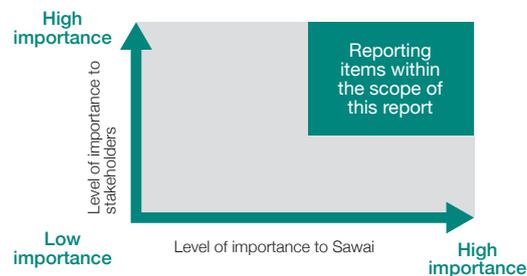
This report was prepared with the support of the Company's CSR Committee, which includes the director in charge of CSR, and its Secretariat. It presents relevant information that may materially affect the ability of the Company to create value in the short, medium, and long terms.

Definition of Materiality

This report contains information regarding the Company's strategy and performance, its future outlook, as well as its creation of corporate value in the short, medium, and long terms. In addition, this report includes information on matters related to finance, economic, social, environmental, governance, and other matters.

Such information contained in this report has been included based on judgments regarding materiality from the points of view of assessments of quantity, quality, risk, and opportunities as well as inputs from dialogue with stakeholders. Information deemed to be of particularly high importance has been included.

Important Matters



A Caution Concerning Forward-Looking Statements

This report contains forward-looking statements regarding the Company's plans, outlook, strategies, and results for the future. All forward-looking statements are based on judgments derived from the information available to the Company at the time of publication.

Accordingly, please be aware that the impact of certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report.

External Evaluations Regarding Sustainability

Sawai was selected for inclusion in the FTSE4Good Index Series and the FTSE Blossom Japan Index, which are representative indicators for ESG investment.



Continuing to grow together with society as a leading manufacturer of generic drugs

When generic drugs were virtually unknown, Sawai began persistently raising awareness. The Company also anticipated the burgeoning demand for generic pharmaceuticals, arising from promotional policies on the part of government, and successfully made prior investments in production facilities and personnel. These two factors have allowed Sawai to achieve rapid growth in generics in recent years. Moving forward, we will continue to help reduce the burdens placed on patients, improve convenience, and continue to contribute to healthcare financing by staying the course in the years to come.

Sawai's History

1929

Sawai Pharmacy, the forerunner of Sawai Pharmaceutical Co., Ltd., was founded in Asahi-ku, Osaka City.



Eye drops, our core product when Sawai was founded

1948

Sawai Pharmaceutical Co., Ltd. incorporated in Asahi-ku, Osaka.



The company's head office and factory. "Yoron P," one of Sawai's main products at the time, was a natural active vitamin preparation patented for pharmaceutical formulation technology.

1965

Sawai transformed itself from a manufacturer of over-the-counter medications into a manufacturer of prescription medications.

1981

Modern Kyushu Factory, which at that time surpassed those of original drug manufacturers, completed

2003

Listed on the First Section of the TSE



Ceremony for listing on the First Section of the TSE

2007

Sawai established a new Corporate Philosophy and Code of Conduct.

2006

New premises completed, Head Office and Research Laboratories combined and relocated to current premises (Yodogawa-ku, Osaka)



Head Office and Research Laboratories

2010

Wholesale route sales surpass those of agencies becoming the sales driver

2013

New pharmaceutical plant at the Kanto Factory completed



Pharmaceutical plant at the Kanto Factory

2014

Sawai's antiplatelet product "CILOSTAZOL OD Tablets 'Sawai'" received the Asahi Chemical Formulation Development Award from the Pharmaceutical Society of Japan.

2015

The Pharmaceutical Development Center was completed, and the functions of the former Pharmaceutical Technology Center were consolidated into the new Center.

Sawai Pharmacy, the forerunner of Sawai Pharmaceutical Co., Ltd. was established as a drugstore in 1929. Subsequently, in the years before and after the Second World War when pharmaceutical products were in short supply, Sawai transformed itself into a manufacturer of over-the-counter pharmaceutical products in order to meet society's needs.

Later, in response to various factors such as the introduction of the universal health insurance coverage system in Japan, Sawai transformed itself again to become a manufacturer of prescription medications.

Sawai has since grown to become one of today's leading manufacturers of generic drugs.



Important Events in Society

1961

Universal health insurance coverage was implemented in Japan.

2002

Introduction of incentives for doctors/pharmacists

2007

Government identified the generic drugs' (volume basis) share¹ target of 30% or more by March 2013

2008

Introduction of premiums for generic dispensing systems (addition to basic dispensing fee)

A world-leading generic drug manufacturer

2017

Acquired Upsher-Smith Laboratories, LLC and entered the U.S. market in earnest



From left: Mitsuo Sawai, (Currently Chairman, Representative Director) Sawai Pharmaceutical Co., Ltd., and Rusty Field, President & CEO, Upsher-Smith Laboratories, LLC



2019

- Sawai commemorated 90 years since its founding
- Upsher-Smith commemorated 100 years since its founding



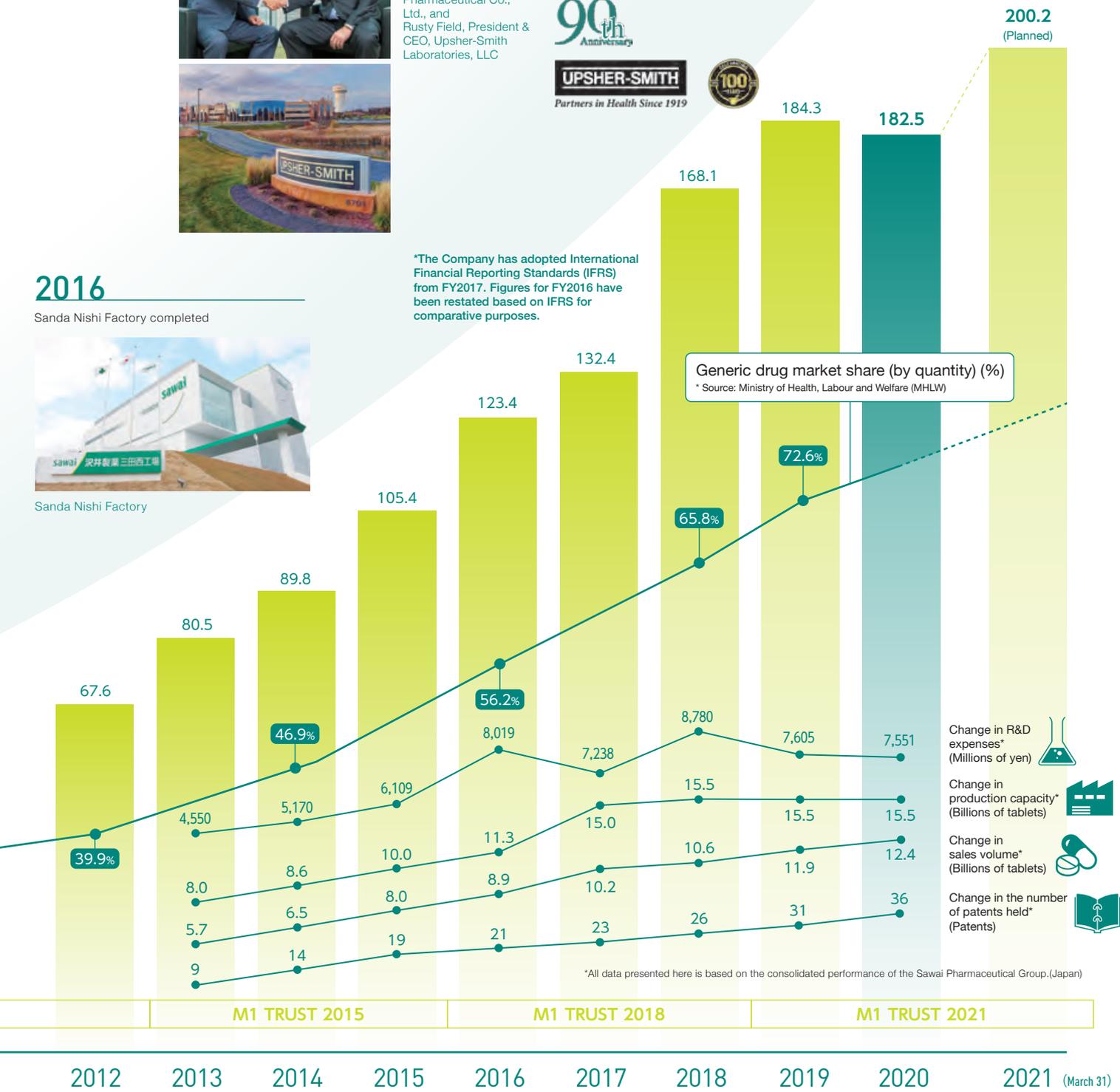
2016

Sanda Nishi Factory completed



Sanda Nishi Factory

*The Company has adopted International Financial Reporting Standards (IFRS) from FY2017. Figures for FY2016 have been restated based on IFRS for comparative purposes.



Generic drug market share (by quantity) (%)
* Source: Ministry of Health, Labour and Welfare (MHLW)

- Change in R&D expenses* (Millions of yen)
- Change in production capacity* (Billions of tablets)
- Change in sales volume* (Billions of tablets)
- Change in the number of patents held* (Patents)

*All data presented here is based on the consolidated performance of the Sawai Pharmaceutical Group.(Japan)

M1 TRUST 2015 M1 TRUST 2018 M1 TRUST 2021

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 (March 31)

2013
Government identified the generic drugs' (volume basis) share*2 target of 60% or more by the end of March 2018

2015
Government identified the generic drugs' (volume basis) share*2 target of 70% or more by mid-2017 and set the target of 80% or more as quickly as possible during the period up to the end of FY2020

2017
Under the "Honebuto Policy 2017," established target of 80% or higher generic drug share (volume basis) by September 2020

*1 Former numerical indicator share = Generics/all pharmaceutical products *2 New numerical indicator share = Generics/(Originator drugs for which generic drugs exist + Generics)

Sawai's Value Creation

Sustainability

Financial Section/Data

We Will Identify Growth Opportunities and Risks and Develop Our Business by Leveraging Our Strengths and Addressing Our Weaknesses

Strengths

R&D Capabilities and Formulation Technologies

In addition to our excellent patent research and analysis capabilities, we also have high-level formulation technology capabilities that enable us to develop formulations that are easy for patients to take and unable to be copied by other companies. By launching new products that make the most of these benefits, we will gain market share as well as differentiate ourselves from other companies, developing businesses that are less likely to be involved in price competition.



Stable Supply Capabilities

A stable supply of high-quality pharmaceuticals is one of the most important issues for the life-related pharmaceutical industry, and we boast the industry's highest annual production capacity of approximately 15.5 billion tablets. In addition, we will continue to improve our supply capacity, including outsourcing, to further refine our stable supply capabilities.

