

Consolidated Financial Statements
for the fiscal year ended December 31, 2020

Otsuka Holdings Co., Ltd.

Financial Information

1. Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements of Otsuka Holdings Co., Ltd. (hereinafter referred to as the “Company”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the “Ordinance on Consolidated Financial Statements”).

2. Audit Certification

In accordance with the provision of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year ended December 31, 2020 were audited by Deloitte Touche Tohmatsu LLC.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements and Others, and Development of a System for Preparing Consolidated Financial Statements Appropriately in Accordance with IFRS

The Company has been making special effort to ensure the appropriateness of consolidated financial statements and others, and developing a system for preparing consolidated financial statements and others appropriately in accordance with IFRS. The details are as follows:

- (1) In order to develop a system that ensures a proper understanding of the contents of accounting standards, etc. and an adequate response to changes in accounting standards and others, the Company has joined the Financial Accounting Standards Foundation, regularly provides internal training, subscribes to professional journals published by the Japanese Institute of Certified Public Accountants, attends seminars hosted by the Financial Accounting Standards Foundation and auditing firms, etc., and makes other efforts.
- (2) With regard to application of IFRS, the Company keeps up on accounting standards by obtaining press releases and standards published by the International Accounting Standards Board. In addition, the Company has developed the group’s accounting policies and accounting guidelines in accordance with IFRS and practices accounting procedures based on these policies and guidelines to prepare appropriate consolidated financial statements in accordance with IFRS.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Statements of Financial Position

		(Millions of yen)	
	Note	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Assets			
Current assets			
Cash and cash equivalents	6	334,040	356,851
Trade and other receivables	7	401,418	379,107
Inventories	8	159,991	173,827
Income taxes receivable		2,807	3,283
Other financial assets	9	48,232	44,920
Other current assets	10	40,321	44,488
Subtotal		986,811	1,002,479
Assets held for sale	11	1,539	1,247
Total current assets		988,351	1,003,727
Non-current assets			
Property, plant and equipment	12, 20	453,380	462,131
Goodwill	13	274,761	262,914
Intangible assets	13	478,540	457,192
Investments in associates	15	197,704	208,146
Other financial assets	9	150,688	187,221
Deferred tax assets	16	22,118	21,531
Other non-current assets	10	15,763	24,941
Total non-current assets		1,592,957	1,624,079
Total assets		2,581,309	2,627,807

		(Millions of yen)	
	Note	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17	166,801	164,950
Bonds and borrowings	18	50,033	28,690
Lease liabilities	20	14,796	15,511
Other financial liabilities	19	2,424	1,987
Income taxes payable		26,516	14,744
Contract liabilities	25	12,407	12,644
Other current liabilities	21	167,910	177,350
Subtotal		<u>440,891</u>	<u>415,878</u>
Liabilities directly associated with assets held for sale	11	–	334
Total current liabilities		<u>440,891</u>	<u>416,213</u>
Non-current liabilities			
Bonds and borrowings	18	136,493	124,564
Lease liabilities	20	51,994	57,314
Other financial liabilities	19	18,548	16,737
Net defined benefit liabilities	23	17,301	16,724
Provisions	22	981	904
Contract liabilities	25	80,792	69,164
Deferred tax liabilities	16	26,576	25,457
Other non-current liabilities	21	12,287	17,294
Total non-current liabilities		<u>344,977</u>	<u>328,161</u>
Total liabilities		<u>785,869</u>	<u>744,374</u>
Equity			
Equity attributable to owners of the Company			
Share capital	24	81,690	81,690
Capital surplus	24	505,520	506,295
Treasury shares	24	(46,018)	(45,781)
Retained earnings	24	1,304,569	1,402,644
Other components of equity	24	(79,490)	(92,474)
Total equity attributable to owners of the Company		<u>1,766,271</u>	<u>1,852,375</u>
Non-controlling interests		29,168	31,057
Total equity		<u>1,795,440</u>	<u>1,883,432</u>
Total liabilities and equity		<u>2,581,309</u>	<u>2,627,807</u>

(ii) Consolidated Statements of Income

(Millions of yen)

	Note	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Revenue	5, 25	1,396,240	1,422,826
Cost of sales	26	(451,297)	(439,749)
Gross profit		944,943	983,076
Selling, general and administrative expenses	22, 26	(557,607)	(562,434)
Share of profit of associates	15	15,621	13,087
Research and development expenses	26	(215,789)	(216,841)
Impairment losses	14	(13,476)	(26,110)
Other income	27	8,694	11,436
Other expenses	28	(5,801)	(3,631)
Operating profit		176,585	198,582
Finance income	29	4,433	3,661
Finance costs	29	(7,502)	(12,256)
Profit before tax		173,515	189,988
Income tax expenses	16	(42,328)	(38,254)
Profit for the year		131,187	151,733
Attributable to:			
Owners of the Company	31	127,151	148,137
Non-controlling interests	31	4,035	3,596
Earnings per share:			
Basic earnings per share (Yen)		234.55	273.15
Diluted earnings per share (Yen)		231.13	272.35

(iii) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Note	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Profit for the year		131,187	151,733
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	30	3,353	4,260
Financial assets measured at fair value through other comprehensive income	30	(645)	18,798
Share of other comprehensive income of associates	15, 30	296	390
Subtotal		3,005	23,450
Items that may be reclassified to profit or loss			
Foreign currency translation reserve	30	(10,634)	(34,088)
Cash flow hedges	30	(2)	(4)
Share of other comprehensive income of associates	15, 30	(4,800)	1,499
Subtotal		(15,437)	(32,593)
Total other comprehensive income		(12,432)	(9,143)
Total comprehensive income for the year		118,754	142,590
Attributable to:			
Owners of the Company		115,124	139,321
Non-controlling interests		3,629	3,268
Total comprehensive income for the year		118,754	142,590

(iv) Consolidated Statements of Changes in Equity

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Note	Equity attributable to owners of the Company					Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	
Balance as of January 1, 2019		81,690	505,894	(47,268)	1,229,360	–	23,344	
Changes in accounting policies		–	–	–	(23)	–	–	
Restated balance		81,690	505,894	(47,268)	1,229,336	–	23,344	
Profit for the year		–	–	–	127,151	–	–	
Other comprehensive income		–	–	–	–	3,414	(423)	
Comprehensive income		–	–	–	127,151	3,414	(423)	
Purchase of treasury shares		–	–	(1)	–	–	–	
Dividends	24	–	–	–	(54,205)	–	–	
Share-based payment transactions		–	(752)	1,005	–	–	–	
Exercise of stock options		–	(245)	245	–	–	–	
Changes in ownership interests in subsidiaries that do not result in loss of control		–	625	–	–	–	–	
Transfer from other components of equity to retained earnings		–	–	–	2,286	(3,414)	1,127	
Total transactions with owners, etc.		–	(373)	1,250	(51,919)	(3,414)	1,127	
Balance as of December 31, 2019		81,690	505,520	(46,018)	1,304,569	–	24,047	

	Note	Equity attributable to owners of the Company					Total equity
		Other components of equity			Total	Non-controlling interests	
		Foreign currency translation reserve	Cash flow hedges	Total			
Balance as of January 1, 2019		(88,521)	0	(65,177)	1,704,499	27,766	1,732,266
Changes in accounting policies		–	–	–	(23)	–	(23)
Restated balance		(88,521)	0	(65,177)	1,704,475	27,766	1,732,242
Profit for the year		–	–	–	127,151	4,035	131,187
Other comprehensive income		(15,015)	(2)	(12,026)	(12,026)	(405)	(12,432)
Comprehensive income		(15,015)	(2)	(12,026)	115,124	3,629	118,754
Purchase of treasury shares		–	–	–	(1)	–	(1)
Dividends	24	–	–	–	(54,205)	(1,354)	(55,560)
Share-based payment transactions		–	–	–	252	–	252
Exercise of stock options		–	–	–	0	–	0
Changes in ownership interests in subsidiaries that do not result in loss of control		–	–	–	625	(873)	(248)
Transfer from other components of equity to retained earnings		–	–	(2,286)	–	–	–
Total transactions with owners, etc.		–	–	(2,286)	(53,328)	(2,227)	(55,556)
Balance as of December 31, 2019		(103,537)	(1)	(79,490)	1,766,271	29,168	1,795,440

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

		Equity attributable to owners of the Company				Other components of equity	
Note	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	
	Balance as of January 1, 2020	81,690	505,520	(46,018)	1,304,569	–	24,047
	Profit for the year	–	–	–	148,137	–	–
	Other comprehensive income	–	–	–	–	4,431	18,986
	Comprehensive income	–	–	–	148,137	4,431	18,986
	Purchase of treasury shares	–	–	(1)	–	–	–
24	Dividends	–	–	–	(54,230)	–	–
	Share-based payment transactions	–	789	238	–	–	–
	Changes in ownership interests in subsidiaries that do not result in loss of control	–	(14)	–	–	–	–
	Transfer from other components of equity to retained earnings	–	–	–	4,167	(4,431)	264
	Decrease in consolidated subsidiaries - non-controlling interests	–	–	–	–	–	–
	Total transactions with owners, etc.	–	774	237	(50,062)	(4,431)	264
	Balance as of December 31, 2020	81,690	506,295	(45,781)	1,402,644	–	43,298

		Equity attributable to owners of the Company				Other components of equity	
Note	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controlling interests	Total equity	
	Balance as of January 1, 2020	(103,537)	(1)	(79,490)	1,766,271	29,168	1,795,440
	Profit for the year	–	–	–	148,137	3,596	151,733
	Other comprehensive income	(32,229)	(4)	(8,815)	(8,815)	(327)	(9,143)
	Comprehensive income	(32,229)	(4)	(8,815)	139,321	3,268	142,590
	Purchase of treasury shares	–	–	–	(1)	–	(1)
24	Dividends	–	–	–	(54,230)	(1,482)	(55,713)
	Share-based payment transactions	–	–	–	1,028	–	1,028
	Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	(14)	8	(6)
	Transfer from other components of equity to retained earnings	–	–	(4,167)	–	–	–
	Decrease in consolidated subsidiaries - non-controlling interests	–	–	–	–	94	94
	Total transactions with owners, etc.	–	–	(4,167)	(53,218)	(1,379)	(54,598)
	Balance as of December 31, 2020	(135,766)	(5)	(92,474)	1,852,375	31,057	1,883,432

(v) Consolidated Statements of Cash Flows

(Millions of yen)

	Note	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Cash flows from operating activities			
Profit before tax		173,515	189,988
Depreciation and amortization expenses		75,690	79,423
Impairment losses and reversals of impairment losses		10,212	26,110
Share of profit of associates		(15,621)	(13,087)
Finance income		(4,433)	(3,661)
Finance costs		7,502	12,256
Increase in inventories		(2,850)	(19,245)
(Increase) decrease in trade and other receivables		(24,440)	16,680
(Decrease) increase in trade and other payables		(11,105)	9,152
Others		2,202	(11,281)
Subtotal		210,671	286,335
Interest and dividends received		10,151	9,153
Interest paid		(4,187)	(3,199)
Income taxes paid		(24,000)	(59,448)
Net cash flows provided by operating activities		192,634	232,839
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		394	168
Payments for acquisition of property, plant and equipment		(48,602)	(48,802)
Payments for acquisition of intangible assets		(14,835)	(49,073)
Proceeds from sales and redemption of investments		44,446	17,486
Payments for acquisition of investments		(49,656)	(18,082)
Decrease (increase) in time deposits		18,577	(2,120)
Others		(2,603)	558
Net cash flows used in investing activities		(52,279)	(99,863)
Cash flows from financing activities			
Proceeds from issuance of bonds	37	80,000	—
Purchase of treasury shares		(1)	(1)
Decrease in current borrowings	37	(4,285)	(10,614)
Proceeds from non-current borrowings	37	5,915	10,201
Repayments of non-current borrowings	37	(99,386)	(31,084)
Repayments of lease liabilities	37	(15,701)	(17,749)
Dividends paid		(55,560)	(55,695)
Others	37	(248)	10
Net cash flows used in financing activities		(89,267)	(104,932)
Increase in cash and cash equivalents		51,087	28,043
Cash and cash equivalents at the beginning of the year		285,022	334,040
Effect of exchange rate changes on cash and cash equivalents		(2,069)	(5,232)
Cash and cash equivalents at the end of the year		334,040	356,851

Notes to Consolidated Financial Statements

1. Reporting Entity

Otsuka Holdings Co., Ltd. (hereinafter referred to as the “Company”) is a company incorporated in Japan. The addresses of its registered head office and principal business office are disclosed on the Company’s website (URL <https://www.otsuka.com/en/>). The consolidated financial statements of the Company, which were prepared with the end of the fiscal year on December 31, 2020, comprise the Company and its subsidiaries (hereinafter referred to as the “Group”) and interests in its associates.

The details of businesses and principal business activities of the Group are provided in Note “5. Operating Segments.”

2. Basis of Preparation

(1) Compliance with IFRS

Pursuant to the provision of Article 93 of the Ordinance on Consolidated Financial Statements, the consolidated financial statements of the Company have been prepared in compliance with IFRS since the Company qualifies as a “Specified Company under Designated International Accounting Standards” prescribed in Article 1-2 of the Ordinance.

The Company’s consolidated financial statements for the fiscal year ended December 31, 2020 were approved on March 29, 2021 by Tatsuo Higuchi, President and Representative Director, CEO, and Yuko Makino, Executive Director, CFO.

(2) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments and other items measured at fair value.

(3) Functional currency and presentation currency

The consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency, and figures are rounded down to the nearest million yen.

(4) New standards not yet adopted

Among the standards and interpretations newly issued or amended by the date of approval that is provided in “(1) Compliance with IFRS,” there were no new or amended standards and interpretations that have been early adopted by the Group as of December 31, 2020. The impact of the adoption of these standards and interpretations has not been provided because it is expected to be insignificant.

3. Significant Accounting Policies

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an investee when the Group has power over the investee, is exposed or has rights to variable returns arising from the Group’s involvement in the investee and has an ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group obtains control until the date that control is lost.