Sales and Financing Capabilities

Abundant product lines, strong relationships with wholesalers and agencies, sales capabilities that leverage the industry's No. 1 brand power, as well as our industry-leading financial base that supports future growth strategies are all strengths, however, our single greatest strength is the comprehensive capability to link all these together.



Weaknesses

Human Resource Development and Retention

With the rapid growth of the Company, our business domain is expanding in both quality and quantity. We will work to develop middle-management to support the expanded production of high-quality products and retain diverse human resources to promote global expansion.

In order for Sawai Pharmaceutical to survive in a rapidly changing market environment, increase corporate value, and grow sustainably, we believe it is necessary to identify growth opportunities and risks and develop our business activities by leveraging our strengths and addressing our weaknesses. This approach is the result of analyzing our internal and external environment, and is reflected in the spirit of the proverb "If you know the enemy and know yourself, you need not fear the result of a hundred battles."

Opportunities



Japanese Market

In Japan, amid harsh financial conditions, the aging of society coupled with healthcare advances have led to an ongoing increase in medical expenses. To reduce these increases, the government has set a goal of rapidly achieving an 80% share in generic drugs and is promoting their usage. Moreover, the government is expected to continue promoting the use of generics even after reaching the 80% target as the population over the age of 65 in Japan will continue to increase. Thus from a long-term perspective, it is expected that the demand for generic drugs will continue to grow.



Overseas Markets

In the United States, in addition to receiving approval for "Pitavastatin Tablets" as the first Japanese generic drug manufacturer to have an Abbreviated New Drug Application (ANDA) approved according to Paragraph IV, we have also applied for two other products including "Mirabegron Tablets."

In May 2017, we completed the acquisition of Upsher-Smith Laboratories, LLC, establishing a base for full-scale entry into the U.S. market. We will support the Company's growth in the US market, which is the world's largest and ever-expanding pharmaceutical market, in an effort to quickly realize synergies, including sales of Sawai products through Upsher-Smith.

Threats

About the Drug Price System

While the use of generic drugs is being promoted in the Japanese market, the Japanese government will conduct a drug price survey every year for all products from the standpoint of reducing increases in medical expenses based on the "Basic Policy for Fundamental Reform of the Drug Pricing System" (December 2016), then revise drug prices based on the results. With drug price revisions in April 2018, October 2019 in line with the consumption tax rate hike, and in April 2020, there is now a debate about the potential April 2021 revision of products with large price divergence (the difference between drug and market prices), making the earnings environment surrounding the Company increasingly challenging.

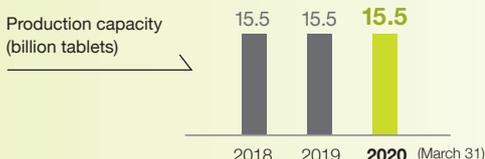


Six Types of Capital Supporting Industry-Leading Scale as the Source of Value Creation for the Sawai Pharmaceutical Group



Manufacturing Capital

- Proprietary production factories and external partner companies deployed nationwide
- Efficient production equipment with a production capacity of approximately 15.5 billion tablets able to meet various needs



We are able to ensure a stable supply of high-quality products by leveraging our core competencies including: the technological capability to commence production in a short period of time; manufacturing skills that enable the production of a variety of different items; a procurement system that can quickly respond to demand fluctuations; and trouble-free and resilient production systems within and outside the Company.



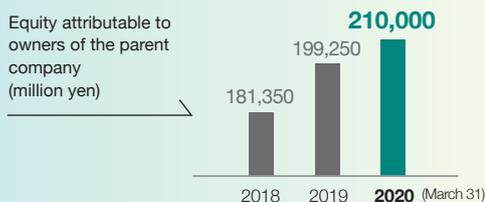
Senior Executive Officer,
Senior Vice President of
Manufacturing Division

Motohiko Kimura



Financial Capital

- R&I Credit Rating: A-
- Equity attributable to owners of the parent company



We are working to maintain and secure our financial base to achieve sustainable growth overseas, while responding to accelerating industry reorganization in line with the deteriorating business environment overall due to drug pricing and other systemic revisions expected to occur every year.



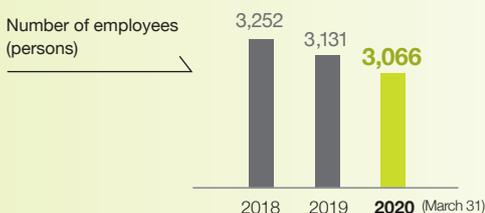
Executive Officer, General Manager
of Controller Department

Yoshiaki Sakurai



Human Capital

- Experienced management and employees who are familiar with the business



Because the character and abilities of our employees is our greatest asset, Sawai emphasizes awareness and education aimed at improving diversity management and compliance as we promote the creation of a work environment that enhances employee performance as well as physical and mental health. This is in addition to human resource allocation based on employee skills and aptitude and level-based training.



Executive Officer, General Manager
of Human Resources Department

Akira Hamada

Sawai Pharmaceutical has achieved a stable supply of high-quality, high-value-added generic drugs through its industry-leading production system and formulation technology that puts patients first.

Representatives of the departments in charge explain our utilization of the various capital that we have accumulated since our foundation aimed at the further promotion of these businesses and the realization of sustainable growth for the Sawai Pharmaceutical Group.



Intellectual Capital

- Careful and bold planning of patent strategies
- Significant experience in patent invalidation trials, infringement lawsuits, etc.
- Close cooperation with intellectual property lawyers
- Original drug-related patent database compiled by collecting and accumulating information over the past 20 years
- Patent search and evaluation capabilities that exceed those of specialized companies
- Acquisition and protection of Sawai intellectual property rights

Our strengths include our excellent patent research and analysis capabilities, our significant experience and knowledge regarding patent invalidation trials and patent infringement lawsuits, and close collaboration with several of Japan's leading intellectual property lawyers. Taking advantage of these strengths to formulate and execute detailed and bold patent strategies has led to the successful independent market launch of several products. We will continue these efforts as we move forward.



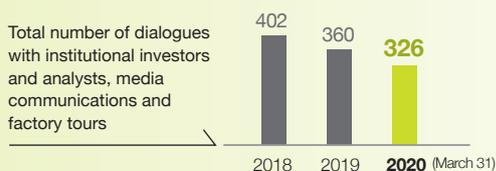
Executive Officer, General Manager of Intellectual Property Department

Nobuko Sugimoto



Social and Relationship Capital

- Raw material manufacturers supporting stable supplies, pharmaceutical distribution companies connected to medical institutions
- Name recognition and brand image among patients and healthcare professionals



As a leading manufacturer of generic drugs, we strive to enhance corporate value by increasing recognition and brand image, communicating information to stakeholders through various opportunities for contact, including television commercials, our website and seminars.



General Manager of Public Relations and Investor Relations Office

Yasushi Kora



Natural Capital

Water usage:

In the pharmaceutical industry, which is related to human life, a sufficient amount of good quality fresh water is used for experiments in manufacturing processes and research facilities via pure water or purified water manufacturing equipment. In addition, water is indispensable for washing the machinery used for each manufactured item at our factories as well as air conditioning equipment. It is also used at research facilities to clean experimental machines and equipment.

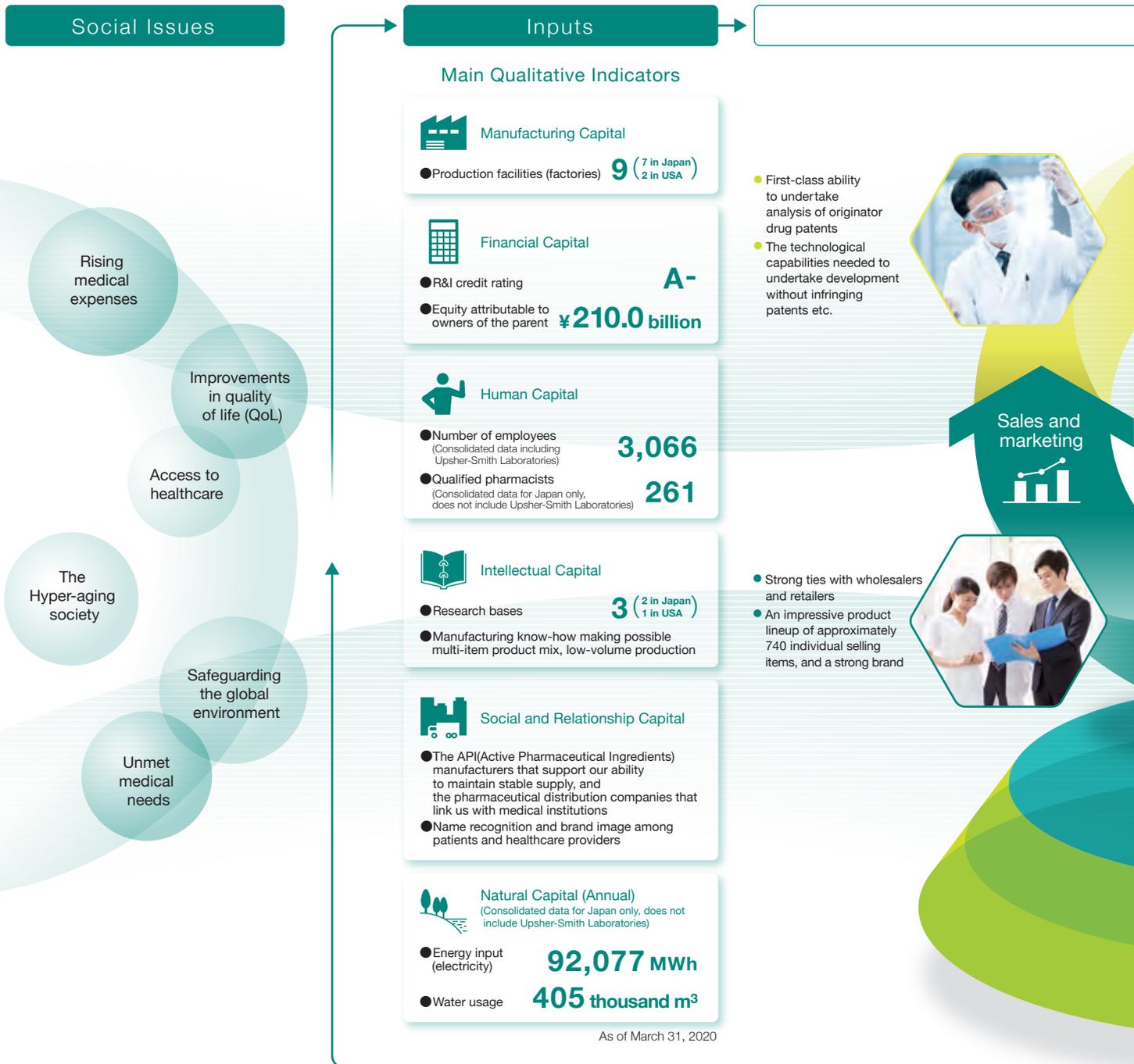
In line with "Chapter 7: Alongside the Global Community" in the Sawai Code of Conduct, which is the guideline for realizing our corporate philosophy, we recognize that we have a duty to preserve the global environment, thus we conduct various initiatives within and outside the Company as a Global Environment Team, as a subordinate organization of the CSR Committee.