If any accounting policies applied by a subsidiary differ from those applied by the Group, adjustments are made to the subsidiary’s financial statements when needed. The balances of receivables and payables among the Group and inter-company transactions as well as unrealized gains or losses arising from inter-company transactions are offset in preparing the consolidated financial statements.

When the ownership interest in a subsidiary is partially disposed of, the transaction is accounted for as an equity transaction if the Group retains control over the subsidiary. Any difference between the amount of

adjustment to the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity attributable to owners of the Company.

If the Group loses control over the subsidiary, gains or losses derived from such loss are recognized in profit or loss.

(ii) Associates

Associates are entities over which the Group has significant influence in terms of financial and operating policies but which the Group does not control or jointly control. The Group is presumed to have significant influence over another entity when it holds at least 20% but 50% or less of the voting rights of the entity.

Investments in associates are recognized at cost at the time of acquisition and subsequently accounted for using the equity method. Goodwill recognized on acquisition is included in investments in associates. Because such goodwill is not separately recognized, it is not tested for impairment separately. Instead, the entire amount of the investments in associates is tested for impairment as a single asset whenever objective evidence indicates that the investments in associates may be impaired.

If any accounting policies applied by an associate differ from those applied by the Group, adjustments are made to the associate's financial statements when needed. When the Group has retained interests after losing significant influence, these interests are measured at fair value and any difference between the fair value and the carrying amount of the investment as of the date on which the equity method was discontinued is recognized in profit or loss.

(2) Business combinations

Business combinations are accounted for using the acquisition method.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In case the identifiable net assets exceed the aggregate of the consideration and others, such excess is immediately recognized in profit or loss.

The consideration transferred is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The consideration transferred includes any assets or liabilities resulting from a contingent consideration arrangement. The amount of non-controlling interests in the acquiree is measured for each business combination either at fair value or as the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

Identifiable assets acquired and liabilities assumed at the acquisition date are measured at fair value as of the acquisition date, except for limited exceptions based on the requirements of IFRS 3 "Business Combinations."

Transaction costs incurred in relation to business combinations are recognized as expenses when they are incurred.

If the initial accounting for business combinations is incomplete by the end of the fiscal year in which the business combinations occur, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts recognized at the acquisition date are retrospectively adjusted to reflect new information obtained during the measurement period about facts and circumstances that existed as of the acquisition date and, if known at the acquisition date, would have affected the measurement of the amounts recognized. Additional assets or liabilities are recognized if new information is known to have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

(3) Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are translated to the functional currencies at exchange rates on the transaction dates or exchange rates which are close to the actual rate on the transaction dates. Foreign

currency monetary assets and liabilities are translated to the functional currency at the exchange rate on each reporting date. Foreign currency monetary assets and liabilities that are measured at fair value are translated into the functional currency using the exchange rate at the date of measurement.

Translation differences arising from translations or settlements are recognized in profit or loss. However, translation differences arising from financial assets measured through other comprehensive income as well as from cash flow hedges are recognized in other comprehensive income.

(ii) Foreign operations

All asset and liability accounts of foreign operations are translated into Japanese yen at the exchange rate on each reporting date. All income and expense accounts of foreign operations are translated into Japanese yen at the average exchange rate for the reporting period. Translation differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income. The foreign currency translation reserve is recognized in profit or loss for periods in which foreign operations are disposed.

(4) Financial instruments

(i) Financial assets

i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At initial recognition, all financial assets, except for those measured at fair value through profit or loss, are measured at fair value plus directly attributable transaction costs. Transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost, (b) debt instruments measured at fair value through other comprehensive income, (c) equity instruments measured at fair value through other comprehensive income or (d) financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

For investments in some equity instruments, the Group has chosen an irrevocable option to present subsequent changes in fair value of investments that are neither 'held for trading' nor 'contingent consideration recognized by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies,' in other comprehensive income. The Group classifies such investments as equity instruments measured at fair value through other comprehensive income.

(d) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and equity instruments measured at fair value through other comprehensive income stated above, are classified as financial assets measured at fair value through profit or loss.

ii) Subsequent measurement

After initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Equity instruments measured at fair value through other comprehensive income

Equity instruments measured at fair value through other comprehensive income are measured at fair value. Any changes in fair value are recognized in other comprehensive income. When such financial assets are derecognized, the accumulated other comprehensive income is transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized in profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

iii) Impairment

With regard to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

At each reporting date, the Group evaluates whether the credit risk on financial instruments has increased significantly since initial recognition.

If credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for that instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The assessment of whether or not credit risk has increased significantly takes into account all relevant current information that is reasonably available to the Group, as well as past due information.

However, with regard to trade receivables that do not contain a significant financing component, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition.

iv) Derecognition

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial liabilities

i) Initial recognition and measurement

Bonds and borrowings are initially recognized on the date when they are issued or incurred. All other financial liabilities are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At initial recognition, financial liabilities are classified as (a) financial liabilities measured at amortized cost or (b) financial liabilities measured at fair value through profit or loss.

At initial recognition, financial liabilities measured at amortized cost are measured at fair value net of transaction costs that are directly attributable to the financial liabilities. Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

ii) Subsequent measurement

After initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

iii) Derecognition

The Group derecognizes the financial liabilities when financial liabilities are extinguished, that is, the obligations specified in a contract are discharged, cancelled or expired.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

(iv) Derivatives and hedge accounting

Derivatives are initially recognized at fair value. After initial recognition, derivatives continue to be measured at fair value.

The Group utilizes forward foreign exchange contracts, currency swap agreements, currency option transactions, interest rate swap agreements and other derivatives to hedge foreign currency risk and interest rate risk.

At inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. The Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at inception and on an ongoing basis. Ongoing assessments are performed at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

The Group applies hedge accounting to cash flow hedges which meet the criteria for hedge accounting and such hedges are accounted for as follows:

The portions of the gain or loss on the hedging instrument that are determined to be effective hedges are recognized in other comprehensive income, while the remaining ineffective portions are recognized in profit or loss. The amounts associated with the hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the hedged transactions affect profit or loss. However, in cases where the hedged forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging relationship ceases to meet the qualifying criteria, or the hedging instrument expires or is sold, terminated or exercised, the application of hedge accounting is discontinued prospectively. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognized in equity through other comprehensive income are reclassified to profit or loss.

The Group does not undertake any fair value hedges or any hedges of net investment in foreign operations.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined mainly by the weighted-average cost formula. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

(7) Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, the initial estimated costs of dismantling and removing the assets and restoration costs.

Depreciation expense for assets except for land and construction in progress is recognized mainly by the straight-line method over the respective estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 65 years
- Machinery and vehicles: 2 to 63 years
- Tools, furniture and fixtures: 2 to 25 years

The estimated useful lives, residual values and depreciation methods of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

(8) Goodwill

Measurement of goodwill at initial recognition is provided in “(2) Business combinations.” After initial recognition, the amount is recorded at its cost less any accumulated impairment losses.

Goodwill is allocated to each of the cash-generating units or groups of cash-generating units (hereinafter referred to as the “Cash-Generating Units”) that is expected to benefit from the synergies of the business combination. Cash-Generating Units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of Cash-Generating Units is less than their carrying amounts, an impairment loss is recognized in profit or loss. With regard to allocation of impairment losses recognized in association with Cash-Generating Units, first the carrying amount of goodwill that has been allocated to the unit is reduced, and then the remaining amount of impairment loss is allocated to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. For impairment losses recognized on goodwill, no reversal is made in subsequent periods.

(9) Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Separately acquired intangible assets are measured initially at cost.

Intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Internally generated intangible assets, other than development expenses that meet the requirements for capitalization, are recognized as an expense when incurred.

Intangible assets with finite useful lives are amortized by the straight-line method over the estimated useful lives. The estimated useful lives of major intangible assets are as follows:

- Patents: 5 to 15 years
- Trademarks, distribution rights and others: 2 to 20 years
- Software: 2 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

Intangible assets with indefinite useful lives consist mainly of brands and trademarks acquired separately or in business combinations, and are included in intangible assets as “Trademarks, distribution rights and others.” Intangible assets with indefinite useful lives are reviewed at the end of each fiscal year to determine whether the indefinite useful life assessment remains appropriate. If it is no longer appropriate, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

In-process research and development acquired separately or in business combinations are included in intangible assets as “In-process research and development.” Because these assets are intangible assets that are not yet available for use, they are not amortized and are tested for impairment. An asset in “In-process research and development” is transferred to “Trademarks, distribution rights and others” when the asset becomes available for use by obtaining permits and approvals from regulatory authorities in a subsequent period, and begins to be amortized by the straight-line method over the estimated useful life from that time.

(10) Leases

For the leases that the Group has contracted as a lessee, right-of-use assets are measured at cost, and lease liabilities are measured at the present value of total lease payments.

Right-of-use assets are depreciated by the straight-line method over the estimated useful lives or lease terms, whichever is shorter. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 50 years
- Machinery and vehicles: 2 to 15 years
- Tools, furniture and fixtures: 2 to 6 years
- Land: 2 to 50 years

Lease payments are recognized upon apportionment between the finance costs and the repayments of lease liabilities based on the interest method.

The Group does not recognize right-of-use assets and lease liabilities for leases on intangible assets and short-term leases within 12 months. The Group recognizes the lease payments associated with short-term leases on either a straight-line basis or another systematic basis over the lease term.

(11) Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any indication of impairment at the end of each reporting period for property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amounts are estimated at the end of each fiscal year, regardless of whether there is any indication of impairment.

The recoverable amount of an individual asset or a cash-generating unit is measured at the higher of its fair value less cost of disposal or its value in use. The value in use is calculated by discounting the estimated future cash flows to the present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

The corporate assets do not independently generate cash inflows. When there is an indication of impairment of the corporate assets, the recoverable amount of the cash-generating unit to which the corporate assets belong is calculated.

An impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

For an impairment loss recognized in prior periods, the Group assesses whether there is any indication of a decrease or disappearance of the impairment loss at the end of each reporting period. If there is any indication of reversal of the impairment loss, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount or the carrying amount less any depreciation and amortization costs that would have been determined had no impairment loss been recognized.

(12) Assets held for sale

Assets or groups of assets expected to be recovered not by continuous use but by sale are classified as non-current assets or disposal groups held for sale when they are quite likely to be sold within one year, they are available for immediate sale in its present condition, and management of the Group is committed to such sale. In such case, non-current assets are neither depreciated nor amortized, and are measured at carrying amount or fair value less cost of sales, whichever is lower.

(13) Post-employment benefits

The Group's post-employment benefit plans for its employees include defined benefit plans and defined contribution plans.

The Group uses the projected unit credit method to determine the present value of the defined benefit obligations, the related current service cost and the past service cost.

The discount rate is determined based on market yields on high quality corporate bonds at the end of the fiscal year that are consistent with the discount period, which is set for the projected period until the expected date of benefit payment in each fiscal year.

Net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. If the defined benefit plan has surplus, the defined benefit asset is limited to the asset ceiling that is the present value of any future economic benefits available in the form of reductions in the future contributions to the plan or cash refunds.

Service costs and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss.

The rereasured amount of a defined benefit plan is recognized at once in other comprehensive income when it occurs, and immediately transferred to retained earnings.

Contributions to the defined contribution retirement benefits are recognized as expenses when employees have rendered service.

(14) Provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

The amount recognized as provisions is the best estimate taking into account the risks and uncertainties of the expenditure required to settle the present obligations on each reporting date. When the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

(15) Treasury shares

Treasury shares are measured at acquisition cost and deducted from equity. No gain or loss is recognized associated with the purchase, sale or retirement of treasury shares of the Company. Any difference between the carrying amount and the consideration received from the sale is recognized as capital surplus.

(16) Share-based payments

(i) Equity-settled share-based payment plan

The Group has adopted a restricted stock remuneration plan accounted for as an equity-settled share-based payment plan.

Restricted stock remuneration is measured at fair value at the grant date and recognized as expenses over the vesting periods from the grant date with the corresponding amounts as increases in equity. The fair value of restricted stock remuneration is measured by reference to fair value of granted shares of the Company.

(ii) Cash-settled share-based payment plan

The Group has adopted equity-linked remuneration entitlements as a cash-settled share-based payment plan.

For the cash-settled share-based payments, the fair value of payments is recognized as a liability, and any changes in the fair value of the liability are recognized in profit or loss until the liability is settled.

(17) Revenue

(i) Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products because legal title, physical possession, significant risks and rewards of ownership of the products are transferred to a customer upon delivery, and the customer obtains control over the products.

Products may be sold with a rebate based upon the achievement of a defined sales volume and amount. In such a case, the transaction price is recognized as the consideration promised in the contract with a customer, less estimated rebates and other items. Rebates are measured by the most likely amount method based on historical performance. Revenue is recognized only to the extent that it is highly probable that significant reversal will not occur.

The majority of the consideration for sales is received within one year from the date of delivery. Therefore, the promised amount of consideration does not include a significant financing component.

(ii) License and royalty income

License income is up-front and milestone payments that the Group receives based on license agreements, etc., which the Group and a third party enter into for development and distribution rights of developing and finished products. Under license agreements, etc., if contractual obligations are fulfilled at a specific point in time, up-front payments are recognized as revenue once development and distribution rights are granted. If contractual obligations are fulfilled over a period of time, such payments are recorded as contract liabilities and recognized as revenue over a period (estimated contract term, etc.) in accordance with the method of measuring progress towards complete satisfaction of performance obligations, such as those related to development cooperation, determined by each contract. Income from milestone payments received under license agreements is recognized as revenue from the point when the conditions are met to avoid future reversal of revenue.

Royalty income is the income from license agreements, etc., calculated based on the sales, etc., of counterparties and its revenue is recognized at the later point of either the counterparty's revenue recognition, etc., or satisfaction of performance obligations.

License and royalty income are received primarily within one year from the time when the rights are acquired based on the agreements. Therefore, the agreements do not include significant financing components.

(18) Government grants

Grant income is measured at fair value and recognized when there is reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received. Grants for revenue incurred are recorded as revenue in the fiscal year during which the expenses occurred. Grants for the assets are recorded as revenue regularly over the useful life of the asset, and unearned grant income is recorded as liability.

(19) Finance income and finance costs

Finance income principally consists of interest income, dividend income, gain on fair value valuation and foreign exchange gains. Interest income is recognized using the effective interest method. Dividend income is recognized when the Group's right to receive the dividend is established.

Finance costs principally consist of interest expenses, loss on fair value valuation and foreign exchange losses.

(20) Income taxes

Income taxes consist of current taxes and deferred taxes. These taxes are recognized in profit or loss, except for those related to business combinations and items recognized directly in equity or other comprehensive income.

Current taxes are calculated at the amount of expected tax payment to or expected tax refund from tax authorities. The amount of taxes is computed in accordance with tax rates and tax laws that are in effect or substantially in effect by the end of the fiscal year in countries where the Group conducts business activities and earns taxable profits or losses.

Deferred taxes are recognized for temporary differences between accounting carrying amounts of assets and liabilities at the reporting date and amounts of them for tax purposes, unused tax losses and unused tax credits.

Deferred tax assets and liabilities are not recorded for the following temporary differences:

- Temporary differences arising from goodwill
- Temporary differences arising from initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations
- In cases where, for taxable temporary differences associated with investments in subsidiaries and associates, timing of reversal can be controlled and it is highly probable that such temporary differences are not reversed in a foreseeable period
- In cases where, for deductible temporary differences associated with investments in subsidiaries and associates, it is highly probable that such temporary differences are not reversed to the extent foreseeable

Deferred tax liabilities are recognized, in principle, for all taxable temporary differences, while deferred tax assets are recognized for all deductible temporary differences to the extent that it is highly probable that taxable profits will be available against which the deductible temporary differences could be utilized.

The carrying amount of deferred tax assets is reviewed annually, and reduced by the amount of deferred tax assets for which taxable profit sufficient to use all or part of the deferred tax assets is unlikely to be earned. Unrecognized deferred tax assets are reassessed annually and recognized to the extent that it is highly probable that deferred tax assets are realizable with future taxable profit.

The Company and certain subsidiaries apply the consolidated taxation system.

Deferred tax assets and liabilities are calculated in accordance with tax rates and tax laws expected to be applied in the period in which the assets are realized or the liabilities are settled based on tax rates and tax laws that are in effect or substantially in effect at the end of the fiscal year.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

(21) Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the year attributable to ordinary equity holders of the Company, by the weighted average number of ordinary shares issued during the period that is adjusted by the number of treasury shares. Diluted earnings per share are calculated reflecting the adjustment of the impact from all diluted shares with dilutive effect.

4. Significant Accounting Estimates and Judgments

In preparing IFRS-compliant consolidated financial statements, the management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Of items for which the management made estimates and judgments, those that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Useful lives of property, plant and equipment and intangible assets (items (7) and (9) of Note “3. Significant Accounting Policies,” Notes “12. Property, Plant and Equipment” and “13. Goodwill and Intangible Assets”)
- Impairment of property, plant and equipment, goodwill and intangible assets (items (8) and (11) of Note “3. Significant Accounting Policies” and Note “14. Impairment of Assets”)
- Fair value measurement of the financial instruments (Note “33. Financial Instruments”)
- Recoverability of deferred tax assets (Note “16. Income Taxes”)
- Accounting and measurement of provisions (Note “22. Provisions”)
- Measurements of defined benefit obligations (Note “23. Post-employment Benefits”)
- Revenue recognition (item (17) of Notes “3. Significant Accounting Policies” and “25. Revenue”)

Although the Group’s business activities were affected to a certain extent by the spread of COVID-19, significant accounting estimates have been made on the assumption that, in the following fiscal year and thereafter, the effect of COVID-19 on business results will be limited. However, there is a risk that changes to circumstances occurring in the future with regard to COVID-19 could significantly affect the reported amounts for assets, liabilities, income and expenses for the following fiscal year and thereafter.

5. Operating Segments

(1) Overview of reportable segments

The Group’s reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors in order to make decisions on allocation of business resources and to evaluate the business performances of the respective segments.

As the Group’s holding company, the Company directs the Group’s strategic planning, monitors the Group operations and provides various services to its group companies. Business activities are conducted by the Group’s subsidiaries and associates.

Centering on healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: “Pharmaceuticals,” “Nutraceuticals,” “Consumer products” and “Others” businesses. The Group defines the reportable segments as follows:

“Pharmaceuticals” comprises manufacturing and sales of prescription drugs, intravenous solutions, and others. “Nutraceuticals” comprises manufacturing and sales of functional beverages, etc., over-the-counter drugs and nutritional supplements. “Consumer products” comprises manufacturing and sales of mineral water, soft beverages and food products. “Others” encompasses logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

(2) Revenue and performances by reportable segment

Revenue and performances by the Group reportable segment are as follows.

Segment profit is based on operating profit.

Intersegment revenue and transfers reflect reasonable prices for intersegment transfers based on market value.

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable segment					Adjustments*1	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	924,250	333,757	33,553	104,680	1,396,240	–	1,396,240
Intersegment revenue or transfers	–	23	–	39,152	39,176	(39,176)	–
Total	924,250	333,780	33,553	143,833	1,435,417	(39,176)	1,396,240
Segment profit	161,342	39,175	8,852	10,858	220,229	(43,644)	176,585
Other items							
Depreciation and amortization expenses	48,977	13,091	1,311	7,805	71,185	4,504	75,690
Share of profit of associates	3,421	262	10,638	1,302	15,624	(2)	15,621
Impairment losses	8,754	1,034	678	490	10,957	2,518	13,476
Capital expenditures*2	47,834	16,599	2,191	13,717	80,343	6,790	87,133

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segment					Adjustments* ¹	Consolidated
	Pharmaceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	955,159	334,054	31,346	102,265	1,422,826	–	1,422,826
Intersegment revenue or transfers	–	34	9	37,849	37,893	(37,893)	–
Total	955,159	334,088	31,356	140,115	1,460,719	(37,893)	1,422,826
Segment profit	176,809	41,461	10,790	12,962	242,024	(43,442)	198,582
Other items							
Depreciation and amortization expenses	50,567	13,400	1,477	7,781	73,226	6,196	79,423
Share of profit of associates	504	109	11,607	862	13,084	3	13,087
Impairment losses	25,972	82	56	–	26,110	–	26,110
Capital expenditures* ²	82,344	12,503	2,712	17,317	114,878	7,918	122,797

*¹ Details of adjustments are as follows:

(i) Segment profit

Details of adjustments to segment profit are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Intersegment eliminations	(3)	(172)
Unallocated expenses*	(44,749)	(43,819)
Other income	1,108	549
Total	(43,644)	(43,442)

* Unallocated expenses consist mainly of costs of the headquarters functions of the Company and certain subsidiaries.

(ii) Other items

Depreciation and amortization expenses, and impairment losses

Adjustments include depreciation and amortization expenses, and impairment losses of property, plant and equipment and intangible assets as assets associated with headquarters functions of the Company and certain subsidiaries.

(iii) Capital expenditures

Adjustments include capital expenditures relating to assets associated with headquarters and research functions of the Company and certain subsidiaries.

*² Capital expenditures represent the amount of increases in property, plant and equipment, goodwill and intangible assets.

(3) Information about products and services

Revenue from external customers by major product and service is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
(Pharmaceuticals)		
<i>ABILIFY MAINTENA</i>	101,779	116,028
<i>REXULTI/RXULTI</i>	89,822	104,634
<i>Samsca</i>	91,736	88,335
<i>JINARC/JYNARQUE</i>	57,315	79,989
Clinical nutrition	113,375	107,352
(Nutraceuticals)		
Functional beverages, etc.* ¹	121,660	108,786
Functional foods, etc.* ²	82,597	83,617
Supplements* ³	102,733	117,270

*¹ Functional beverages, etc. consist of *POCARI SWEAT*, *Tiovita Drink*, *ORONAMIN C*, *Fibe-Mini*, *OS-1* and *BODY MAINTÉ*, etc.

*² Functional foods, etc. consist of products of the Nutrition & Santé SAS Group, *Calorie Mate* and products of Daiya Foods Inc., etc.

*³ Supplements consist of products of Pharmavite LLC Group, *EQUELLE*, etc.

(4) Information by geographical area

Revenue from external customers

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Japan	689,734	660,270
North America	399,569	460,839
Others	306,937	301,716
Total	1,396,240	1,422,826

¹ Revenue from external customers is classified based on the location of customers.

² Of the amounts for North America, revenue in the United States for FY2019 and FY2020 is ¥388,397 million and ¥448,599 million, respectively.

Non-current assets

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Japan	418,951	441,251
North America	621,770	575,526
Others	168,643	168,556
Total	1,209,365	1,185,334

¹ Non-current assets are classified based on the location of assets.

² Non-current assets do not include investments in associates, other financial assets, deferred tax assets and net defined benefit assets.

³ Goodwill included in non-current assets is classified based on the location of investees.

⁴ Of the amounts for North America, non-current assets in the United States for FY2019 and FY2020 are ¥574,893 million and ¥528,622 million, respectively.

(5) Information about major customers

Information is not presented because no revenue from transactions with a single external customer amounts to more than 10% of the Group's revenue.

6. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Cash and cash equivalents		
Cash and deposits with banks with deposit terms of three months or less	305,908	353,400
Short-term investments with original maturities of three months or less	28,132	3,451
Total cash and cash equivalents	334,040	356,851

7. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Trade accounts and notes receivable	391,948	369,617
Accounts receivable - other	11,414	11,355
Allowance for credit losses	(1,945)	(1,865)
Total	401,418	379,107

The amount of assets pledged as collateral for borrowings included in trade and other receivables is ¥279 million in FY2019 and ¥116 million in FY2020.

8. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Merchandise and finished goods	89,169	94,430
Work-in process	30,472	33,201
Raw materials	37,087	42,718
Supplies	3,262	3,478
Total	159,991	173,827
Of which, inventories scheduled to be sold after 12 months	188	510

Cost of inventories that is recognized as expenses is ¥443,266 million in FY2019 and ¥430,035 million in FY2020.

The amount of assets pledged as collateral for borrowings included in inventories is ¥408 million in FY2019 and ¥487 million in FY2020.

The amount of write-downs of inventories recognized as an expense is as follows:

	(Millions of yen)	
	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Amount of write-downs	6,923	5,546

9. Other Financial Assets

The breakdown of other financial assets is as follows:

	(Millions of yen)	
	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Other financial assets		
Financial assets measured at amortized cost		
Time deposits	28,167	29,876
Bonds	557	562
Others	28,234	25,778
Financial assets measured at fair value through profit or loss		
Others	5,476	7,769
Financial assets measured at fair value through other comprehensive income		
Equity instruments	136,485	168,155
Total	198,921	232,142
Other financial assets (current)	48,232	44,920
Other financial assets (non-current)	150,688	187,221

10. Other Assets

The breakdown of other assets is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Other assets		
Prepaid expenses	23,458	26,250
Net defined benefit assets	5,784	9,414
Others	26,842	33,764
Total	56,085	69,429
Total current assets (Other current assets)	40,321	44,488
Total non-current assets (Other non-current assets)	15,763	24,941

11. Assets Held for Sale

The breakdown of assets held for sale and liabilities directly associated with assets held for sale is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Assets held for sale		
Property, plant and equipment		
Buildings and structures	116	–
Machinery and vehicles	216	511
Land	632	173
Construction in progress	573	541
Others	–	21
Total	1,539	1,247
Liabilities directly associated with assets held for sale		
Lease liabilities	–	315
Others	–	18
Total	–	334

The major assets held for sale in FY2019 are idle assets in the consumer products business which were classified as assets held for sale because of the decision to sell these assets. Assets held for sale are measured at the lower of the carrying amount or fair value less costs to sell. The fair value of assets held for sale is expected sales price less cost of disposal and is classified into Level 3 in the hierarchy. The fair value hierarchy is provided in Note “33. Financial Instruments.” For these assets, impairment losses of ¥771 million were recorded in FY2019 and included in “Impairment losses” in the consolidated statement of income.

The major assets held for sale in FY2020 are idle assets in the pharmaceutical business and consumer products business which were classified as assets held for sale because of the decision to sell these assets. Assets held for sale are measured at the lower of the carrying amount or fair value less costs to sell. The fair value of

assets held for sale is expected sales price less cost of disposal and is classified into Level 3 in the hierarchy. The fair value hierarchy is provided in Note “33. Financial Instruments.” For these assets, impairment losses of ¥52 million were recorded in FY2020 and included in “Impairment losses” in the consolidated statement of income. The sales are scheduled to be completed during the following fiscal year.