Manufacturing Division, General Manager of Equipment Purchasing Department

Seishi Sato

Aiming to make a positive contribution toward the development of a sustainable society by helping patients realize improved and more satisfactory quality of life, while also reducing health



ment of a health and a care costs

The first to concurrently develop, launch, and consistently supply high-quality, high-value-added generic drugs, Sawai provides conscientiously created products to patients through medical institutions. Our business model centers on efforts to achieve a sustainable growth cycle—in realizing our Corporate Philosophy, we will increase our corporate value—by helping patients realize healthy lives and by contributing to society by reducing medical expenses.



Message from
Senior Management



Chairman,
Representative Director
Mitsuo Sawai

President,
Representative Director
Kenzo Sawai

Message from Senior Management

Chairman, Representative Director

Mitsuo Sawai

President, Representative Director

Kenzo Sawai

As We Approach
the 100th Year Since Our Founding,
the Sawai Group Embarks on
a New Beginning We Will Continue to Pursue
the Realization of
“Always Putting Patients First”

Having been approved Chairman and President, respectively,
at the General Meeting of Shareholders in June 2020,
Mitsuo Sawai and Kenzo Sawai express their appreciation
to all stakeholders for their appointment and discuss Sawai Group
sustainable growth and their thoughts for
realizing enhanced corporate value.

Inaugural Greetings—Looking Back on Our Growth Trajectory up to Now—

On Being Appointed Chairman

Mitsuo Sawai, Chairman (hereinafter, “M. Sawai”)

First of all, we would like to express our sincere condolences to the families of those who have died from novel coronavirus (COVID-19) infections. We would also like to extend our deepest sympathies to everyone who has been affected, and we would like to express our sincere gratitude to all of the medical personnel working on the front lines of this pandemic.

Around the time I was appointed President in 2008, the Japanese government had set a goal for generic drugs of a 30% or greater market share. We determined it would be necessary to increase production capacity to meet expanding demand in the future, and immediately decided to construct the Kanto Factory. At the same time, we believed that pharmacies would play an important role in promoting generic drugs going forward, so we made a big change and began

conducting business with wholesalers.

Since then, we have taken various steps in response to the rapid increase in demand due to generic drug promotion policies by the Japanese government.

From a desire to provide our generic drugs to patients in the United States, we began searching for U.S. business partners around 2009. Led by our newly appointed President (Kenzo Sawai), we acquired the long-established pharmaceutical company, Upsher-Smith Laboratories, LLC (hereinafter, “Upsher-Smith”).

In addition to his recent appointment, it has been three years since our new President became the Chairman of Upsher-Smith. To achieve further growth going forward, it is desirable that the new President, who is familiar with overseas business, be in charge of steering the entire Group.



Chairman, Representative Director

Mitsuo Sawai

Date of birth: September 28, 1956

Apr. 1982 Joined Kyowa Hakko Kogyo, Co., Ltd. (currently Kyowa Kirin Co., Ltd.)
Jan. 1989 Joined Sawai Pharmaceutical Co., Ltd.
Jun. 2000 Director, Deputy Vice President of Sales Division, and General Manager of Sales Planning Department
Jun. 2002 Managing Director, Vice President of Sales Division, and General Manager of Sales Planning Department
Jan. 2008 Senior Managing Director, Supervisor of Management Planning Division and Corporate Administrative Division
Jun. 2008 President, Representative Director
Jun. 2020 Chairman, Representative Director

On Being Appointed President

Kenzo Sawai, President (hereinafter, "K. Sawai")

At present, the generic drug markets both here in Japan as well as the United States are at a major turning point, leaving me with a great sense of responsibility. At the same time, I am very excited and energized to be appointed President under these circumstances. I would like to further enhance our presence and build upon the achievements of my predecessors who raised the existing value of generic drugs.

Looking back, the acquisition of Upsher-Smith was a major achievement for me. After the acquisition, I and many of our Japanese employees went to the United States to discuss our ideas and make decisions about the

organization and human resources leading to the excellent relationship we have now. Although we have not realized much synergy with our business, there is a mutually positive impact internally in terms of the introduction of equipment and personnel exchanges, among other factors.

My mission is to make further strides in the U.S. market and leverage my many years of experience in development work to further refine our technological and development capabilities, as well as further increase the value of generic drugs. We will also take on challenges in new fields other than generic drugs.

President, Representative Director

Kenzo Sawai

Date of birth: May 26, 1968

- April 1995 Joined Sumitomo Pharmaceuticals Co., Ltd. (currently Sumitomo Dainippon Pharma Co., Ltd.)
- Apr. 2001 Joined Sawai Pharmaceutical Co., Ltd. Assigned to the Planning Group of the Development Department
- Jun. 2010 Director, Senior Vice President of Corporate Strategy Department
- Jun. 2013 Director, Senior Executive Officer, Senior Vice President of Corporate Strategy Department and Deputy Vice President of Sales Division
- Jun. 2017 Director, Senior Managing Executive Officer, Senior Vice President of Corporate Strategy Department and Supervisor of Sales Division
President of SAWAI AMERICA Inc.
Chairman of the Board of Upsher-Smith Laboratories, LLC
- Jun. 2018 Director, Senior Managing Executive Officer, Senior Vice President of Corporate Strategy Department and Supervisor of Research & Development Division
President of SAWAI AMERICA LLC.
Chairman of the Board of Upsher-Smith Laboratories, LLC
- Jun. 2020 President, Representative Director



Looking Back on Fiscal 2019 and Recognizing the Business Environment

Looking Back on Fiscal 2019 and Forecast for Fiscal 2020

K. Sawai: In the Japanese market in fiscal 2019, there were temporary drug price revisions in line with the consumption tax hike in October 2019, and drug price revisions implemented in April 2020. In reaction to the spread of COVID-19, employees took thorough countermeasures to prevent infections and voluntarily refrained from visiting medical institutions, but the impact from these factors on our performance was minimal. In the U.S. market, although revenue declined due to challenges with existing products as generic drug prices continued to fall, operating income increased as impairment losses declined from the previous fiscal year.

In terms of the earnings forecast for the fiscal year ending March 31, 2021, in the Japanese market, unit selling prices will fall in response to

drug price revisions and the impact of COVID-19 as the business environment surrounding our Company becomes increasingly challenging. However, we have already launched several promising new products that have little competition, thus there are many factors that are expected to contribute to higher sales.

At present, the generic drug market is said to be about ¥1.35 trillion in drug price conversion, growing to ¥1.6 trillion in the next three years and to ¥2.2 trillion in the next five years when original drug patents expire, thus it is expected that the domestic generic drug market will continue to grow in the future. Going forward, we will continue to outperform competitors with our patent strategy, which is our strength, and build a solid position in the generic drug business.

Consolidated Financial Highlights

Millions of yen

	FY2019		Year on year		FY2020 forecast		Year on year	
	Amount	Composition of sales	Amount	Growth rate	Amount	Composition of sales	Amount	Growth rate
Net sales	182,537	100.0%	(1,804)	(1.0%)	200,200	100.0%	17,663	9.7%
Operating income	26,793	14.7%	996	3.9%	26,850	13.4%	57	0.2%
Profit before tax	26,497	14.5%	831	3.2%	26,550	13.3%	53	0.2%
Profit attributable to owners of the parent	19,280	10.6%	(96)	(0.5%)	20,050	10.0%	771	4.0%
Core operating income (For reference)	34,391	18.8%	(3,347)	(8.9%)	34,800	17.4%	409	1.2%

Core operating income is calculated by excluding operating income from profit and loss due to non-recurring factors.

M. Sawai: Even amid this extremely challenging external environment, our ability to achieve results nearly as planned reflects our ability to launch various new products in anticipation of cost improvements and market trends due to

more efficient production systems. Above all, I think the trust born from consistently supplying products over many years has blessed us with the support of a large number of customers.

Future Growth Strategy

Transitioning to a Holding Company

M. Sawai: We have begun preparations to transition to a holding company structure, which we plan to commence sometime in April 2021*1.

Japan's declining birthrate and aging population, and the accompanying deterioration in healthcare financing were primary factors behind this decision. Going forward, Japan aims to realize a society of health with longevity through not only medical treatment in a narrow sense, but also in terms of pre-symptomatic and preventive measures, data health reforms and other efforts. Thus, for our

Objectives of Transition to Holding Company Structure

- Accelerate strategic alliances
- Establish system for the rapid development of new businesses
- Separate Group management/supervision and business execution
- Develop Group management personnel

Company to continue to grow in the future, we must build a system for strengthening existing businesses as well as nurturing new businesses that meet modern day needs. The generic drug industry will also reach a turning point where it will struggle to survive, which means we must prepare by entering into strategic alliances including M&A and develop Group management personnel.

*1 Assumes approval by the General Meeting of Shareholders scheduled in December 2020.

Medium- to Long-Term Business Strategy

K. Sawai: Considering the medium- to long-term business environment in the Japanese market, we assume the existing generic drug business will encounter challenges. We will address this by developing orphan drugs, actively investing in growth opportunities other than generic drugs, while also boldly taking on the challenge of new businesses by leveraging the strengths accumulated in our existing business.

At the same time, the United States is the largest market in the world, so receiving FDA approval and bringing drugs to market will be a great growth opportunity for the Company, leading to an enhanced global reputation.

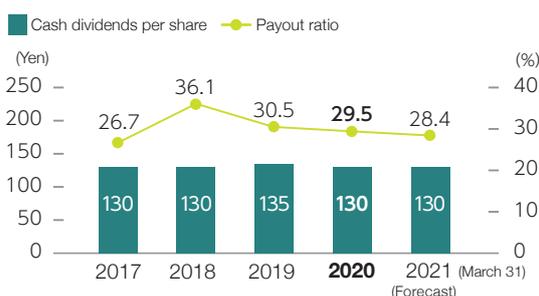
The number of generic drug approvals is still increasing, and although we expect the intensely competitive environment to endure into the future, we aim to leverage niche markets where there is little price competition with products called complex generic drugs that have high barriers to entry. Additionally, we are preparing for competition from other companies with the acquisition of two products from an Indian pharmaceutical company as successors to Upsher-Smith's brand products in the CNS domain. We are also steadily preparing for Paragraph IV filings, which was our purpose for expanding overseas.