12. Property, Plant and Equipment

Changes in costs, accumulated depreciation and accumulated impairment losses of property, plant and equipment and the carrying amounts are as follows:

(1) Costs

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2019	420,048	412,318	112,807	90,090	28,170	1,063,435
Adjustment due to the application of IFRS 16	49,833	7,162	275	2,053	–	59,324
Adjusted balance as of January 1, 2019	469,882	419,480	113,083	92,143	28,170	1,122,759
Purchase	15,570	11,784	7,637	764	30,125	65,882
Disposal	(5,739)	(11,391)	(6,537)	(38)	(44)	(23,751)
Transfer	8,274	16,662	2,658	202	(29,069)	(1,271)
Transfer to assets held for sale	(552)	(1,112)	(2)	(698)	(2,922)	(5,289)
Foreign currency translation differences	(1,509)	(1,845)	(164)	(208)	65	(3,661)
Others	610	1,006	(265)	(7)	1,940	3,284
Balance as of December 31, 2019	486,536	434,584	116,409	92,157	28,265	1,157,953
Purchase	29,709	11,528	7,941	510	26,219	75,909
Disposal	(11,049)	(9,329)	(5,608)	(125)	(38)	(26,151)
Transfer	9,696	15,882	1,983	80	(29,233)	(1,590)
Transfer to assets held for sale	0	(653)	–	–	–	(653)
Foreign currency translation differences	(3,491)	(5,203)	(497)	(476)	(1,037)	(10,706)
Others	351	212	(1)	(1)	306	866
Balance as of December 31, 2020	511,752	447,021	120,227	92,146	24,481	1,195,628

(2) Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2019	(256,002)	(312,093)	(91,930)	(5,007)	(4,827)	(669,862)
Depreciation expenses	(23,812)	(18,351)	(8,873)	(263)	–	(51,300)
Impairment losses	(2,329)	(3,469)	(322)	(2,159)	(518)	(8,799)
Disposal	4,097	10,681	5,965	23	–	20,768
Transfer to assets held for sale	435	897	2	65	2,347	3,749
Foreign currency translation differences	602	1,256	130	10	57	2,057
Others	(942)	(490)	432	(267)	83	(1,185)
Balance as of December 31, 2019	(277,950)	(321,569)	(94,596)	(7,599)	(2,857)	(704,573)
Depreciation expenses	(26,249)	(18,770)	(9,160)	(239)	–	(54,420)
Impairment losses	(23)	(79)	(66)	–	(609)	(778)
Disposal	7,474	8,259	5,524	110	12	21,380
Transfer to assets held for sale	–	337	–	–	–	337
Foreign currency translation differences	1,065	3,036	321	(11)	158	4,569
Others	(92)	63	30	5	(20)	(13)
Balance as of December 31, 2020	(295,776)	(328,722)	(97,947)	(7,734)	(3,316)	(733,497)

(3) Carrying amounts

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2019	164,046	100,224	20,876	85,082	23,342	393,572
Balance as of December 31, 2019	208,585	113,014	21,812	84,558	25,408	453,380
Balance as of December 31, 2020	215,976	118,299	22,280	84,411	21,164	462,131

¹ In the above table, the amount related to property, plant and equipment under construction is presented as construction in progress.

² The amounts related to each item of property, plant and equipment include the amount of right-of-use assets.

³ Please refer to Notes “27. Other Income” and “28. Other Expenses” for gain on sales of non-current assets, loss on sales of non-current assets and loss on retirement of non-current assets in FY2019 and FY2020. Gain on sales of non-current assets and loss on sales of non-current assets include gain and loss from sales of assets held for sale.

⁴ Please refer to Note “14. Impairment of Assets” for details of impairment losses.

⁵ Please refer to Note “38. Commitments” for commitments related to acquisition of property, plant and equipment.

⁶ There is no significant borrowing cost included in costs of property, plant and equipment.

(4) Assets pledged as collateral

Carrying amounts of assets pledged as collateral for borrowings, etc. that are included in each item of property, plant and equipment are as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Total
Balance as of January 1, 2019	481	1,161	6	904	2,553
Balance as of December 31, 2019	478	810	8	727	2,025
Balance as of December 31, 2020	346	910	5	505	1,768

(5) Right-of-use assets

For the carrying amount of right-of-use assets included in each item of property, plant and equipment, please refer to Note “20. Leases.”

13. Goodwill and Intangible Assets

Changes in costs, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

(1) Costs

(Millions of yen)

	Goodwill	Intangible assets				
		In-process research and development	Trademarks, distribution rights and others	Software	Others	Total
Balance as of January 1, 2019	285,813	335,032	231,645	60,875	36,776	664,329
Purchase	–	2,244	5,487	7,380	6,017	21,129
Disposal	–	–	(1,962)	(2,629)	(256)	(4,849)
Transfer	–	(8,472)	8,472	76	(11)	65
Foreign currency translation differences	(4,359)	(4,251)	(1,341)	(386)	245	(5,734)
Others	(1,558)	–	0	35	584	620
Balance as of December 31, 2019	279,894	324,552	242,300	65,351	43,356	675,560
Purchase	–	24,295	8,088	8,025	6,447	46,856
Disposal	–	(510)	(4,099)	(9,801)	(1,399)	(15,810)
Transfer	–	(15,752)	15,933	(421)	133	(107)
Foreign currency translation differences	(11,659)	(15,301)	(6,728)	(581)	(925)	(23,537)
Others	–	–	(0)	(30)	(12)	(43)
Balance as of December 31, 2020	268,235	317,283	255,494	62,541	47,599	682,918

(2) Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Goodwill	Intangible assets				
		In-process research and development	Trademarks, distribution rights and others	Software	Others	Total
Balance as of January 1, 2019	(4,823)	(29,463)	(92,230)	(46,202)	(8,654)	(176,549)
Amortization expenses	–	–	(17,252)	(5,401)	(1,735)	(24,389)
Impairment losses	(953)	(3,630)	(57)	(28)	(2)	(3,719)
Disposal	–	–	521	2,597	216	3,335
Transfer	–	2,645	(2,645)	6	7	14
Foreign currency translation differences	(3)	285	439	270	33	1,028
Others	647	–	3,263	(14)	10	3,260
Balance as of December 31, 2019	(5,133)	(30,163)	(107,960)	(48,771)	(10,124)	(197,019)
Amortization expenses	–	–	(17,340)	(4,909)	(2,753)	(25,003)
Impairment losses	(179)	(25,091)	–	(61)	–	(25,153)
Disposal	–	510	3,856	9,685	1,140	15,192
Foreign currency translation differences	(8)	1,832	3,805	513	102	6,253
Others	–	–	–	3	0	4
Balance as of December 31, 2020	(5,321)	(52,912)	(117,639)	(43,540)	(11,633)	(225,725)

(3) Carrying amounts

(Millions of yen)

	Goodwill	Intangible assets				
		In-process research and development	Trademarks, distribution rights and others	Software	Others	Total
Balance as of January 1, 2019	280,989	305,569	139,415	14,672	28,121	487,779
Balance as of December 31, 2019	274,761	294,389	134,339	16,579	33,231	478,540
Balance as of December 31, 2020	262,914	264,371	137,855	19,000	35,965	457,192

¹ Amortization expenses on intangible assets are included in cost of sales, selling, general and administrative expenses and research and development expenses in the consolidated statements of income.

² Please refer to Note “14. Impairment of Assets” for details of impairment losses.

³ Please refer to Note “38. Commitments” for commitments related to acquisition of intangible assets.

⁴ There is no significant borrowing cost included in costs of intangible assets.

(4) Assets pledged as collateral

Not applicable.

(5) Individually significant intangible assets

Major intangible assets recorded in the consolidated statements of financial position are rights associated to research and development of AVP-786 and rights associated to *NUEDEXTA*, which were recognized in line with the acquisition of Avanir Pharmaceuticals, Inc. executed in 2015. The carrying amounts of the rights

associated to research and development of AVP-786 and *NUEDEXTA* are ¥156,451 million and ¥50,984 million, respectively, in FY2019 and ¥147,826 million and ¥40,762 million, respectively, in FY2020. For these assets of which amortization has already commenced, the remaining amortization period is six years.

14. Impairment of Assets

(1) Impairment losses

In calculating impairment losses, the Group bases its grouping of assets on the smallest identifiable group of assets that generates largely independent cash inflows.

Impairment losses are recorded as “Impairment losses” in the consolidated statements of income. In addition, reversal of impairment losses is recorded in “Other income.”

The breakdown of impairment losses and reversals of impairment losses by segment is as follows:

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Pharmaceuticals	5,490	25,972
Nutraceuticals	1,034	82
Consumer products	678	56
Others	490	–
Corporate	2,518	–
Total	10,212	26,110

Pharmaceuticals

Impairment losses and a reversal of impairment losses in the pharmaceutical business recognized in FY2019 are ¥8,754 million and ¥3,263 million respectively, and the impairment losses of ¥8,754 million consist of impairment losses on property, plant and equipment of ¥4,728 million, on goodwill of ¥306 million, and on intangible assets of ¥3,719 million.

The impairment losses on property, plant and equipment of ¥4,728 million are principally a reduction of the carrying amount of buildings and structures, machinery and vehicles, and tools, furniture and fixtures to the recoverable amount, which is value in use, due to a decrease in the profitability.

The impairment losses on intangible assets of ¥3,719 million are principally a reduction of the carrying amount of in-process research and development, and trademarks, distribution rights and others to the recoverable amount, which is value in use, due to a decrease in the profitability.

Impairment losses of ¥25,972 million in the pharmaceutical business recognized in FY2020 consist of impairment losses on property, plant and equipment of ¥639 million, on goodwill of ¥179 million, and on intangible assets of ¥25,153 million.

The impairment losses on property, plant and equipment of ¥639 million are principally a reduction of the carrying amount of assets in construction in progress to the recoverable amount, which is the value in use, following the decision to halt development of certain drug agents.

The impairment losses on intangible assets of ¥25,153 million are principally an impairment loss of ¥10,644 million for in-process research and development concerning guadecitabine under development for acute myeloid leukemia, myelodysplastic syndromes and ovarian cancer, and an impairment loss of ¥14,050 million for in-process research and development concerning vadadustat under development for anemia associated with chronic kidney disease.

Concerning guadecitabine, the carrying amount was reduced to the recoverable amount of zero which is the value in use following the halting of development for all indications based on a comprehensive review of the results of the Phase III trial for acute myeloid leukemia and myelodysplastic syndromes.

In addition, the impairment loss for vadadustat is a reduction of the carrying amount to the recoverable amount of ¥8,137 million, which is value in use, based on the results of the Phase III trial in non-dialysis patients and subsequent re-evaluation of the business plan. For calculation of the value in use, the discount rate (9.9%) based on the pre-tax weighted average cost of capital was used.

(2) Impairment test of goodwill

Goodwill arising in business combinations is allocated to cash-generating units that benefit from the business combination on the acquisition date. The breakdown of the carrying amount of goodwill by segment is as follows:

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Pharmaceuticals	226,550	214,468
Nutraceuticals	42,468	42,729
Consumer products	467	441
Others	5,274	5,274
Total	274,761	262,914

Of the above, the carrying amount of significant goodwill in FY2020 is Avanir Pharmaceuticals, Inc. (pharmaceuticals) of ¥140,910 million (FY2019: ¥149,131 million), Astex Pharmaceuticals, Inc. (pharmaceuticals) of ¥29,197 million (FY2019: ¥30,365 million), Visterra, Inc. (pharmaceuticals) of ¥23,673 million (FY2019: ¥25,054 million), and Nutrition & Santé SAS (nutraceuticals) of ¥24,540 million (FY2019: ¥23,680 million).

The Group tests goodwill for impairment in each fiscal period, or whenever there is an indication of impairment. The recoverable amount in impairment test is determined based on value in use.

Value in use reflects past experience and external information, and is calculated by discounting the estimated amount of cash flows based on the business plan for the next five years approved by the management and the growth rate to the present value using the discount rate (7.7% to 7.8%) based on the pre-tax weighted average cost of capital of the cash-generating unit. The growth rate is determined to be 0% to 1.2% in view of the long-term average growth rate in the industry or country to which the cash-generating unit belongs, and does not exceed the long-term average growth rate of the market.

There is the risk that impairment may arise when key assumptions used in the impairment test are changed. However, the value in use adequately exceeds the carrying amount of the cash-generating unit, and it is considered unlikely that the value in use falls below the carrying amount even if key assumptions used in the impairment test change within a reasonably predictable range.

(3) Impairment test of intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives included in trademark rights in FY2020 are principally brands held by the Nutrition & Santé SAS Group (nutraceuticals), and their carrying amount is ¥20,465 million (FY2019: ¥20,273 million).

Each brand is tested for impairment in each fiscal period, or whenever there is an indication of impairment, using the relief-from-royalty method and the excess earnings method. Value in use reflects past experience and external information, and is determined using the business plan for the next five years approved by the management and the discount rate (6.5% to 14.0%) equal to pre-tax weighted average cost of capital to which certain country risk and foreign currency risk are added where necessary. The growth rate is determined to be 0% to 1.5% in view of the long-term average growth rate in the industry or country to which the cash-generating unit belongs, and does not exceed the long-term average growth rate of the market. The value in use adequately exceeds the carrying amount in each case, and it is considered unlikely

that the value in use falls below the carrying amount even if key assumptions used in the impairment test change within a reasonably predictable range.

(4) Impairment test of in-process research and development

In-process research and development in FY2020 is principally rights related to research and development of AVP-786, and their carrying amount is ¥147,826 million (FY2019: ¥156,451 million).

As intangible assets are not yet available for use, in-process research and development is tested for impairment in each fiscal period, or whenever there is an indication of impairment. The recoverable amount in impairment test is determined based on value in use.

Value in use reflects past experience and external information, and is calculated by discounting the estimated amount of cash flows based on the business plan approved by the management and the growth rate to the present value using the discount rate based on the pre-tax weighted average cost of capital of the cash-generating unit (9.2% for AVP-786).

15. Investments in Associates

(1) Significant associates

Not applicable.

(2) Individually insignificant associates

A carrying amount of investments in individually insignificant associates is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Carrying amount of investments in associates	197,704	208,146

Financial information on individually insignificant associates is as follows.

These amounts are after adjustment of the Group's ownership ratio.

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Profit for the year	15,621	13,087
Other comprehensive income	(4,503)	1,890
Total comprehensive income for the year	11,118	14,978

16. Income Taxes

(1) Deferred taxes

Changes in deferred tax assets and deferred tax liabilities are as follows:

(Millions of yen)

	Balance as of January 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	Others	Balance as of December 31, 2019
Inventories	12,294	8,972	–	74	21,341
Securities, etc.	(17,322)	(137)	(3,491)	12	(20,939)
Intangible assets	(90,731)	542	–	1,289	(88,898)
Post-employment benefits	3,418	282	(1,831)	(48)	1,821
Accrued expenses and other liabilities	14,082	3,703	–	591	18,377
Contract liabilities	29,981	(1,455)	–	–	28,526
Unused tax losses	6,491	(1,801)	–	1,262	5,952
Unused tax credits	37,417	504	–	(482)	37,439
Others	(3,497)	(4,456)	0	(125)	(8,078)
Total	(7,865)	6,155	(5,322)	2,573	(4,458)

(Millions of yen)

	Balance as of January 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	Others	Balance as of December 31, 2020
Inventories	21,341	4,586	–	(126)	25,800
Securities, etc.	(20,939)	(113)	(8,487)	454	(29,085)
Intangible assets	(88,898)	8,567	–	4,310	(76,020)
Post-employment benefits	1,821	541	(1,826)	(117)	419
Accrued expenses and other liabilities	18,377	3,786	–	(502)	21,662
Contract liabilities	28,526	(5,276)	–	–	23,249
Unused tax losses	5,952	(269)	–	(255)	5,428
Unused tax credits	37,439	(4,314)	–	(1,904)	31,219
Others	(8,078)	1,207	1	269	(6,599)
Total	(4,458)	8,715	(10,312)	2,129	(3,925)

In recognizing deferred tax assets, the Group takes into account the possibility that part or all of deductible temporary differences, unused tax losses and unused tax credits can be used against future taxable profit. In assessment of the recoverability of deferred tax assets, reversal of deferred tax liabilities, expected future taxable profit and tax planning are taken into account. Based on the level of taxable profit in the past and estimated future taxable profit in the period during which deferred tax assets are deductible, the Group considers it is probable that deferred tax assets recognized as of December 31, 2020 will be recovered.