We have implemented new work styles, such as the introduction of telework and online meetings, as part of our COVID-19 infection countermeasures, and have focused on continuous process improvement in that area. At the same time, I strongly felt the need for human resource development.

Generic drugs are now said to be an "indispensable asset" for the Japanese people. We will improve the quality of our education, especially among young employees, so that we can take pride and responsibility for being involved in such important work.

Finally, with regard to shareholder returns, which we position as one of our most important management priorities, we strive for balance with our growth-oriented investments to achieve a stable and ongoing dividend payment with a payout ratio of approximately 30%.

Cash Dividends per Share and Payout Ratio



*The Company has adopted International Financial Reporting Standards from FY2017.

* The fiscal year ended March 2019 includes a 90th anniversary commemorative dividend of ¥ 5 per share.

Social Responsibility as a Top Manufacturer of Generic Drugs

The Future of the Generic Drug Industry

M. Sawai: Last fiscal year, there was a legal breach in our industry in Japan, and as trust is paramount for pharmaceutical companies, a single mistake can be devastating. In order for this industry to continue to grow, governance and compliance are of utmost importance. Sawai will further strengthen Group governance with our transition to a holding company.

The impact of COVID-19 will make it difficult to

achieve a generic drug volume share of 80% by September 2020. However, generic drugs are an indispensable industry in Japan, thus we can expect further growth. The Sawai Group will continue to fulfill its social mission and work to further enhance its corporate value under a new system.

Toward the Realization of “Always Putting Patients First”

K. Sawai: Amid increasing interest in the SDGs and ESG, we have made Sustainable Development Goal 3 “Ensure healthy lives and promote well-being for all at all ages” our priority goal as we promote environmental, social and governance initiatives.

And, because we believe our business itself – especially generics – is the biggest contribution to society, we need to continue the ongoing stable provision of safe, high-quality generic drugs. This has been the same for generations, and will never change. The cornerstone of this dedication is our corporate philosophy “Always Putting Patients First,” which continues to be the trademark phrase of Hiroyuki Sawai, our former chairman (now supreme counselor).

In the future, for example, various ideas and opinions will emerge as the business diversifies. But even in such cases, we should be able to identify the path we must take using the indicator of whether or not it will benefit patients and what

we must do to ensure we actually do benefit patients. The Sawai Group will continue to sincerely pursue what we must do to benefit patients.



Special Feature: Overseas Business Strategy



How would you evaluate the success of the acquisition as we look back over the past three years?

Masahiro Sasaki: We are very fortunate to be strongly aligned around our main areas of focus: putting patients first, delivering high quality products to patients and customers, and engaging our employees with a passion to drive performance. These common cultural elements were apparent in early discussions of the acquisition and have only grown stronger and more aligned over the past three years.

Rusty Field: Sawai has developed a deep understanding of the U.S. market and Upsher-Smith business and leaders from both teams have built strong relationships and trust. The U.S. pharmaceutical market is complicated and different than the market in Japan. Together, we have made great strides in understanding our unique business markets and cultures. Upsher-Smith's leadership is committed to living up to the expectations Sawai had when the acquisition was made in 2017.

Masahiro Sasaki: Sawai is likewise committed to driving Upsher-Smith's growth and success. We are also dedicated to working together, which has helped us navigate a challenging business environment. We met and evaluated several types of companies before being introduced to Upsher-Smith. As we learned more about the company, Sawai top management shifted its acquisition approach to a "global" vs "international" view. We recognized Upsher-Smith has its own full capabilities, portfolio of products and pipeline over a long history, and that it would be best managed by its management team in the United States. That is why we introduced a basic policy of respecting autonomy from Day 1, and we

continue to believe that the best decisions can be made locally in the United States.

How does Upsher-Smith's autonomy play out in the management of operations? How do the two companies work together?

Masahiro Sasaki: As we have progressed through the acquisition, leadership roles and decision-making processes have achieved greater clarity, resulting in efficient management of operations. From the start, Sawai clearly and appropriately defined the plan for Upsher-Smith governance, established an effective Board of Directors and deployed leaders to live in the United States to drive the integration and partner on business growth. The clear business structure and dedicated Sawai leaders helped establish a strong decision-making process that allowed us to embark on key business strategies, like the acquisition of migraine assets and investment in our new manufacturing facility.

Rusty Field: There have been many great examples of collaboration between Sawai and Upsher-Smith over the past three years. The R&D, legal, regulatory and commercial teams from both companies have worked on Paragraph IV*¹ development programs. The Quality teams have developed a Global Quality guideline and are sharing auditing activities. Regulatory Affairs leaders at Upsher-Smith have been consulting with Sawai on key FDA issues. The R&D teams are actively involved in sharing formulation and development expertise between the companies to improve development programs and speed to market. This partnership and capacity for teamwork will only grow stronger as we move into the future together.

Special Feature: Overseas Business Strategy

Masahiro Sasaki: I think it's also important to note the partnership and collaboration with Sumitomo, which has been a very strong and important partner in the development of Upsher-Smith's business. In addition to providing insight and guidance on API sourcing and pricing, as well as other business development activities, Sumitomo has added a key resource in India that has provided a deeper understanding of market dynamics and industry information to help our development programs. Okuyama-san has become a critical member of Upsher-Smith's Strategic Team and is involved in key company strategy decisions. Sumitomo has also been a proponent of additional investment in Upsher-Smith through support of significant asset acquisitions and investments in Upsher-Smith infrastructure that will drive future revenue growth and efficiency of operations.

Upsher-Smith performed very close to original 2018 and 2019 plans, despite extremely challenging market conditions, but was not able to deliver on the original 2020 target set in the Mid-Term plan. What are your expectations going forward? What are the biggest opportunities for the next three years?

Rusty Field: As you note, Upsher-Smith came very close to achieving the Mid-Term plan targets for Net Income in a really difficult U.S. market. The pipeline that was in place at the time of acquisition fell short of expectations due to severe competition. We are now faced with further challenges in FY20 as competition will enter the market on three key Upsher-Smith products – Klor-Con M, Chlorpromazine and Qudexy® XR. We will strive to achieve and exceed our targets for the year by focusing on opportunities, such as the new Keystone manufacturing facility that will be added on to our Maple Grove Headquarters building. The creation of this new facility will be the foundation of Upsher-Smith's manufacturing for decades to come. I also want to point to the expansion of our brand

strategy. In July of 2019, we successfully acquired two important acute migraine medications – Zembrace® Symtouch®, an injectable and Tosymra®, a nasal mist. These products fit perfectly into our existing sales and marketing expertise by building on our existing Qudexy business. While the growth of Tosymra has been slower than expected to start, we have confidence that Tosymra and Zembrace will be powerful growth drivers for the next several years.

Masahiro Sasaki: We are also creating new opportunities across our organizations. For example, Upsher-Smith and Sawai will begin to co-invest in highly complex generics and 505(b)(2)*2 products that can drive long-term growth. This financial investment by Sawai will increase the size and value of the pipeline and drive financial benefits for both companies. Adding Kimura-san to our existing Upsher-Smith Board of Directors, which includes Sueyoshi-san, Yokota-san, Okuyama-san, Rusty-san and me, will help drive the successful implementation of our Keystone strategy. In Regulatory, Upsher-Smith's expertise working with the FDA will help Sawai leverage new business strategies. These are valuable and exciting opportunities.

It sounds like there are many opportunities going forward. What about the challenges of the next three years?

Rusty Field: There will continue to be uncertainty about the U.S. generics market due to continued competitive pressures. Between 2017 and 2019, the U.S. generic market experienced dramatic price deflation. This deflation was driven by a significant increase in the number of generic competitors in the United States and an increase in FDA approvals of new generic drugs. We have seen a decrease in price deflation overall, but significant impacts to important Upsher-Smith products remain possible as more generics enter the market. When Sawai acquired Upsher-Smith in 2017, the value of the pipeline products was much higher than the value of those products today due to the decline of the U.S.

generics market. As a result, when competitors entered into our largest, most profitable product markets and negatively impacted our revenue and margins, the pipeline was not able to drive the needed growth to cover that decline. In short, we must now drive growth from a smaller base of revenue.

How optimistic do you feel about the next three years?

Rusty Field: I feel confident about the future because Sawai and Upsher-Smith are committed to continuing investment in our organic pipeline as a foundation for future growth. Together, we have a strong focus on adding more programs and more complex programs – both generic and small brands – to our portfolio. Increasing complexity adds some risk, but it also adds the opportunity to drive stronger growth. I also feel confident because of the strong partnership between Sawai and Upsher-Smith leaders and teams. Over the past three years, we have learned a great deal about each other, including how businesses operate in both countries as well as how we can leverage our different cultures and communication styles to foster powerful teamwork. Sasaki-san and Okuyama-san are deeply involved in Upsher-Smith’s strategy development and oversight of our business, and Upsher-Smith leaders have strong connections to Sawai functional leaders in Finance, Technology, Regulatory & Quality, R&D and Operations. We will only get better as time moves forward.

Masahiro Sasaki: I also feel confident about the future. Upsher-Smith has demonstrated strong financial discipline and ensured its expense structure is appropriately balanced for growth and financial results. For example, in 2019, Upsher-Smith took significant actions to lower overall SG&A expenses to better align our expense structure with our revenue and margin. We will continue to drive efficiencies and cost management to ensure we are positioned for growth. Secondly, we continue to have strong cultural alignment between our people and organizations. Our shared focus on patients first will drive us to overcome



our challenges as we move forward. Patients rely on us for their health and well-being and it is our responsibility to deliver high quality products to them. Across Sawai and Upsher-Smith, our employees’ commitment to this mission binds us together and makes us stronger.

How can the new structure of Sawai Group enhance Upsher-Smith’s contribution to Sawai Group’s value creation?

Masahiro Sasaki: The Upsher-Smith Board of Directors has established a deep knowledge and understanding of Upsher-Smith’s business and the U.S. market. The Upsher-Smith Board is deeply involved with key business strategy decisions and this new design will allow the Upsher-Smith Board to be even more agile in response to shifts in the U.S. market.

Rusty Field: The new Sawai Group holding company will also be able to see across the Sawai and Upsher-Smith businesses to identify, foster and develop opportunities that leverage the strength of both businesses. It’s very exciting.

*1 Paragraph IV : A company can seek approval from the FDA to market a generic drug before the expiration of a patent related to the brand name drug upon which the generic is based. To accomplish this, it must certify that the patent in question is invalid or it is not infringed by the generic product - this is known as paragraph IV certification. The first ANDA applicant that successfully claims and receives FDA approval may obtain the right to sell the generic drug exclusively for 180 days.

*2 505(b)(2) : 505(b)(2) is a regulatory pathway that allows a sponsor to reference previous studies and information, e.g. safety studies, efficacy studies, literature and other information to seek FDA approval for the development of enhancements to an already approved molecule. These enhancements generally include new routes of administration or new formulations. If sponsors are successful gaining FDA approval, they may be able to gain exclusivity for 3-7 years or longer, depending on the clinical studies required, indication and intellectual patent protection developed by the sponsor.

Sawai seeks to contribute to resolving social issues and realize a sustainable society.

The rising cost of medical care has now become a serious social issue as a result of the rapidly falling birth rate and aging society as well as the availability of more advanced medical care.

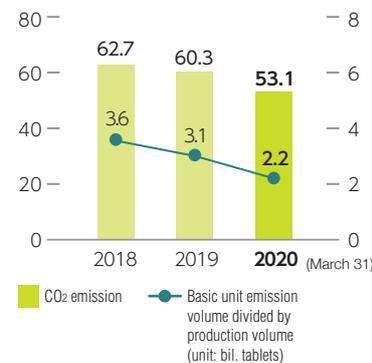
As a specialized manufacturer of generic drugs that offers equivalent quality and higher added value despite having a price lower than the originator drug, we have worked to increase the use of generic drugs to lighten the burden and improve convenience for patients through our Corporate Philosophy of "Always Putting Patients First."

To continue practicing this philosophy, we aim to enhance the Corporate Social Responsibility (CSR) awareness of employees and contribute to the realization of a sustainable society through efforts in our business and business processes which are based on our belief that "the business activities of Sawai themselves are its greatest contribution to society."

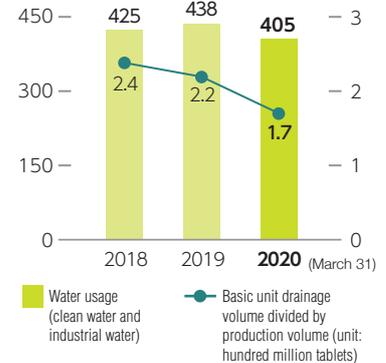


In realizing one of the tenets of its Corporate Philosophy—"to enable people to live healthy lives through pharmaceutical products"—and as a provider of generic drugs, Sawai is working to preserve the global environment in cooperation with local communities and society as a whole.

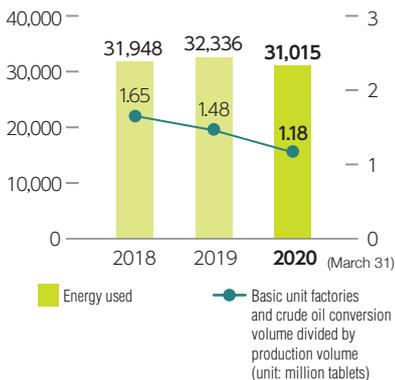
CO₂ Emission (kt-CO₂)



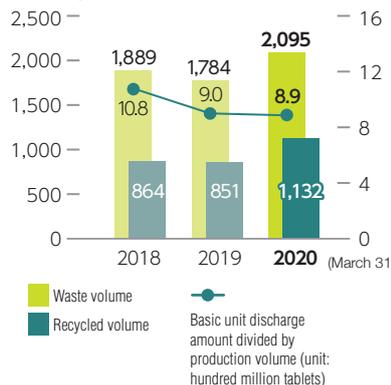
Water Usage (Thousand m³)



Energy Used (crude oil conversion kℓ)



Waste Volume / Recycled Volume (t)



Chemical Substances, etc. (t)

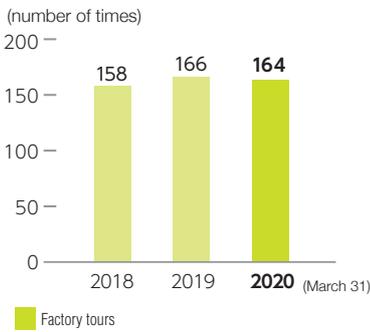




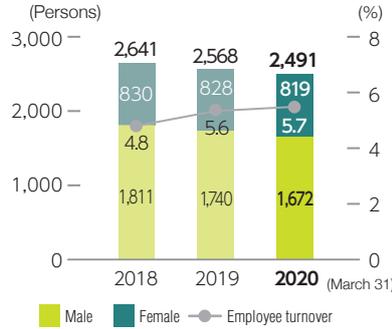
S Contributing to Society

Sawai contributes to society through its business activities, and undertakes a wide variety of social contribution activities for the benefit of local communities.

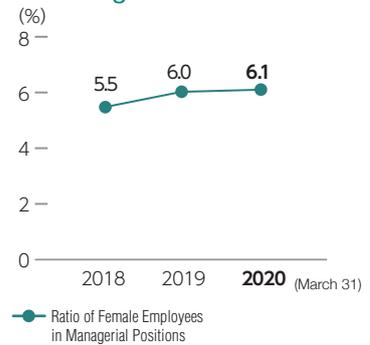
Factory Tours



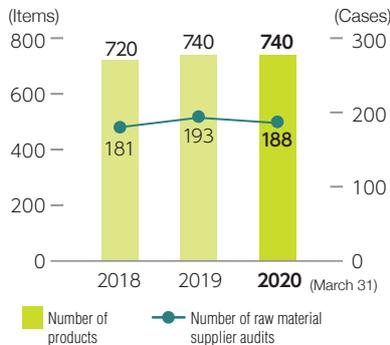
Number of Employees (Consolidated, Japan only)



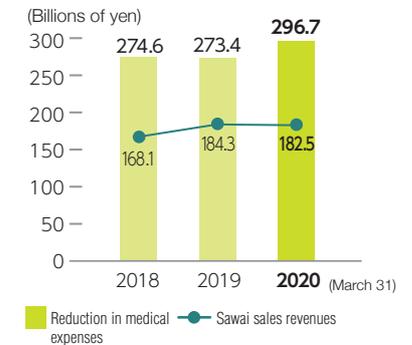
Ratio of Female Employees in Managerial Positions



Products and Stable Supply



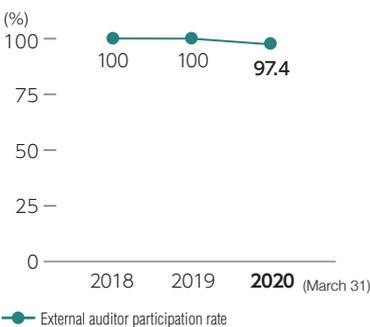
Reduction in Medical Expenses



G Fair and Highly Transparent Management

To attain sustainable growth and increase corporate value in the medium-to-long term, and to work toward the realization of consistently fair, highly transparent business, Sawai considers the enhancement of corporate governance to be a major management goal.

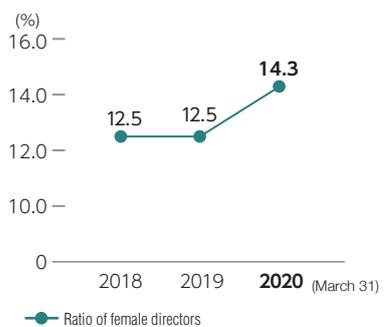
External Auditor Participation Rate



Number of Directors



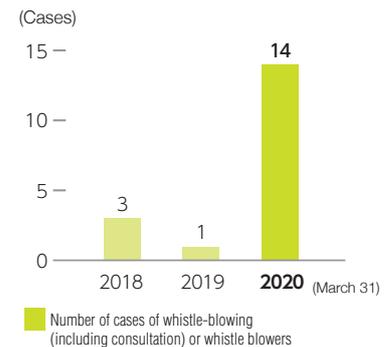
Ratio of Female Directors



Total Compensation Allocation for Eligible Directors (excluding external directors)



Number of Cases of Whistle-blowing (including consultation) or Whistle blowers





Alongside the Global Environment

CO₂ Emission Reduction Initiatives

Under the Energy Conservation Law, we are obliged to reduce energy consumption rates for each energy management-designated factory over the medium- to long-term (five years) by an average of 1% or more per year. At Sawai's seven domestic factories, we are working on various energy-saving activities, such as consolidating production equipment, changing obsolete equipment, and reviewing the operating hours of equipment, with the goal of reducing energy by 1% compared to the previous year. In addition, as a medium- to long-term target, we are determined to “reduce CO₂ emissions 25% by 2030 in terms of production volume per unit unit based on 2013 + α.”



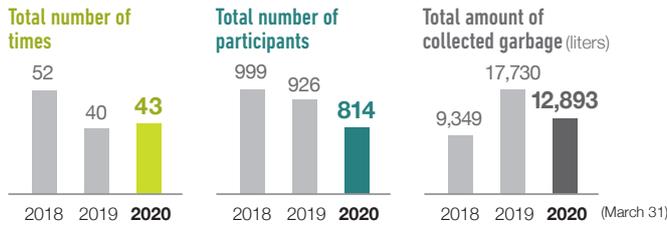
Distribution of the Sawai Environmental Magazine



The Sawai Environmental Magazine is a monthly in-house magazine that is distributed to all employees. The magazine covers environmental information and shares internal and external initiatives. The Sawai Environmental Magazine is celebrating its fifth anniversary and has a recognition rate of more than 90% among our employees. Beginning fiscal 2019, an English translation will be distributed to U.S. subsidiaries once every six months to raise awareness and interest in environmental issues, and to help promote understanding of the initiatives undertaken in our own environmental conservation activities.

Implementation of Company-Wide Cleanup Activities

We continue to carry out Company-wide cleanup activities conducted at all offices and surrounding neighborhoods. In fiscal 2019, these activities were held a total of 43 times, with 814 people participating.



Participation in Zero Ocean Litter Week

In fiscal 2019, 68 Head Office and Research Center employees participated in an initiative (conducted throughout Japan to remove garbage from the ocean) endorsing “Zero Ocean Litter Week” sponsored by the Ministry of the Environment and the Nippon Foundation. The actions of each individual person contribute to protecting the future of our oceans.



Biodiversity Initiatives

In order to contribute to the conservation of biodiversity, we participate twice a year in conservation activities focusing on the endangered species “Itasenpara” bitterling,” by exterminating invasive fish and cleaning the riverbed.

Note: Itasenpara
A freshwater fish classified into the genus Tanago, a subfamily of the Cyprinidae. Ministry of the Environment Red List Endangered IA (CR), designated a protected species by the government of Japan.