(2) Unrecognized deferred tax assets

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized are as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Deductible temporary differences	313,508	309,058
Unused tax losses	47,475	42,198
Unused tax credits	234	196
Total	361,218	351,454

Deferred tax assets on the above items are not recognized because it is not highly probable that future taxable income necessary for the Group to utilize the benefits arises. Deductible temporary differences do not expire under current tax law. Expiration of unused tax losses of the Company and some of its subsidiaries is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Due within one year	2,945	3,475
Due after one year through five years	13,096	13,306
Due after five years	31,434	25,417
Total	47,475	42,198

(3) Taxable temporary differences for which deferred tax liabilities were not recognized

Unrecognized deferred tax liabilities are as follows. In cases where the Company can control the timing of reversal of temporary differences and it is highly probable that such temporary differences are not reversed in a foreseeable period, deferred tax liabilities associated with such temporary differences are not recognized.

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Temporary differences related to investments in subsidiaries and associates for which deferred tax liabilities were not recognized because the Company decided not to pay a dividend in the foreseeable future	996,448	1,048,797

(4) Income tax expenses

The effective tax rates for FY2019 and FY2020 in Japan were both 30.6%. The tax amount in other tax jurisdictions is calculated using a general tax rate in each jurisdiction. The breakdown of current tax expenses and deferred tax expenses is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Current tax expenses:		
Current income taxes	50,068	48,433
Income taxes for prior periods	(1,584)	(1,463)
Total current tax expenses	48,484	46,969
Deferred tax expenses:		
Origination and reversal of temporary differences, etc.	(9,218)	(8,342)
Changes in unrecognized deferred tax assets	3,063	(372)
Total deferred tax expenses	(6,155)	(8,715)
Total income tax expenses	42,328	38,254

The reconciliation of the effective statutory tax rate and the actual tax rate for each fiscal year is as follows. The actual tax rate represents the ratio of income tax expenses to profit before tax.

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Effective statutory tax rate	30.6%	30.6%
Special deduction for research and development expenses	(8.8)%	(9.0)%
Entertainment expenses not deductible from the taxable income	0.7%	0.4%
Pharma fees not deductible from the taxable income	0.4%	0.3%
Share of profit of associates	(2.2)%	(1.5)%
Changes in unrecognized deferred tax assets	1.8%	(0.2)%
Difference from tax rate applied to subsidiaries	1.7%	0.3%
Others	0.2%	(0.8)%
Actual tax rate	24.4%	20.1%

17. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Notes and accounts payable - trade	86,311	93,216
Accounts payable - other	79,484	70,943
Others	1,006	790
Total	166,801	164,950

18. Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)	Average interest rate* ¹	Year of maturity
(Secured)				
Current borrowings	357	158	6.7%	—
Current portion of non-current borrowings	423	230	1.7%	—
Non-current borrowings (excluding current portion)	523	303	1.6%	2022 to 2036
(Unsecured)				
Current borrowings	19,153	8,070	2.2%	—
Current portion of non-current borrowings	30,099	20,230	1.1%	—
Non-current borrowings (excluding current portion)	56,201	44,456	0.9%	2022 to 2032
Bonds	79,768	79,805	* ³	2024 to 2029
Total	186,527	153,254	—	—
Bonds and borrowings (current)	50,033	28,690	—	—
Bonds and borrowings (non-current)	136,493	124,564	—	—

*¹ Average interest rate represents the weighted average interest rate to the balance of borrowings, etc. at the end of the year.

*² For the breakdown of non-current borrowings by repayment date and fair value, please refer to Note “33. Financial Instruments.”

*³ The summary of terms and conditions of bonds issued is as follows:

Company name	Name	Date of issuance	FY2019 (As of December 31, 2019) (Millions of yen)	FY2020 (As of December 31, 2020) (Millions of yen)	Interest rate (%)	Collateral	Maturity
Otsuka Holdings Co., Ltd.	1st unsecured bonds	March 7, 2019	19,950 [-]	19,962 [-]	0.120	None	March 7, 2024
Otsuka Holdings Co., Ltd.	2nd unsecured bonds	March 7, 2019	29,914 [-]	29,928 [-]	0.260	None	March 6, 2026
Otsuka Holdings Co., Ltd.	3rd unsecured bonds	March 7, 2019	29,904 [-]	29,914 [-]	0.375	None	March 7, 2029
Total			79,768 [-]	79,805 [-]	-	-	-

The figures in brackets indicate the amounts that will be redeemed within one year.

19. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	(Millions of yen)	
	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Other financial liabilities		
Financial liabilities measured at amortized cost		
Others	2,607	2,151
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	86	107
Contingent consideration	18,279	16,465
Total	20,973	18,724
Other financial liabilities (current)	2,424	1,987
Other financial liabilities (non-current)	18,548	16,737

20. Leases

“Property, plant and equipment” consists of property, plant and equipment owned by the Company and right-of-use assets that do not meet the definition of investment property. Right-of-use assets are included in “Property, plant and equipment” in the consolidated statements of financial position.

	(Millions of yen)	
	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Property, plant and equipment owned by the Company	390,410	390,681
Right-of-use assets	62,969	71,450
Total	453,380	462,131

Please refer to Note “12. Property, Plant and Equipment” for changes in costs, accumulated depreciation and accumulated impairment losses of property, plant and equipment and the carrying amounts.

(1) Right-of-use assets

Information on leases that the Group has contracted as a lessee is as follows:

(Millions of yen)

Carrying amount	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Total
Balance as of December 31, 2018	3,146	1,111	3,558	–	7,816
Adjustment due to the application of IFRS 16	49,833	7,162	275	2,053	59,324
Balance as of January 1, 2019	52,979	8,273	3,834	2,053	67,141
Purchase	11,518	2,486	2,222	204	16,431
Depreciation expenses	(12,215)	(2,881)	(1,604)	(263)	(16,964)
Others	(2,225)	(550)	(545)	(316)	(3,638)
Balance as of December 31, 2019	50,056	7,328	3,906	1,677	62,969
Purchase	24,738	2,535	1,568	104	28,947
Depreciation expenses	(14,322)	(2,663)	(1,560)	(239)	(18,786)
Others	(455)	(1,179)	(37)	(7)	(1,680)
Balance as of December 31, 2020	60,017	6,020	3,877	1,534	71,450

The balance as of December 31, 2018 is the carrying amount of leased assets under finance leases based on IAS 17 “Leases.”

Buildings and structures

Buildings and structures principally consist of leases of plants, office buildings and warehouses.

Machinery and vehicles

Machinery and vehicles principally consist of leases of automobiles.

Tools, furniture and fixtures

Tools, furniture and fixtures principally consist of leases of vending machines and IT equipment.

Land

Land principally consist of leases of land for factories.

The details of the estimated useful life are provided in Note “3. Significant Accounting Policies (10) Leases.”

(2) Lease liabilities

The maturity analysis of lease liabilities of the Group (contractual undiscounted cash flows) is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Due within one year	16,551	16,825
Due after one year through two years	12,785	13,538
Due after two years through three years	9,146	9,972
Due after three years through four years	7,368	8,532
Due after four years through five years	6,020	6,635
Due after five years	25,880	26,424
Contractual cash flows	77,753	81,927
Balance of lease liabilities at the end of the year recognized in the consolidated statements of financial position	66,790	72,825
Current liabilities	14,796	15,511
Non-current liabilities	51,994	57,314

(3) Amount recognized in profit or loss

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Interest expense on lease liabilities	1,509	1,689
Expense relating to short-term leases	5,430	5,750

(4) Amount recognized in the statements of cash flows

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Total cash outflow for leases	22,642	25,188

21. Other Liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Other liabilities		
Accrued expenses	123,386	133,836
Deposits received	10,015	10,433
Employees' bonuses	18,366	20,694
Others	28,430	29,680
Total	180,197	194,645
Total current liabilities (Other current liabilities)	167,910	177,350
Total non-current liabilities (Other non-current liabilities)	12,287	17,294

22. Provisions

The breakdown of provisions is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Provision for asset retirement obligations	981	904
Total	981	904
Non-current liabilities	981	904

The breakdown and changes of provisions are as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Provision for asset retirement obligations	Total
Balance as of January 1, 2019	619	619
Increase during the year	341	341
Reversal of discounts due to passage of time	15	15
Decrease during the year (utilization)	(0)	(0)
Decrease during the year (reversal)	–	–
Foreign currency translation differences and others	6	6
Balance as of December 31, 2019	981	981

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Provision for asset retirement obligations	Total
Balance as of January 1, 2020	981	981
Increase during the year	10	10
Reversal of discounts due to passage of time	63	63
Decrease during the year (utilization)	(66)	(66)
Decrease during the year (reversal)	–	–
Foreign currency translation differences and others	(84)	(84)
Balance as of December 31, 2020	904	904

The details of provisions are as follows:

Provision for asset retirement obligations

The Group records provision for asset retirement obligations at the estimated amount of costs for removal of harmful substances related to non-current assets and the estimated amount of restoration costs for rented offices and others for which the Group has obligations to restore the site to its original condition at the end of the lease contract.

The Group expects that the timing at which economic resources flow out is principally after one year passed from the end of each fiscal year.

23. Post-employment Benefits

The Group has adopted defined benefit plans and defined contribution plans as post-employment benefit plans.

Major domestic subsidiaries have a contributory funded, defined benefit corporate pension plan and lump-sum retirement payments plan as defined benefit plans, and defined contribution pension plans as defined contribution plans.

Certain foreign subsidiaries have contributory funded or unfunded defined benefit plans, defined contribution plans, or a combination of them.

Among defined benefit plans, the major plan is the defined benefit plan in Japan, which accounts for approximately 90% of total defined benefit obligations. In the current fiscal year, some domestic subsidiaries have abolished early retirement plans.

There is no post-employment benefit other than pensions and lump-sum payments.

For the accounting policy for defined benefit plans, please refer to Note “3. Significant Accounting Policies (13) Post-employment benefits.”

(1) Defined benefit plans

For benefits under defined benefit plans of the Company and major domestic subsidiaries, the amount of retirement benefit payments is calculated based on service years, salaries during the service period, position and other factors. When the period of validity of a retiring employee equals to or more than a certain period, benefits are paid as lump-sum payment or pension at the option of the employee. Upon retirement, etc. of employees, additional retirement benefits that do not qualify as benefits under defined benefit plans may be paid.

Defined benefit corporate pension plans are managed by Otsuka Pharmaceuticals corporate pension fund. Directors of this pension fund and the pension plan management institution are required by laws and regulations to behave in a way that gives utmost priority to the interest of plan participants and former

participants and assume the responsibility for managing plan assets under the prescribed policy.

Although defined benefit retirement benefit plans are exposed to general investment risk, interest rate risk and others, it is considered that the exposure to these risks is not significant.

Amounts recognized in the consolidated statements of financial position are as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Present value of defined benefit obligations	269,248	265,703
Fair value of plan assets	(258,531)	(270,110)
Funding position	10,717	(4,407)
Effect of asset ceiling	800	11,716
Net amount of defined benefit obligations and plan assets	11,517	7,309
Amounts in the consolidated statements of financial position		
Net defined benefit liabilities	17,301	16,724
Net defined benefit assets (other non-current assets)	(5,784)	(9,414)
Net defined benefit liabilities (assets) recognized in the consolidated statements of financial position	11,517	7,309

Changes in the present value of the defined benefit obligations are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Balance of defined benefit obligations at the beginning of the year	257,785	269,248
Current service cost	9,456	10,045
Interest cost	2,546	2,011
Remeasurement		
Difference between the assumption and actual amount of retirement benefit obligations	4,478	2,018
Actuarial gains and losses arising from changes in demographic assumptions	(1)	858
Actuarial gains and losses arising from changes in financial assumptions	7,690	(4,820)
Retirement benefits paid	(11,868)	(12,055)
Curtailed/settlement	(508)	(72)
Foreign currency translation differences	(272)	(1,309)
Others	(58)	(221)
Balance of defined benefit obligations at the end of the year	269,248	265,703

Changes in fair value of the plan assets are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Balance of fair value of plan assets at the beginning of the year	243,986	258,531
Interest income on plan assets	2,163	1,831
Remeasurement		
Return on plan assets (excluding interest income)	16,448	15,009
Contributions by the employer	7,076	6,967
Retirement benefits paid	(10,952)	(11,250)
Curtailement/settlement	–	(72)
Foreign currency translation differences	(194)	(823)
Others	4	(82)
Balance of fair value of plan assets at the end of the year	258,531	270,110

The Group plans to pay contributions of ¥6,635 million in FY2021.

Management policy for plan assets

The fund management policy for major plans of the Group aims to secure stable returns over the medium to long term to ensure the payment of defined benefit obligations now and in the future. Specifically, assets are managed by setting the target rate of return and the asset mix by investment asset within a range of acceptable risk defined annually and maintaining this mix.

The Group conducts review of the asset mix where necessary, taking into account financial conditions of defined benefit pension plans and the investment environment.

When management of each asset is implemented, the Group seeks efficiency on the investment aspect through continuous monitoring with attention to risk diversification associated to asset managers.

The fair value of the plan assets is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)		FY2020 (As of December 31, 2020)	
	Assets with market prices in active markets	Assets without market prices in active markets	Assets with market prices in active markets	Assets without market prices in active markets
Cash and cash equivalents	28,846	–	14,415	–
Shares	11,645	62,145	14,639	68,750
Bonds	187	96,919	177	99,269
Others	8,128	50,658	8,200	64,656
Total	48,807	209,723	37,433	232,676

The Company's investment policy for the defined benefit plans takes into consideration various factors such as the allowable limit of deductible expenses under tax laws, the funding status of plan assets and actuarial calculations.

Changes in the effect of the asset ceiling are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Balance of effect of asset ceiling at the beginning of the year	1,710	800
Interest income	12	4
Remeasurement		
Effect of limiting a net defined benefit asset to the asset ceiling	(922)	10,912
Balance of effect of asset ceiling at the end of the year	800	11,716

Any economic resource is not available because future contributions are not reduced or refunded. Consequently, an unrecognized surplus has arisen in some pension plans of the Group.

Principal actuarial assumptions at the end of the reporting period are as follows:

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Discount rate	0.5-0.6%	0.6-0.8%

The following table represents the sensitivity analysis for significant actuarial assumptions.

The sensitivity analysis shows impact of a 0.5% increase or decrease in assumptions used in actuarial calculation on the present value of defined benefit obligations.

This analysis is based on the assumption that other variables are constant. The analysis for FY2020 was made using the same fundamentals as those for FY2019.

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
0.5% increase in the discount rate	(17,885)	(17,153)
0.5% decrease in the discount rate	16,619	15,955

The weighted average duration of the defined benefit obligations as of December 31, 2019 and 2020 is 15.6 years and 15.1 years, respectively.

(2) Defined contribution plans

Amounts recognized as expenses in association with defined contribution plans are ¥6,905 million for FY2019 and ¥7,018 million for FY2020. The above figures include amounts recognized as expenses in association with public plans.

24. Equity and Other Equity Items

(1) Share capital and capital surplus

Changes in the number of authorized shares, total number of issued shares, and the balance of share capital, etc. are as follows:

	Number of authorized shares (Ordinary shares with no par value)	Total number of issued shares (Ordinary shares with no par value)	Share capital (Millions of yen)	Capital surplus (Millions of yen)
Balance as of January 1, 2019	1,600,000,000 shares	557,835,617 shares	81,690	505,894
Changes during the year	–	–	–	(373)
Balance as of December 31, 2019	1,600,000,000 shares	557,835,617 shares	81,690	505,520
Changes during the year	–	–	–	774
Balance as of December 31, 2020	1,600,000,000 shares	557,835,617 shares	81,690	506,295

(2) Treasury shares

Changes in the number and balance of treasury shares are as follows:

	Number of shares (Shares)	Amount (Millions of yen)
Balance as of January 1, 2019	15,987,217	47,268
Increase due to request for buyback of shares less than one share unit	290	1
Decrease due to disposal as restricted stock remuneration	(340,120)	(1,005)
Decrease due to exercise of stock options	(83,200)	(245)
Balance as of December 31, 2019	15,564,187	46,018
Increase due to request for buyback of shares less than one share unit	330	1
Acquisition without contribution of ordinary shares that were allotted as restricted stock remuneration	15,520	–
Decrease due to disposal as restricted stock remuneration	(80,880)	(238)
Balance as of December 31, 2020	15,499,157	45,781

The Company has adopted the restricted stock remuneration plan and appropriates treasury shares to the grant of shares under the plan. The contractual terms and conditions, amount and others of the plan are provided in Note “32. Share-based Payments.” Furthermore, in some circumstances, the Company’s shares that were granted may be acquired by the Company without contribution.

(3) Capital surplus

Under the Companies Act of Japan (hereinafter the “Companies Act”), at least 50% of the contribution for share issue shall be credited to share capital, and the remainder shall be credited to additional paid-in capital included in capital surplus. In addition, under the Companies Act, additional paid-in capital can be transferred to share capital upon approval at the shareholders meeting.

(4) Retained earnings

The Companies Act provides that 10% of dividends shall be appropriated as additional paid-in capital or as a legal reserve until the aggregate amount of the additional paid-in capital and the legal reserve equals 25% of share capital. The legal reserve may be used to eliminate or reduce a deficit, or may also be reversed upon approval at the shareholders meeting.

(5) Details and purpose of other components of equity

(i) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans represent actuarial difference on defined benefit obligation, return on plan assets (excluding the amount included in interest income), and changes in effect of asset ceiling (excluding the amount included in interest income).

Actuarial difference represents adjustment based on past experience on defined benefit obligation (difference between actuarial assumptions at the beginning of the year and actual results) and effect of changes in actuarial assumptions.

These items are recognized in other comprehensive income when occurred and immediately transferred from other components of equity to retained earnings.

(ii) Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income represent the valuation difference in fair value of financial assets measured at fair value through other comprehensive income.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents the translation difference incurred when consolidating financial statements of foreign operations prepared using foreign currencies.

(iv) Cash flow hedges

The Group uses derivatives to hedge the risk of fluctuation in future cash flows. Cash flow hedges represent the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.

(6) Dividends

Dividends paid are as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 13, 2019	27,092	50.00	December 31, 2018	March 29, 2019
Meeting of the Board of Directors held on August 8, 2019	27,113	50.00	June 30, 2019	September 2, 2019

FY2020 (From January 1, 2020 to December 31, 2020)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2020	27,113	50.00	December 31, 2019	March 30, 2020
Meeting of the Board of Directors held on August 7, 2020	27,116	50.00	June 30, 2020	September 7, 2020

Dividends whose effective date falls in the following fiscal year are as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2020	27,113	50.0	December 31, 2019	March 30, 2020

FY2020 (From January 1, 2020 to December 31, 2020)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 12, 2021	27,116	50.0	December 31, 2020	March 31, 2021

(7) Put options granted to non-controlling interests

The put options written on shares of foreign subsidiaries granted by the foreign subsidiaries to owners of non-controlling interests are recognized at the present value of exercise price of options as financial liabilities and the same amount is deducted from capital surplus at initial recognition, while any subsequent change is recorded in finance income and finance costs.

25. Revenue

(1) Disaggregation of revenue

The Group disaggregates revenue by type of goods or services and by geographical area. The relationship between disaggregated revenue and reportable segments is as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable segment				
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total
By type of goods or services					
Sales of products	840,853	333,717	32,950	82,900	1,290,422
License and royalty income	23,632	34	–	384	24,051
Others	59,763	5	602	21,395	81,767
Total	924,250	333,757	33,553	104,680	1,396,240
By geographical area*					
Japan	450,213	146,674	24,337	68,509	689,734
North America	289,335	97,836	8,753	3,644	399,569
Others	184,701	89,246	462	32,526	306,937
Total	924,250	333,757	33,553	104,680	1,396,240

* Revenue is classified based on the location of customers.

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segment				
	Pharmaceuticals	Nutra-ceuticals	Consumer products	Others	Total
By type of goods or services					
Sales of products	859,232	333,998	30,788	79,795	1,303,815
License and royalty income	27,311	41	0	896	28,249
Others	68,614	13	558	21,573	90,760
Total	955,159	334,054	31,346	102,265	1,422,826
By geographical area*					
Japan	436,812	138,040	21,055	64,361	660,270
North America	335,396	113,349	8,993	3,100	460,839
Others	182,949	82,664	1,297	34,804	301,716
Total	955,159	334,054	31,346	102,265	1,422,826

* Revenue is classified based on the location of customers.

(2) Contract balance

The breakdown of receivables and contract liabilities from contracts with customers is as follows:

(Millions of yen)

	January 1, 2019	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Receivables from contracts with customers	366,996	390,003	367,752
Notes and accounts receivable - trade	368,888	391,948	369,617
Allowance for credit losses	(1,892)	(1,945)	(1,865)
Contract liabilities (current liabilities)	10,809	12,407	12,644
Contract liabilities (non-current liabilities)	87,245	80,792	69,164

Of the opening balance of contract liabilities, the amount of revenue recognized is ¥10,822 million in FY2019 and ¥12,379 million in FY2020. In addition, the balance of contract liabilities increased by ¥5,905 million in FY2019 due to receipt of up-front payments and achievement of milestones for license agreements for development and distribution rights and others of products under developments, and other factors. There was no increase from those matters in FY2020.

The amount of revenue recognized from performance obligations satisfied (or partially satisfied) in the past period was ¥12,827 million for FY2019 and ¥12,184 million for FY2020, of which major revenue was license and royalty income.

(3) Timing of satisfaction of performance obligations

Contract liabilities mainly arise in certain license agreements entered into between the Group and a third party for development and distribution rights and others of products under development. In addition, contract liabilities include advances received from customers in relation to sale of products.

The total amount of transaction price allocated to remaining performance obligations and timing when revenue is expected to be recognized are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Due within one year	12,407	12,643
Due after one year through two years	12,198	10,496
Due after two years through three years	10,512	10,327
Due after three years through four years	10,328	10,255
Due after five years	47,754	38,084
Total	93,200	81,807

26. Breakdown of Expenses by Nature

The major breakdown of expenses included in cost of sales, selling, general and administrative expenses, and research and development expenses by nature is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Personnel expenses	(299,755)	(315,989)
Sales promotion expenses	(119,065)	(122,039)
Depreciation and amortization expenses	(74,258)	(77,585)

27. Other Income

The breakdown of other income is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Grant income	371	745
Rent received	217	199
Gain on sales of non-current assets* ¹	115	362
Change in fair value of contingent considerations* ²	120	3,203
Gain on change in equity	874	2,657
Reversal of impairment losses	3,263	–
Others	3,730	4,268
Total other income	8,694	11,436

*¹ The amount includes gain on sales of assets held for sale.

*² The fair value changes of the contingent considerations attributable to time value is recognized in “Finance costs,” and the one attributable to changes of non-time-value is recognized in either “Other income” or “Other expenses.” The fair value changes of the contingent considerations recorded in “Other income” relates to the acquisitions of Neurovance, Inc. and ReCor Medical Inc.

28. Other Expenses

The breakdown of other expenses is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Loss on sales of non-current assets	(92)	(159)
Loss on retirement of non-current assets	(1,906)	(1,120)
Others	(3,801)	(2,351)
Total other expenses	(5,801)	(3,631)

29. Finance Income and Finance Costs

The breakdown of finance income and finance costs is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Finance income		
Interest income		
Financial assets measured at amortized cost	2,424	1,255
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,788	1,960
Gain on fair value valuation		
Financial assets and liabilities measured at fair value through profit or loss	1	229
Others	218	216
Total finance income	4,433	3,661
Finance costs		
Interest expenses		
Financial liabilities measured at amortized cost	(2,701)	(1,438)
Lease liabilities	(1,509)	(1,689)
Loss on fair value valuation		
Financial assets and liabilities measured at fair value through profit or loss	(1,848)	(2,347)
Foreign exchange losses	(564)	(5,950)
Others	(879)	(830)
Total finance costs	(7,502)	(12,256)

30. Other Comprehensive Income

Reclassification adjustments and income taxes for each separate component of other comprehensive income are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Amount arising during the year	5,185	6,087
Before income taxes	5,185	6,087
Income taxes	(1,831)	(1,826)
Remeasurements of defined benefit plans	3,353	4,260
Financial assets measured at fair value through other comprehensive income		
Amount arising during the year	2,989	27,183
Before income taxes	2,989	27,183
Income taxes	(3,635)	(8,384)
Financial assets measured at fair value through other comprehensive income	(645)	18,798
Share of other comprehensive income of associates		
Amount arising during the year	296	390
Share of other comprehensive income of associates	296	390
Subtotal	3,005	23,450
Items that may be reclassified to profit or loss		
Foreign currency translation reserve		
Amount arising during the year	(10,955)	(34,088)
Reclassification adjustments	321	–
Before income taxes	(10,634)	(34,088)
Foreign currency translation reserve	(10,634)	(34,088)
Cash flow hedges		
Amount arising during the year	(2)	27
Reclassification adjustments	(0)	(33)
Before income taxes	(2)	(5)
Income taxes	0	1
Cash flow hedges	(2)	(4)
Share of other comprehensive income of associates		
Amount arising during the year	(4,800)	1,102
Reclassification adjustments	–	397
Share of other comprehensive income of associates	(4,800)	1,499
Subtotal	(15,437)	(32,593)
Total other comprehensive income	(12,432)	(9,143)

31. Earnings per Share

(1) Basis of calculating basic earnings per share

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Profit for the year attributable to owners of the Company (Millions of yen)	127,151	148,137
Profit for the year not attributable to ordinary equity holders of the Company (Millions of yen)	–	–
Profit for the year used for calculation of basic earnings per share (Millions of yen)	127,151	148,137
Weighted average number of ordinary shares (Thousands of shares)	542,104	542,316
Basic earnings per share (Yen)	234.55	273.15

(2) Basis of calculating diluted earnings per share

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Profit for the year used for calculation of basic earnings per share (Millions of yen)	127,151	148,137
Adjustments of profit for the year (Millions of yen)	(1,843)	(435)
Profit for the year used for calculation of diluted earnings per share (Millions of yen)	125,308	147,702
Weighted average number of ordinary shares (Thousands of shares)	542,104	542,316
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	37	–
Weighted average number of diluted ordinary shares (Thousands of shares)	542,142	542,316
Diluted earnings per share (Yen)	231.13	272.35

32. Share-based Payments

The Group has introduced a restricted stock remuneration plan for Directors of the Company (excluding Outside Directors) and certain Directors of its subsidiaries aiming at granting incentives so as to achieve the medium-term management plan, to sustainably improve the medium- to long-term performance and corporate value of the Company, and to further share more of that value with shareholders.

In addition, the Group has adopted equity-linked remuneration entitlements as a cash-settled share-based payment plan for officers and employees of certain consolidated subsidiaries. The Group grants the entitlements to employees who have the rank as of the time of grant and makes the payment in cash, taking into account the level of achievement of performance targets and the share price at the end of the period for each cycle: from cycle of one-year period to cycle of three-year period.