VOICE

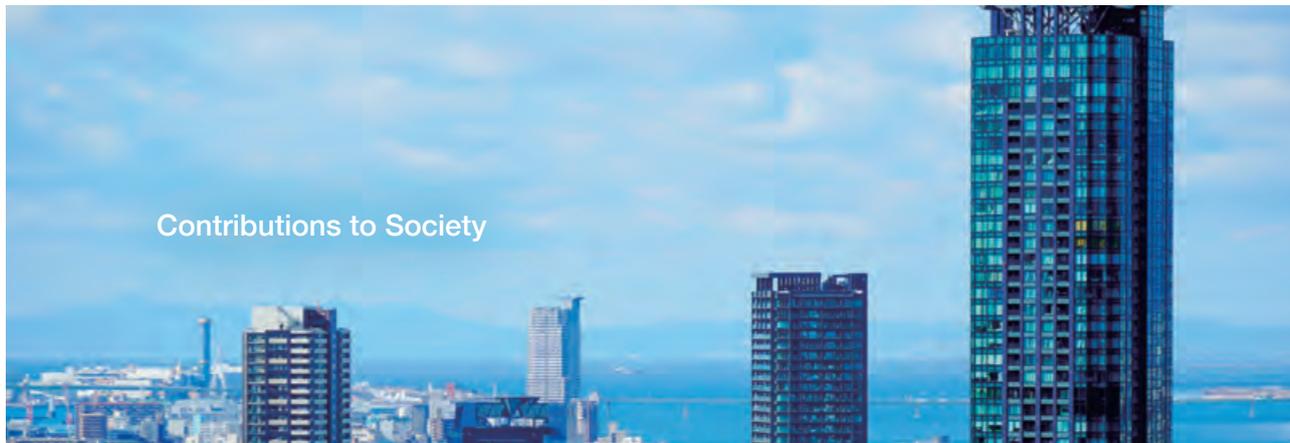
Use of Recycled Paper for Packaging Materials

For many years, Sawai has used recycled paper in its product packaging. The use of recycled paper saved the equivalent of 4,725 trees compared to new pulp made from wood (fiscal 2018 results). We will continue efforts to stop forest degradation and protect sustainable forests.



Manufacturing Division,
Purchasing Department
Purchasing Group

Masakazu Yamano



Contributions through Business

Product Ingenuity

Sawai endeavors to design products that incorporate features that take into consideration how the patient takes the dose. For example, “Aprepitant capsule SAWAI,” which is taken in a nauseous state, was designed as a small-sized capsule with an emphasis on ease of swallowing, with the product name and dosage printed on the capsules to aid in identification.

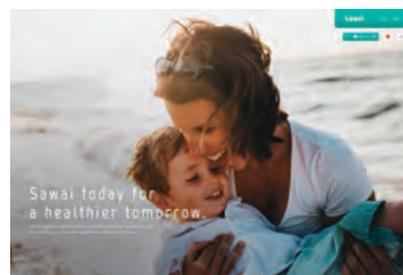
The packaging incorporates a sheet design with the number of days of actual administration so that the date can be recorded.



Comprehensive Update to English Language Website

We have comprehensively updated our global website (English language). The design and content have been revamped to be more suitable for a global website, and user-friendliness has been enhanced with the incorporation of an automatic reading function.

We will continue to promote our strategy targeting expansion into global markets.



Active Pharmaceutical Ingredients(API) Country of Manufacture Disclosure

Since July 2019, we have made public the “API country of manufacture” for our products on Sawai Pharmaceutical’s comprehensive information website for healthcare workers. We disclose information on the percentage of API



manufacturing countries and final drug substance manufacturing locations by country so that healthcare workers can use drugs sold by the Company with peace of mind.

Release of GeneriQ

In September 2019, we released a video using virtual reality (VR) to simulate a factory tour. The video is presented in an RPG format and features the Sawai Pharmaceutical official mascot Gene-Chan® as the brave main character attempting to reveal six secrets inside the factory. Viewers can experience the clean



factory environment, our production system with state-of-the-art equipment and get a sense of the safety and quality of “Sawai Generics.”

Connection to Society

Sponsoring the Osaka Great Santa Run 2019

Sawai sponsored the “Osaka Great Santa Run” charity event supporting children struggling with illness. On the day of the event, we also presented a sponsor company booth designed to deepen the public’s understanding of generic drugs. By co-sponsoring events such as this, we contribute to supporting children struggling with illness and provide opportunities for learning about chemistry and drugs.



Dementia Supporter Training Course

We attended a Dementia Supporter Training Course comprising a total of seven lectures given by representatives from the Osaka Yodogawa Ward Eastern District Comprehensive Support Center to facilitate an understanding of the feelings of people with dementia and their families, as well as basic knowledge about dementia and how to care for people with dementia. This course teaches what we can do as supporters, and those who complete the course can become “dementia supporters.” A total of 185 Sawai employees received the Orange Ring, which indicates a dementia supporter.



Protective Clothing Kit and Face Shield Donations

On April 27, 2020, we donated 864 sets of disposable protective clothing kits (containing a gown, mask, cap, shoe covers, face shield, inner gloves and outer gloves) to the Yodogawa Ward Office in Osaka City. In early June 2020, we donated face shields (30,000 units) to the Tokyo Medical Association. We hope these will be useful for medical institution personnel working hard during the COVID-19 pandemic.



Protective clothing kits



Face shields

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Aiming to Improve the Satisfaction of Healthcare Professionals (Pharmaceutical Drug Information Center)

At the Pharmaceutical Drug Information Center, we are constantly striving to improve the quality of telephone responses so that medical staff feel glad that they called Sawai. In order to provide medical personnel with polite and prompt information, it is essential we not only improve our response skills, but also cooperate with relevant departments to provide specific information. As a result of our daily efforts toward this goal, last year we received top marks in external evaluations. Rather than being satisfied with this accolade, we will continue striving to provide even better information for the benefit of all patients.



Pharmaceutical Drug Information Center activity



Contributions to Society

Connection to Society

Wheelchair Basketball Game Sponsorship

For the fifth time, Sawai sponsored the International Women's Wheelchair Basketball Friendship Games Osaka Cup held February 14–16, 2020. Players from Japan, England and Canada participated in the games, with approximately 12,000 people in attendance who watched and supported the heated contest over the three-day event.



Marunouchi Kids Jamboree Sponsorship

For the first time, Sawai sponsored the Marunouchi Kids Jamboree Special Edition, an event held at the Tokyo International Forum.

To facilitate a deeper understanding of generic drugs, we had a quiz booth where employees provided lessons that contributed to cultivating intellectual curiosity among children through a fun approach to learning about pharmaceutical drugs.



Efforts to Enrich Corporate Life

Health and Productivity 2020 Certification

Sawai was selected for Health and Productivity 2020 certification, recognized by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi as an enterprise engaging in efforts to advance health and productivity management.

In accordance with the corporate code of conduct that “better drugs are born from workplaces that are both mentally and physically healthy,” we assign dedicated public health nurses to each worksite who strive to coordinate occupational health activities aimed at promoting safe and hygienic workplaces.



Sustainable Development Goals (SDGs) Card Game and Workshops

On February 3, 2020, 24 employees, including executive officers from each division, participated in an SDGs card game and workshop to deepen understanding and spread awareness of the SDGs within the Company.

Although presented in a game format, there was no playing around, as participants gained an actual sense of the possibility of achieving business activities (company profits and management targets) while mutually cooperating to realize the common goals (economic, environmental, social, etc.) of a sustainable society. We also held a workshop so that participants could share their thoughts about what they had learned.



Employee Engagement Survey

We conducted an employee engagement survey to quantitatively ascertain trends in employee engagement among all employees. Findings will be used to improve issues and examine solutions pertaining to organizational culture and management. This year, employees were able to participate in the survey using a smartphone, which resulted in a 96.9% response rate, the highest response we have received since fiscal 2007. Going forward, we will continue to conduct surveys, as needed, in order to utilize the collected and analyzed results as important reference materials for management improvements.



VOICE



Sawai Pharmaceutical Workers Union
Central Executive
Committee Chairman

Toshitaka Niiyasu

Message from the Sawai Pharmaceutical Workers Union

Without the development of the Company, there can be no happiness for employees and their families. And without the growth (activity) of each employee, the Company cannot develop, which is to say, the Company cannot enhance corporate value. For these reasons, labor and management are considering measures to improve employee capabilities, while the Labor-Management Work Style Reform Committee is expanding discussions aimed at resolving issues from the standpoints of improving productivity and promoting a work-life balance. With the replacement of the President and a new management team in place, in addition to industrial policies (annual drug price revisions, etc.) and other new issues, such as how the Company must respond in the age of living with COVID-19, we will work on ways for labor and management to cooperate based on a continued sound labor-management relationship.

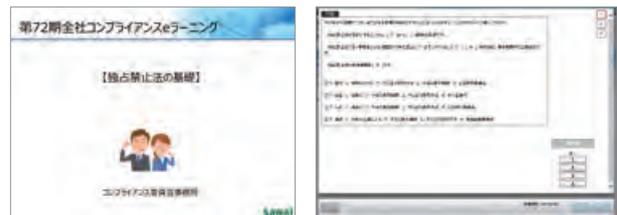


Corporate Governance Initiatives

Compliance

In fiscal 2019, the Compliance Committee (chaired by the president) met quarterly and periodically conducted education on themes including respect for human rights, e-learning about information security and the distribution of information security news, and jointly engaged in targeted email attack and other training in Japan and the United States.

Since May 2019, we have conducted monthly compliance e-learning for all employees on themes such as sexual harassment, power harassment, the mixing of



public and private affairs, and the Antimonopoly Act, with a total of 33,819 employees participating. Sawai is working to strengthen compliance by calling for thorough observance of laws and regulations.

Internal Reporting Process

Sawai attempts to improve internal control and compliance by ascertaining operational status based on the “structure for ensuring proper conduct of business” then taking any necessary corrective measures. In addition, we have established a corporate ethics helpline as an internal point of contact for compliance-related reporting in an effort to facilitate the prevention, early detection and proper handling of compliance violations and other issues (Whistle-Blower System).

In addition to relevant departments within the Company, we have also made it possible to select consultation with an outside lawyer, and in the aforementioned e-learning, we make it known to employees that they can consult with the corporate ethics helpline. Depending on the nature of the issue, we receive advice from various experts and consult with the Compliance Committee chaired by the president and the Internal Control Committee.

Risk Management Committee

In fiscal 2019, the Risk Management Committee (chaired by the president) met two times. Each year, the committee reviews the importance and impact of risks in 18 categories by analyzing and evaluating risks faced by the Company using a risk assessment sheet, and reviewing countermeasures intended to minimize damage to Company management resources.

During discussions held in fiscal 2019, with regard to

earthquake responses, we confirmed contact methods in the event of a disaster based on a virtual scenario.