(1) Restricted stock remuneration plan

The details of restricted stock remuneration plan are as follows:

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Date of grant	May 20, 2019	April 24, 2020
Number of shares granted	340,120 shares	80,880 shares
Fair value at date of grant	¥4,196	¥3,785
Settlement method	Equity-settled	Equity-settled
Transfer restriction period	From May 20, 2019 to June 1, 2026	From April 24, 2020 to June 1, 2026

- ¹ Persons granted are Directors of the Company (excluding Outside Directors) and certain Directors of its subsidiaries (hereinafter referred to as “Eligible Directors”).
- ² The Company has entered into, with each Eligible Director, a restricted stock allocation agreement, which contains the provisions that Eligible Directors shall not transfer, attach security interest, and make other dispositions of the Company’s ordinary shares allotted (hereinafter referred to as the “Allotted Shares”), and that the Company acquires the Allotted Shares at no cost upon the occurrence of specified events, and other provisions.
- ³ The Company shall remove the transfer restriction on the Allotted Shares on the condition that (1) the Eligible Director continued to hold a position as Director of the Company (Director of its subsidiary, if the Eligible Director is a Director of its subsidiary) during the transfer restriction period and (2) targets set by the Company in advance in light of consolidated revenue, operating profit and other metrics were achieved. If it is determined that a person eligible for allotment retires due to the expiration of the term of office or any other reasonable cause, the time of release from the transfer restriction and the number of shares to be released from the transfer restriction will be reasonably adjusted as necessary.
- ⁴ The method of measuring fair value is calculated based on the closing price of shares of the Company on the First Section of the Tokyo Stock Exchange on the business day prior to the date of a resolution of the Board of Directors.

(2) Share-based payment expenses

The breakdown of share-based payment expenses is as follows:

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Equity-settled	252	1,028
Cash-settled	1,487	1,484
Total	1,740	2,512

(Millions of yen)

The carrying amount of liabilities arising from share-based payment transactions is ¥1,600 million for FY2019 and ¥2,973 million for FY2020.

33. Financial Instruments

(1) Capital management

The Group’s basic policy for capital management is to improve capital efficiency and ensure financial soundness in order to achieve sustainable growth and enhance corporate value over the medium to long term.

The Group conducts monitoring of financial indicators as a procedure for capital management. The Group monitors return on equity attributable to owners of the Company for capital efficiency and ratio of equity attributable to owners of the Company to total assets for financial soundness in a timely manner.

The Group is not subject to any material capital restrictions.

(2) Classification of financial instruments

The breakdown of financial assets and financial liabilities by category is as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
<Financial assets>		
Financial assets measured at amortized cost		
Cash and cash equivalents	334,040	356,851
Trade and other receivables	401,418	379,107
Other financial assets	56,958	56,217
Financial assets measured at fair value through profit or loss		
Other financial assets	5,476	7,769
Financial assets measured at fair value through other comprehensive income		
Other financial assets	136,485	168,155
Total financial assets	934,379	968,101
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Trade and other payables	166,801	164,950
Bonds and borrowings	186,527	153,254
Other financial liabilities	2,607	2,151
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities	18,365	16,573
Total financial liabilities	374,302	336,930

(3) Financial risk management

The Group is exposed to financial risks (market risk, credit risk and liquidity risk) in the course of operating activities and conducts risk management in accordance with certain policy to mitigate these financial risks. The Group uses derivative transactions to avoid foreign currency risk or interest rate risk and, in accordance with its policy, does not carry out any speculative transactions.

(4) Market risk management

The Group's activities are mainly exposed to risks of changes in economic circumstances and financial market circumstances. Specifically, the risks of changes in financial market circumstances include 1) foreign currency risk, 2) interest rate risk, and 3) risk of fluctuations in equity instrument prices.

1) Foreign currency risks

(i) Foreign currency risk management

The Group engages in business globally, and fluctuations in exchange rates of the US dollar and Euro, principally, affect its operating results.

With regard to settlement of receivables and payables arising from ongoing operating activities, the Group's policy is to balance foreign exchange receipts and payments as much as possible with three major currencies, namely, the US dollar, Euro and Japanese yen.

In addition, the Group has established management rules for derivative transactions and limits derivative transactions, including forward foreign exchange contracts, to those for the purpose of hedging risks. Information on derivative transactions conducted by the Group is provided in "(8) Fair value of financial instruments (ii) Fair value of derivatives."

(ii) Foreign exchange sensitivity analysis

The Group is principally exposed to foreign currency risks of US dollar and Euro. The following table shows the sensitivity analysis in the case where the yen's value increases by 1% against the US dollar and the Euro in each fiscal year. In making these calculations, the Group has assumed no changes in

currencies other than those used. The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into yen is not included. This is based on the assumption that other variable factors (such as balances and interest rate) are constant.

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
US dollar		
Impact on profit before tax	(657)	(959)
Impact on other comprehensive income (before the application of tax effects)	(58)	(49)
Euro		
Impact on profit before tax	(255)	(76)
Impact on other comprehensive income (before the application of tax effects)	(3)	(4)

The above figures in parentheses represent negative effects on profit or loss and equity of the Group in the case where the yen's value increases by 1% against each currency. The above figures show effects of currency translation on the Group's consolidated financial statements, and do not have direct positive or negative effects on its cash flows and business management.

2) Interest rate risk

(i) Interest rate risk management

The Group is exposed to various interest rate risks in its business activities, and fluctuations in interest rates associated with borrowings especially affect its operating results. However, the effect of interest rate fluctuations on borrowing costs is offset by income arising from assets that are affected by the interest rate fluctuations.

The Group monitors fluctuations in interest rates arising from these assets and liabilities, and manages interest rate risks through refinancing and other means when interest rates drastically fluctuate.

(ii) Interest rate sensitivity analysis

The impact of a 1% increase in interest rates for each fiscal year on profit before tax of the Group is as follows.

In this analysis, calculation is made by multiplying balances of financial instruments with variable interest rates held by the Group as of the end of each fiscal year by 1%, assuming that all other variables are constant.

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Impact on profit before tax	(143)	(86)

3) Risk of fluctuations in equity instrument prices

(i) Management of risk of fluctuations in equity instrument prices

The Group is exposed to risk of fluctuations in share prices arising from equity instruments (shares). The Group has no equity instruments held for short-term trading and owns equity instruments to smoothly execute business strategies. With regard to equity instruments, the Group regularly assesses and monitors fair value and financial conditions of issuers.

(ii) Price sensitivity analysis

For equity instruments (shares) held by the Group, the following table shows impact of a 10% decrease in the share price on other comprehensive income (before the application of tax effects) of the Group, assuming that all other variables are constant.

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Impact on other comprehensive income (before the application of tax effects)	(10,070)	(12,033)

(5) Equity instruments measured at fair value through other comprehensive income

The fair value of equity instruments measured at fair value through other comprehensive income and dividend income are as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)		FY2020 (From January 1, 2020 to December 31, 2020)	
	Fair value	Dividend income	Fair value	Dividend income
Listed	100,704	1,265	120,337	1,248
Unlisted	35,780	523	47,818	711
Total	136,485	1,788	168,155	1,960

Of the above, fair value of major financial assets is as follows. The Group classifies investments held for the purpose of reinforcing sales foundations into financial assets measured at fair value through other comprehensive income.

FY2019 (As of December 31, 2019)

(Millions of yen)

Name	Amount
Listed	
DAIICHI SANKYO COMPANY, LIMITED	25,672
EIKEN CHEMICAL CO., LTD.	8,104
The Awa Bank, Ltd.	6,877
BML, INC.	6,290
Dong-A ST., Co., Ltd.	5,868
Others	47,892
Unlisted	
Electrical equipment	19,607
Pharmaceuticals	14,784
Others	1,389
Total	136,485

Names of major unlisted shares are Nichia Corporation (electrical equipment), SomaLogic, Inc. (pharmaceuticals) and Pact Pharma, Inc. (pharmaceuticals).

FY2020 (As of December 31, 2020)

(Millions of yen)

Name	Amount
Listed	
DAIICHI SANKYO COMPANY, LIMITED	37,666
EIKEN CHEMICAL CO., LTD.	8,220
COMPASS Pathways plc	7,864
VV Food and Beverage Co., Ltd.	7,838
The Awa Bank, Ltd.	6,565
Others	52,182
Unlisted	
Electrical equipment	30,235
Pharmaceuticals	16,507
Others	1,075
Total	168,155

Names of major unlisted shares are Nichia Corporation (electrical equipment), SomaLogic, Inc. (pharmaceuticals) and Pact Pharma, Inc. (pharmaceuticals).

The Group sells equity instruments measured at fair value through other comprehensive income using the results obtained from verifying reasonableness of holding and other factors.

Fair value at time of sale and cumulative gains or losses (pre-tax) are as follows:

(Millions of yen)

FY2019 (From January 1, 2019 to December 31, 2019)		FY2020 (From January 1, 2020 to December 31, 2020)	
Fair value at time of sale	Cumulative gains or losses	Fair value at time of sale	Cumulative gains or losses
1,242	92	2,394	(370)

The above item was transferred from other comprehensive income to retained earnings at the time of sale.

The amounts of cumulative losses (net of tax) transferred in FY2019 and FY2020 are ¥1,127 million and ¥264 million, respectively.

In FY2019 and FY2020, dividend income from financial assets measured at fair value through other comprehensive income that were sold (derecognized) are ¥7 million and ¥4 million, respectively.

(6) Credit risk management

Credit risk is the risk that causes financial loss to the Group when a customer goes into default for contractual obligations. The Group has the sales department and the accounting and finance department monitor the status of business partners in terms of trade receivables and other receivables, regularly and manage due dates and balances for each business partner while working to early identify and mitigate any concerns about collections due to deterioration in each business partner's financial position and other factors. When full or partial collection of trade receivables and other receivables, is considered impossible, or extremely difficult, it is deemed to be a default.

The Group recognizes that there is little credit risk in the use of derivatives since the Group only deals with financial institutions with high credit ratings to mitigate credit risk.

The Group does not have any credit risk overly concentrated in a specific counterparty or a group to which the counterparty belongs.

1) Allowance for credit losses

Changes in allowance for credit losses are as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Lifetime expected credit losses		Total
	Financial assets of which credit risk has increased significantly since initial recognition	Financial assets that are always measured at an amount equal to lifetime expected credit losses	
Balance as of January 1, 2019	114	1,892	2,007
Increase during the year	10	270	280
Decrease during the year (utilization)	—	(234)	(234)
Decrease during the year (reversal)	(38)	(142)	(181)
Others	14	158	172
Balance as of December 31, 2019	100	1,945	2,045

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Lifetime expected credit losses		Total
	Financial assets of which credit risk has increased significantly since initial recognition	Financial assets that are always measured at an amount equal to lifetime expected credit losses	
Balance as of January 1, 2020	100	1,945	2,045
Increase during the year	33	327	360
Decrease during the year (utilization)	—	(217)	(217)
Decrease during the year (reversal)	(0)	(138)	(138)
Others	27	(52)	(24)
Balance as of December 31, 2020	161	1,865	2,026

2) Exposure to credit risk of financial assets

The carrying amounts presented in the consolidated statements of financial position represent the Group's maximum exposure to credit risk of financial assets.

(7) Liquidity risk management

The Group manages liquidity risk by having the accounting and finance departments prepare and update cash flow management plans, and maintaining a constant level of liquidity.

The balance of financial liabilities other than liability on guarantee (including derivative financial instruments) by maturity is as follows. The details of the lease liabilities are provided in Note “20. Leases.”

(Millions of yen)

FY2019 (As of December 31, 2019)	Carrying amount	Contractual cash flows	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade payables	86,311	86,311	86,311	–	–	–	–	–
Borrowings	106,758	108,654	50,911	28,452	13,143	6,090	1,454	8,601
Bonds	79,768	81,683	214	214	214	214	20,202	60,623
Contingent consideration	18,279	18,953	–	12,161	–	2,958	–	3,834
Others	83,098	83,098	82,913	–	–	–	–	184
Total	374,216	378,701	220,350	40,828	13,357	9,263	21,657	73,244
Derivative financial liabilities								
Forward exchange contracts and others	1	1	1	–	–	–	–	–
Interest rate swaps	74	74	–	–	–	–	–	74
Currency swaps	10	10	–	–	–	–	–	10
Total	86	86	1	–	–	–	–	84

(Millions of yen)

FY2020 (As of December 31, 2020)	Carrying amount	Contractual cash flows	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade payables	93,216	93,216	93,216	–	–	–	–	–
Borrowings	73,449	74,810	29,239	23,417	9,122	4,160	1,300	7,570
Bonds	79,805	81,400	214	214	214	20,195	190	60,371
Contingent consideration	16,465	16,744	–	–	9,705	2,795	–	4,244
Others	73,885	73,885	73,714	–	–	–	–	171
Total	336,822	340,057	196,384	23,631	19,041	27,151	1,490	72,357
Derivative financial liabilities								
Forward exchange contracts and others	7	7	7	–	–	–	–	–
Interest rate swaps	91	91	–	–	–	–	–	91
Currency swaps	8	8	–	–	–	–	–	8
Total	107	107	7	–	–	–	–	100

(8) Fair value of financial instruments

The details of fair value of financial instruments are provided in Note “3. Significant Accounting Policies (4) Financial instruments.”

Fair value hierarchy

The fair value hierarchy classifies fair value as follows:

Level 1: Fair value measured based on quoted prices in active markets

Level 2: Fair value calculated directly or indirectly using observable price, other than Level 1 prices

Level 3: Fair value calculated using valuation techniques including unobservable inputs

Transfers between fair value hierarchy levels are recognized on the date the event or condition prompting the transfer occurred.

(i) Financial instruments measured at amortized cost

(Millions of yen)

FY2019 (As of December 31, 2019)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
<Financial assets>					
Securities	557	538	–	–	538
Total	557	538	–	–	538
<Financial liabilities>					
Borrowings	106,758	–	105,255	–	105,255
Bonds	79,768	–	80,207	–	80,207
Total	186,527	–	185,462	–	185,462

(Millions of yen)

FY2020 (As of December 31, 2020)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
<Financial assets>					
Securities	562	587	–	–	587
Total	562	587	–	–	587
<Financial liabilities>					
Borrowings	73,449	–	73,796	–	73,796
Bonds	79,805	–	80,123	–	80,123
Total	153,254	–	153,919	–	153,919

The fair value calculation methods are as follows:

Securities

The fair value of securities is determined based on the quoted price at the securities exchange.