Regarding IT risks, there was a vigorous discussion about information sharing pertaining to risk avoidance mechanisms using an external server in the event of a disaster, and various information leakage risks in normal operations and their countermeasures.

Business Risks

What Sawai considers to be its main risks are listed below. In the event that any such risks emerge, it is possible that such circumstances may have an effect on the Sawai Group's management performance and financial condition.

Types of Major Risk	Explanation of Risks
Regulatory risk arising from the Pharmaceutical and Medical Devices Law and other regulations	The Sawai Group is regulated by the Pharmaceutical and Medical Devices Law and other relevant laws and regulations and is required to obtain permits, registration and licenses, as well as submit notifications in each prefecture where we do business. Although the Group has a sufficient legal compliance system in place, in the event of a violation of laws or regulations pertaining to the licensing of our pharmaceutical manufacturing and sales business, there is a possibility that the regulatory authorities may suspend our business operations, cancel our permits or take other actions affecting the financial condition and business performance of the Group.
Changes in Japan's National Health Insurance (NHI) drug price scheme and healthcare system	In order to sell prescription drugs, which constitute the Group's main products and merchandise, they must be listed under national drug price standards. With regard to drug prices, market price surveys are conducted, with many NHI drug prices reduced in line with drug price revisions as well as in consideration of policies based on actual market price. In addition, there are ongoing discussions on drug price and medical insurance system reforms aimed at optimizing rising medical expenses. Sawai pays close attention to these trends and reflects them in our management policies and strategies, however, there is a possibility that NHI drug price reduction rates or changes to the system may affect the financial condition and business performance of the Group.
Lawsuits pertaining to intellectual property	The Sawai Group conducts thorough investigations into intellectual property rights, including patents, designs and trademarks related to substances, applications, manufacturing methods, crystal formations, usage methods, dosages and formulations. We also make every effort to develop products in careful observance of the Unfair Competition Prevention Act. However, many generic drugs marketed by the Group have multiple active patents related to manufacturing methods, crystal formations, usage methods, dosages or formulations even after the expiration of the original drug substance and usage patents, thus there is a possibility of litigation based on these patents. Such circumstances have the potential to affect the financial condition and business performance of the Group.
Effects of competition and other factors	Products sold by the Sawai Group become unprofitable due to frequent drug price reductions, and in order to avoid being forced to halt sales, we make an effort to sell at prices that ensure appropriate profit. However, when many manufacturers enter the generic drug market, intense competition easily causes prices to drop. Furthermore, original drug manufacturers make efforts to respond to declines in market share after patents expire through the introduction of authorized generics among other measures, and because of this trend, it is possible that Sawai cannot achieve its sales targets. Additionally, although our strength lies in our R&D capability of launching several generic drugs every year ahead of other companies, the risk from competition is increasing due to the improvement of competitors' R&D capabilities which has the potential to affect the financial condition and business performance of the Group.
Product recalls and suspension of sales	The efficacy and safety of active ingredients used in the generic drugs sold by the Sawai Group have been confirmed over a set period of time based on the usage history of the original drug. In addition, drugs undergo reexaminations and reevaluations so that the risk of developing unknown and serious side effects is, in principle, extremely small. However, in the event of unexpected new side effects, contamination of the product with impurities or the establishment of new or stricter inspection standards, we may be forced to recall and/or discontinue product sales, and depending on the severity of the circumstances, may be held liable for damages caused by the product, all of which have the potential to affect the financial condition and business performance of the Group.
Temporary suspension and delays in production due to natural disasters	With regard to natural disasters such as earthquakes, storms and floods, as well as other serious health risks including COVID-19 and other pandemics, The Sawai Group formulates and maintains Business Continuity Plan (BCP), crisis management protocols and other measures in order to continue engaging in business with respect for human life as our first priority. With production bases located in Fukuoka Prefecture, Hyogo Prefecture, Osaka Prefecture, Chiba Prefecture, Ibaraki Prefecture and the United States, the Group aims to reduce the risk of suspended operations through a decentralized factory network and standardized manufacturing equipment. However, if factory operations are halted due to natural disasters, technical or regulatory issues, or other problems, there is a possibility that the supply of products manufactured at the impacted production bases will be suspended, which may affect our business results. Furthermore, in terms of important raw materials, Sawai attempts to manage and respond to supply chain risks including multi-source purchasing, but as some materials are supplied by specific business partners, if purchases are suspended due to natural disasters or other factors and it is difficult to source replacements, this may affect the financial condition and business performance of the Group.
Global business development	In anticipation of slowing growth in the Japanese market due to an increase in the share of generic drugs, the Sawai Group has been considering overseas expansion, capital tie-ups, corporate acquisitions and other means of targeting sustainable growth. Although we strive to thoroughly examine business profitability as well as related laws and political and economic conditions, in some cases, unexpected changes in circumstance or investment outcomes beyond our initial expectations may affect the financial condition and business performance of the Group.
Company acquisitions	On April 20, 2017, we agreed to acquire Upsher-Smith for U.S. \$1.05 billion, with the acquisition completed on May 31, 2017. Also, on November 13, 2017, Sawai sold a 20% stake in its U.S. subsidiary, Sawai America INC. (hereinafter, "SAI"), the parent company of Upsher-Smith, to Sumitomo Corporation of Americas (hereinafter, "SCA"), entering into an equity transfer agreement with SCA that was completed on January 3, 2018 (SAI changed its name to Sawai America, LLC, after transitioning to a Limited Liability Company in December 2017). Moreover, in accordance with the acquisition of Upsher-Smith, goodwill of ¥38.636 billion yen was recorded on the consolidated statement of financial position for the fiscal year ended March 31, 2020. Sawai believes that the acquisition of Upsher-Smith, which is one of the leading companies in the U.S. generic drug market, will greatly contribute to the rapid establishment of a foundation in the US market, which is the world's largest generic drug market, and we are working to create synergies through collaborations that leverage the strengths of Sawai and Upsher-Smith. However, if the expected results of this acquisition are not achieved due to changes in the Upsher-Smith business environment or business activities, delays in the progress of integration, issues not discovered in due diligence or for other reasons, there is a possibility that goodwill impairment or other accounting treatments may affect the financial condition and business performance of the Group.
Information management	The Sawai Group retains possession of personal information from within and outside the Company, trade secrets and a substantial amount of other important information. In addition to establishing internal regulations, implementing IT security measures and saving data at multiple locations, including external data centers, the Group has established an Information Security Committee to conduct education and awareness activities, among other efforts, to ensure thorough information management. However, in the event of information leaks, falsification, loss or other incidents caused by system failure or accident, there is a possibility this may affect the financial condition and business performance of the Group.
Other	In addition to the above, there are various risks involving financial market and exchange rate fluctuations, risks related to corporate governance including compliance, risks related to climate change and other environmental problems, and short-term labor shortages due to low birthrates and an aging population. Thus, the risks described herein are not inclusive of all risks facing the Sawai Group. The Risk Management Committee, chaired by the representative director, meets twice a year to discuss necessary risk responses and countermeasures, including discussions aimed at narrowing down particularly important risks in terms of frequency of occurrence and the degree of impact on business. Related topics are considered in greater detail separately by the Compliance Committee and CSR Committee, etc. In addition, we are working to reduce the risk of executives and employees violating laws and regulations or violating social norms by implementing regular educational initiatives and awareness-raising activities that utilize tools such as e-learning.

Board of Directors



Chairman, Representative Director

Mitsuo Sawai

Jan.1989 Joined the Company
 Jun.2000 Director, Deputy Vice President of Sales Division, and General Manager of Sales Planning Department
 Jun.2002 Managing Director, Vice President of Sales Division, and General Manager of Sales Planning Department
 Jun.2005 Senior Managing Director, Vice President of Sales Division
 Jun.2008 President, Representative Director
 Jun.2020 Chairman, Representative Director (incumbent)

Mr. Mitsuo Sawai has thorough knowledge of the generic medicines business and works to build strong relationships with business partners and other stakeholders to lead the enhancement of corporate value in accordance with Sawai's management philosophy. He serves as President of the Japan Generic Medicines Association and contributes to the sustained development of the industry.



Director, Senior Executive Officer, Senior Vice President of Reliability Assurance Division

Toru Terashima*

Apr.1984 Joined Sumitomo Chemical Company, Limited
 Oct.1984 Joined Sumitomo Pharmaceuticals Co., Ltd. (currently Sumitomo Dainippon Pharma Co., Ltd.)
 Jan.2016 Joined the Company
 Jun.2016 Corporate Officer, and Vice President of Reliability Assurance Division
 Jun.2017 Director, Corporate Officer, Vice President of Reliability Assurance Division
 Jun.2018 Director, Executive Officer, Vice President of Reliability Assurance Division, and General Marketing Compliance Officer (incumbent)
 Jun.2019 Director, Senior Executive Officer, Vice President of Reliability Assurance Division

Mr. Toru Terashima is in charge of general manufacturing and sales. The Company appointed him to provide professional knowledge and business experience in the research, development, and production of, and regulatory affairs related to, pharmaceuticals.



President, Representative Director

Kenzo Sawai

Apr.1995 Joined Sumitomo Pharmaceuticals Co., Ltd. (currently Sumitomo Dainippon Pharma Co., Ltd.)
 Apr.2001 Joined the Company
 Jun.2010 Director, Vice President of Corporate Strategy Department
 Jun.2013 Director, Senior Executive Officer, Vice President of Corporate Strategy Department, and Deputy Vice President of Sales Division
 Jun.2017 Director, Senior Managing Executive Officer, Vice President of Corporate Strategy Department and Supervisor of Sales Division
 President, Member of the Board of Sawai America LLC (incumbent) Chairman of the Board of Upsher-Smith Laboratories, LLC (hereinafter referred to as "Upsher-Smith") (incumbent)
 Jun.2018 Director, Senior Managing Executive Officer, Vice President of Corporate Strategy Department and Supervisor of Research & Development Division
 Jun.2020 President, Representative Director (incumbent)

Mr. Kenzo Sawai is well-versed in the generic drug business. The Company appointed him to utilize his strategic planning and implementation abilities to support the Sawai Group's growth, medium- to long-term business plans overseas strategies, alliances and advertising efforts.



External Director

Masatoshi Ohara

Apr.1979 Registered as a lawyer at Osaka Bar Association
 Joined Kikkawa Sogo Law Offices (currently Kikkawa Law Offices) (incumbent)
 Aug.1986 Attorney admitted in the State of New York, the U.S.
 Apr.2004 Member of the Board of Directors for the Kinki Federation of Bar Associations
 Apr.2017 The President of Osaka Bar Association, and the Vice President of Japan Federation of Bar Associations
 Jan.2018 External Director of Teijin Frontier Co., Ltd. (incumbent)
 Jun.2019 External Director of the Company (incumbent)

Mr. Masatoshi Ohara has extensive experience and professional knowledge as a lawyer in the United States and Japan. The Company appointed him to utilize his experience as an external director at other companies to provide beneficial advice from an independent perspective.



Director, Senior Executive Officer, and Senior Vice President of Corporate Administration Division

Kazuhiko Sueyoshi*

Apr.1980 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
 Apr.2012 Joined the Company
 General Manager of Controller Department
 Jun.2017 Executive Administration of the Board of Upsher-Smith (incumbent)
 Feb.2018 Executive Officer, Deputy Vice President of Corporate Administration Division, and General Manager of Controller Department
 Jun.2018 Director, Senior Executive Officer, and Vice President of Corporate Administration Division (incumbent)

Mr. Kazuhiko Sueyoshi has expertise in finance and accounting, and the Company appointed him to contribute deep insights into corporate management based on his extensive experience and being well-versed in compliance, CSR and all other aspects of corporate governance.



External Director

Nawomi Todo

Jun.1984 Obtained Medical License
 Jul.1984 Staff Doctor at Osaka University Hospital
 Jul.1987 Staff Doctor at Osaka Police Hospital, Association of Osaka Police Foundation
 Jul.1990 Staff Doctor at Nissay Hospital
 Jan.2002 Staff Doctor at Osaka-tetsusho Health Insurance Society (incumbent)
 Jan.2007 Obtained Certified Occupational Physician Qualification of Japan Medical Association
 Jun.2015 External Director of the Company (incumbent)

Ms. Nawomi Todo has extensive professional knowledge and experience as a medical doctor. The Company appointed her to continue providing beneficial advice to patients and physicians from an independent perspective.

*Concurrently as officers

Auditors (Audit & Supervisory Board Members)



Standing Statutory Auditor



External Auditor



External Auditor

Tadao Tsubokura

Jul. 2008 Joined the Company
General Manager of Contoller Department
Apr. 2012 General Manager of General Affairs Department
Jun. 2018 Standing Statutory Auditor
(incumbent)

Mr. Tadao Tsubokura conducts audits drawing on his experience as the leader of the Company's business management and general affairs departments, participates in the Audit & Supervisory Board as a Standing Statutory Auditor, and serves as the contact point for the Board of Directors.

Takanobu Tomohiro

Apr. 1991 Registered as an attorney
Joined Kogoshi Takizawa Law Office
(currently, Kobe-Kaito Law Office)
Apr. 1994 Partner of Kobe-Kaito Law Office
(incumbent)
Jun. 2016 External Auditor
Apr. 2020 Chairman, HYOGO-KEN BAR ASSOCIATION
(incumbent)

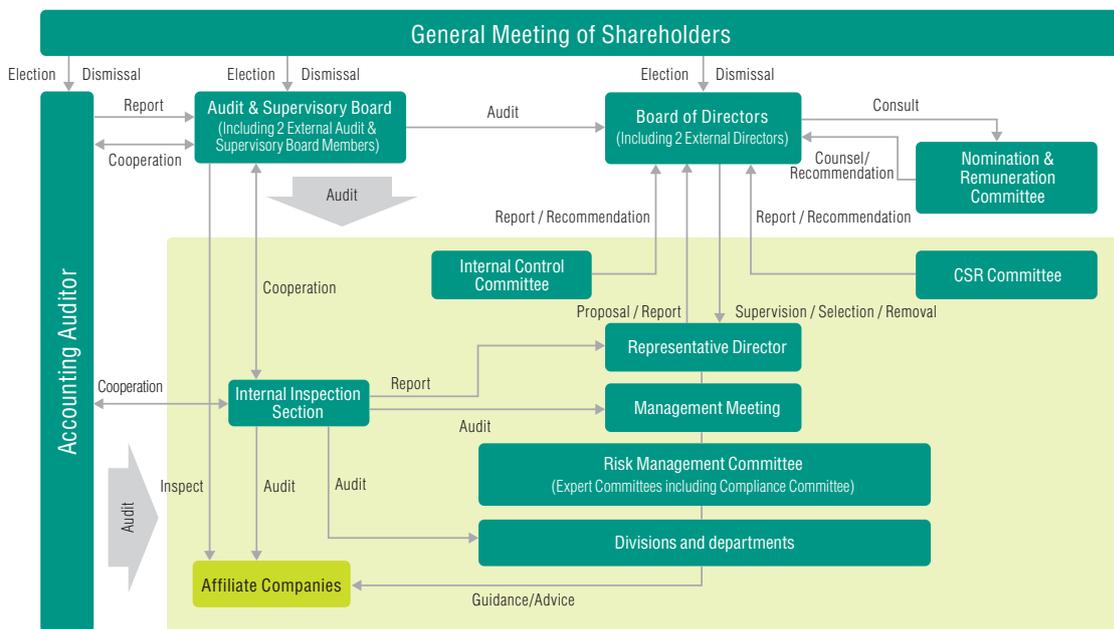
Mr. Takanobu Tomohiro has a wealth of expertise and experience as a lawyer, and provides useful advice and auditing from an independent standpoint as an External Auditor.

Junichi Hirano

Jul. 2013 Director, Co-ordination Division, Second Large Enterprise Examination Department, Osaka Regional Taxation Bureau
Jul. 2014 District Director, Higashi Yodogawa Tax Office
Jul. 2015 District Director, Himeji Tax Office
Aug. 2016 Established a Certified Tax Accountant Office
(incumbent)
Jun. 2017 External Auditor (incumbent)

Mr. Junichi Hirano opened a tax accountant office after serving as the District Director of the Himeji Tax Office. He has considerable knowledge of finance and accounting, and provides useful advice and audits from an independent standpoint.

Corporate Governance Structure



Governance Reforms

The Sawai Group is implementing various governance reforms. From fiscal 2018, we incorporated Environmental, Social and Governance (ESG) performance in terms of risk and compliance into the elements of performance-linked remuneration for executives, with the lead independent outside director as the Nomination and Remuneration Governance Committee chairman.

Evaluating the Effectiveness of the Board of Directors

The Sawai Group conducts analyses and evaluations to ensure the effectiveness of the Board of Directors. We have a strong reputation for providing meticulous explanations and reports, as well as engaging in frank and open discussions of important matters.

At the same time, we continue to strengthen the effective use of outside directors and the training of other executives.

CFO Message



Executive Officer
Yoshiki Sakurai

Fiscal 2019 Financial Highlights

In Japan, while our fiscal 2019 performance was impacted by drug price revisions in line with the consumption tax hike, we made efforts to sell high added-value products in the pharmacy market such as “Minodronic Acid Tablets”, which won a “WorldStar Award” for its packaging.

In addition, while maintaining and improving the quality of our products, we took proactive steps to purchase multiple raw materials and other resources while reducing a variety of other costs to enhance our cost competitiveness. In the United States, we worked with Upsher-Smith to expand our pipeline amid a difficult environment characterized by price declines and intensifying competition.

As a result, although sales revenue was down slightly compared to the previous year, we maintained operating income increases.

Years Ended March 31

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

Notes: 1. Capital expenditures are presented on a cash flow basis.

2. The Company split its common stock two for one on October 1, 2013. Amounts per common share for years prior to 2014 were recalculated to reflect the share split.

3. The Company has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2018. In applying IFRS, “Core Operating Income” has been introduced as an ordinary profitability index.

4. Dividend per share in 2019 included our 90th anniversary commemorative dividend of 5 yen.

Financial Soundness

Sawai expects restructuring in the industry driven by a fundamental reform of the drug pricing system and a worsening operating environment due to annual drug price revisions. We will strive to maintain and secure a solid financial foundation to flexibly and quickly respond to the upcoming industry restructuring and achieve sustainable growth on a global basis, including at Upsher-Smith.

In response to the COVID-19 pandemic, we made efforts to improve free cash flow and ensure a certain level of inventory to maintain a stable pharmaceutical supply structure, which is essential for preserving human health and life.

Shareholder Returns

We strive for balance with our growth-oriented investments, while conducting a comprehensive assessment that takes into account factors such as the consolidated financial results in each period, the dividend payout ratio, and other shareholder return measures. Our goal is to achieve a stable and ongoing dividend payment with a payout ratio of approximately 30%. In fiscal 2019, we paid an annual dividend of ¥130 per share (a total return to shareholders of ¥5.7 billion).

Millions of yen							
2017	2016	2015	2014	2013	2012	2011	2010
¥132,428	¥123,492	¥105,454	¥ 89,824	¥ 80,503	¥ 67,603	¥ 63,853	¥ 50,070
80,309	71,858	60,048	48,353	42,511	34,411	33,736	26,275
52,119	51,634	45,406	41,471	37,992	33,192	30,117	23,795
31,486	28,449	24,718	22,380	20,607	18,188	16,531	15,276
20,633	23,185	20,688	19,091	17,385	15,004	13,586	8,519
19,871	23,092	20,298	18,990	18,098	14,928	12,289	8,372
15,914	17,156	14,053	12,193	12,022	9,026	7,183	4,982
221,539	206,492	166,180	149,348	127,843	123,400	117,056	81,236
61,777	55,668	44,663	39,182	29,529	25,780	21,218	18,081
54,876	50,078	42,209	39,097	30,105	26,932	25,811	25,441
29,063	30,692	11,572	8,949	36,258	37,893	40,382	9,537
137,600	125,722	112,399	101,302	61,480	58,575	50,863	46,258
20,628	19,975	12,112	13,422	12,256	7,814	5,937	7,907
(16,206)	(22,937)	(14,123)	(8,283)	(1,373)	(2,371)	(20,362)	(5,329)
(6,740)	13,473	(922)	(178)	(10,970)	(4,578)	24,756	348
30,771	33,096	22,604	25,537	20,584	20,671	19,805	9,474
10,208	8,019	6,110	5,170	4,551	4,317	3,902	3,593
16,194	17,775	13,251	7,353	4,599	4,599	2,805	5,370
8,645	7,044	5,863	4,989	3,793	3,389	3,066	3,025
%							
7.7	6.5	5.8	5.8	5.7	6.4	6.1	7.2
12.1	14.4	13.2	15.0	20.1	16.5	15.1	11.8
62.0	60.8	67.6	67.8	48.0	47.4	43.4	54.5
Yen							
¥ 431.65	¥ 465.57	¥ 382.26	¥ 365.18	¥ 386.71	¥ 285.25	¥ 228.04	¥ 158.66
431.39	465.25	381.85	330.41	318.17	235.07	203.67	158.43
130.00	120.00	105.00	95.00	85.00	70.00	55.00	35.00
3,722.90	3,405.20	3,053.29	2,755.29	2,027.15	1,846.84	1,605.16	1,408.83

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