Borrowings

The fair value of borrowings with floating interest rates reflects market interest rates in the short term, and the carrying amount approximates to that fair value. The fair value of borrowings with fixed interest rates is calculated by the method in which future cash flows are discounted, using an interest rate which approximates to when funds are borrowed under the same terms and conditions with the same remaining borrowing period.

Bonds

The fair value of bonds is calculated based on the observable price in the market.

(ii) Fair value of derivatives

(Millions of yen)

FY2019 (As of December 31, 2019)	Cash flow hedges	Derivatives not designated as hedges	Total
Forward exchange contracts and others	(1)	–	(1)
Interest rate swaps	–	(74)	(74)
Currency swaps	–	(10)	(10)
Total	(1)	(84)	(86)

(Millions of yen)

FY2020 (As of December 31, 2020)	Cash flow hedges	Derivatives not designated as hedges	Total
Forward exchange contracts and others	(7)	–	(7)
Interest rate swaps	–	(91)	(91)
Currency swaps	–	(8)	(8)
Total	(7)	(100)	(107)

The fair value calculation methods are as follows:

Forward exchange contracts and others

The fair value of forward exchange contracts and others is calculated based on the market price of forward exchange contracts and others entered into on similar terms and conditions.

Interest rate swaps

Interest rate swaps are used for the purpose of reducing interest borne on borrowings, and their fair value is calculated based on the value presented by creditor financial institutions.

Currency swaps

Currency swaps are used for the purpose of reducing foreign currency risks on currencies of borrowings, and their fair value is calculated based on the value presented by creditor financial institutions.

(iii) Financial instruments measured at fair value

(Millions of yen)

FY2019 (As of December 31, 2019)	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	100,704	–	35,780	136,485
Financial assets measured at fair value through profit or loss				
Equity instruments	4,244	–	1,232	5,476
Total	104,948	–	37,013	141,962
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	86	–	86
Contingent consideration	–	–	18,279	18,279
Total	–	86	18,279	18,365

(Millions of yen)

FY2020 (As of December 31, 2020)	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	120,337	–	47,818	168,155
Financial assets measured at fair value through profit or loss				
Equity instruments	5,666	–	2,103	7,769
Total	126,003	–	49,921	175,925
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	107	–	107
Contingent consideration	–	–	16,465	16,465
Total	–	107	16,465	16,573

In FY2019 and FY2020, there was no significant transfer between Level 1 and 2. There was a transfer from Level 3 to Level 1 due to listing of shares held. Please refer to “(v) Reconciliation of financial instruments classified as Level 3 from the opening balances to the closing balances” for the transfer.

(iv) Valuation techniques and inputs for financial instruments classified as Level 2 and Level 3

(a) Valuation techniques and inputs

Equity instruments

The fair value of equity instruments is measured using a valuation technique appropriate to characteristics of the instrument, such as the comparable company analysis method and the option pricing method.

In the measurement, input information, including stock price index of comparable companies, the discount rate according to risk of the instrument, and price of conversion of preference shares held by the Group into ordinary shares, is taken into account.

Derivatives

The information is provided in Note “33. Financial Instruments (8) Fair value of financial instruments (ii) Fair value of derivatives.”

Contingent consideration

Contingent considerations classified as Level 3 are liabilities recognized as a result of recognizing a part of the considerations as contingent considerations in the acquisition of shares in Neurovance, Inc. and shares in ReCor Medical Inc. in the past. Valuation techniques and inputs of fair value are provided in Note “36. Business Combinations.”

(b) Valuation processes

The fair value of Level 3 financial instruments is measured based on internal regulations.

The Group has adopted appropriate valuation techniques and inputs that reflect the risks, characteristics and nature of the financial instruments subject to valuation.

(v) Reconciliation of financial instruments classified as Level 3 from the opening balances to the closing balances

FY2019 (From January 1, 2019 to December 31, 2019)	Fair value measurement as of the end of the year (Millions of yen)	
	Financial assets	Financial liabilities
Balance at the beginning of the year	54,424	16,526
Gains (losses)		
Recorded in profit or loss* ¹	(83)	1,853
Recorded in other comprehensive income* ²	(11,799)	(101)
Purchase and issuance	5,697	–
Sales and settlements	(31)	–
Transfer into Level 1 due to listing	(1,221)	–
Transfer into Level 3 due to delisting	5	–
Others	(9,979)	–
Balance at the end of the year	37,013	18,279
Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year	(83)	1,853

FY2020 (From January 1, 2020 to December 31, 2020)	Fair value measurement as of the end of the year (Millions of yen)	
	Financial assets	Financial liabilities
Balance at the beginning of the year	37,013	18,279
Gains (losses)		
Recorded in profit or loss* ¹	(293)	(1,296)
Recorded in other comprehensive income* ²	10,643	(517)
Purchase and issuance	7,417	–
Transfer into Level 1 due to listing	(2,736)	–
Others	(2,121)	–
Balance at the end of the year	49,921	16,465
Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year	(293)	(1,296)

*¹ Gains or losses included in profit or loss relate to financial assets and financial liabilities measured at fair value through profit or loss as of the reporting date. These gains or losses are included in “Other income,” “Finance income” and “Finance costs” in the consolidated statements of income.

*² Gains or losses included in other comprehensive income mainly relate to financial assets measured at fair value through other comprehensive income as of the reporting date. These gains or losses are included in “Financial assets measured at fair value through other comprehensive income” and “Foreign currency translation reserve” in the consolidated statements of comprehensive income.

(9) Hedge accounting

The Group utilizes derivatives (forward exchange contracts and others) to hedge foreign currency risk associated to forecast transactions denominated in foreign currencies.

The effect of hedge accounting on consolidated statements of financial position is as follows:

1) Hedging instrument

FY2019 (As of December 31, 2019)

Types of hedges	Risk classification	Hedging instrument	Notional amount of hedging instrument	Carrying amount of hedging instrument		Line item in the statement of financial position in which the hedging instrument is recorded	Change in fair value using calculation of the ineffective portion of hedge
				Assets	Liabilities		
Cash flow hedges	Foreign currency risks	Forward exchange contracts and others	178	–	1	Other financial liabilities (current)	(2)

FY2020 (As of December 31, 2020)

(Millions of yen)

Types of hedges	Risk classification	Hedging instrument	Notional amount of hedging instrument	Carrying amount of hedging instrument		Line item in the statement of financial position in which the hedging instrument is recorded	Change in fair value using calculation of the ineffective portion of hedge
				Assets	Liabilities		
Cash flow hedges	Foreign currency risks	Forward exchange contracts and others	384	–	7	Other financial liabilities (current)	(5)

2) Hedged items

FY2019 (As of December 31, 2019)

(Millions of yen)

Types of hedges	Risk classification	Change in fair value using calculation of the ineffective portion of hedge	Reserve of cash flow hedges
Cash flow hedges	Foreign currency risks	2	(1)

FY2020 (As of December 31, 2020)

(Millions of yen)

Types of hedges	Risk classification	Change in fair value using calculation of the ineffective portion of hedge	Reserve of cash flow hedges
Cash flow hedges	Foreign currency risks	5	(5)

3) Amounts that affected the consolidated statements of comprehensive income in association with cash flow hedges

FY2019 (As of December 31, 2019)

(Millions of yen)

Types of hedges	Risk classification	Gains or losses on hedges recognized in other comprehensive income*	Ineffective portion recognized in profit or loss	Line item in profit or loss (which includes the ineffective portion of hedge)	Amount transferred from reserve of cash flow hedges to profit or loss*	Line item in profit or loss affected by the transfer
Cash flow hedges	Foreign currency risks	(2)	–	–	(0)	Cost of sales

FY2020 (As of December 31, 2020)

(Millions of yen)

Types of hedges	Risk classification	Gains or losses on hedges recognized in other comprehensive income*	Ineffective portion recognized in profit or loss	Line item in profit or loss (which includes the ineffective portion of hedge)	Amount transferred from reserve of cash flow hedges to profit or loss*	Line item in profit or loss affected by the transfer
Cash flow hedges	Foreign currency risks	(5)	–	–	(33)	Cost of sales

* The figure represents an amount before tax effect adjustments.

34. Subsidiaries and Associates

Significant subsidiaries and associates of the Company are provided in “I. Overview of the Company 4. Overview of Affiliated Entities” (in Japanese only).

35. Related Parties

(1) Related party transactions and outstanding balances

Transactions between the Company or its consolidated subsidiaries and the Company’s related parties that are consolidated subsidiaries are eliminated in the consolidation and not disclosed in notes.

There are no significant transaction volume and balances of receivables and payables between the Group and other related parties.

(2) Remuneration for key management personnel

Remuneration for key management personnel of the Group is as follows:

(Millions of yen)

	FY2019 (From January 1, 2019 to December 31, 2019)	FY2020 (From January 1, 2020 to December 31, 2020)
Fixed remuneration and bonuses	1,662	1,681
Post-employment benefits	66	66
Share-based payment	140	586
Total remuneration for key management personnel	1,870	2,334

36. Business Combinations

(1) Significant business combinations

FY2019 (From January 1, 2019 to December 31, 2019)

There were no significant business combinations.

FY2020 (From January 1, 2020 to December 31, 2020)

There were no significant business combinations.

(2) Contingent consideration

Contingent considerations arose from the business combinations of Neurovance, Inc. and ReCor Medical Inc.

The contingent considerations from the acquisition of Neurovance, Inc. consist of the milestones to be paid based on the progress of the development of centanafadine, which is a compound under development as a treatment of ADHD, obtained when the Group acquired Neurovance, Inc. in March 2017, and the ones to be paid based on the revenue after the launch of centanafadine. The maximum potential amounts of the milestones will be USD 75 million and USD 750 million, respectively.

The contingent considerations from the acquisition of ReCor Medical Inc. are the milestones to be paid based on the progress of the development of the ultrasound renal denervation device obtained by the Group at its

acquisition in June 2018. The maximum potential amount of the milestones will be USD 125 million.

The fair value of the contingent considerations is estimated based on the probability-weighted present value of the potential amount to be paid to the counterparty.

The level of contingent considerations in the fair value hierarchy is classified as Level 3.

The fair value changes of the contingent considerations attributable to time value are recognized in “Finance costs,” and the one attributable to changes of non-time-value is recognized in either “Other income” or “Other expenses.”

The details of the fair value hierarchy are provided in Note “33. Financial Instruments.”

Changes in fair value of the contingent considerations are as follows:

(Millions of yen)

	Amount
Balance as of January 1, 2019	16,526
Changes in fair value	1,853
Foreign currency translation adjustment	(101)
Balance as of December 31, 2019	18,279
Changes in fair value	(1,296)
Foreign currency translation adjustment	(517)
Balance as of December 31, 2020	16,465

37. Reconciliation of Liabilities Arising from Financing Activities

Reconciliation of liabilities classified as cash flows from financing activities is as follows:

FY2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Balance as of December 31, 2018	Adjustment due to the application of IFRS 16	Balance as of January 1, 2019	Cash flow	Changes due to non-cash transactions			Balance as of December 31, 2019
					Leases	Transfer	Exchange rate fluctuations	
Current liabilities								
Bonds and borrowings	65,912	–	65,912	(45,906)	–	30,523	(495)	50,033
Lease liabilities	1,894	12,607	14,502	(14,540)	2,190	12,719	(74)	14,796
Other financial liabilities	1,980	–	1,980	–	–	–	–	1,980
Total	69,787	12,607	82,394	(60,446)	2,190	43,242	(570)	66,810
Non-current liabilities								
Bonds and borrowings	139,973	–	139,973	27,918	–	(30,523)	(875)	136,493
Lease liabilities	6,159	49,003	55,163	(1,161)	10,900	(12,719)	(188)	51,994
Total	146,132	49,003	195,136	26,757	10,900	(43,242)	(1,064)	188,487

FY2020 (From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Balance as of December 31, 2019	Cash flow	Changes due to non-cash transactions				Balance as of December 31, 2020
			Leases	Transfer	Exchange rate fluctuations	Others	
Current liabilities							
Bonds and borrowings	50,033	(40,674)	–	20,460	(1,130)	–	28,690
Lease liabilities	14,796	(16,864)	3,599	14,278	(299)	–	15,511
Other financial liabilities	1,980	–	–	–	–	–	1,980
Total	66,810	(57,538)	3,599	34,739	(1,429)	–	46,181
Non-current liabilities							
Bonds and borrowings	136,493	9,177	–	(20,460)	(681)	36	124,564
Lease liabilities	51,994	(884)	21,659	(14,278)	(1,176)	–	57,314
Total	188,487	8,292	21,659	(34,739)	(1,857)	36	181,879

38. Commitments

Commitments related to expenditures after the reporting date are as follows:

(Millions of yen)

	FY2019 (As of December 31, 2019)	FY2020 (As of December 31, 2020)
Acquisition of property, plant and equipment	1,177	–
Acquisition of intangible assets	301,088	374,485

Commitments related to the acquisition of intangible assets

The Group has entered into license agreements, etc. for development and distribution rights and others of products under development or finished products with third parties. The Group may pay a certain amount of money when milestones related to development or sales targets specified in these agreements are achieved. The above represents the maximum amount to be paid if all the milestones are achieved and may be different from the amount actually paid. Risk adjustment and discount have not been made for the amount.

39. Subsequent Events

Not applicable.

(2) Others

(i) Quarterly information for FY2020

(Cumulative period)	First three months	First six months	First nine months	Full year
Revenue (Millions of yen)	339,560	695,443	1,066,959	1,422,826
Profit before tax (Millions of yen)	51,095	113,876	164,990	189,988
Profit attributable to owners of the Company (Millions of yen)	37,710	86,810	127,766	148,137
Basic earnings per share (Yen)	69.54	160.08	235.59	273.15

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	69.54	90.53	75.51	37.56

(ii) Litigation, etc.

Not applicable.

(iii) Events after the reporting date

Not applicable.