

**Consolidated Financial Statements**  
**for the fiscal year ended December 31, 2021**

**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, 2021 were audited by KPMG AZSA 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	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Assets			
Current assets			
Cash and cash equivalents	6, 33	356,851	410,684
Trade and other receivables	7, 33	379,107	380,191
Inventories	8	173,827	180,350
Income taxes receivable		3,283	8,543
Other financial assets	9, 33	44,920	20,074
Other current assets	10	44,488	48,036
Subtotal		<u>1,002,479</u>	<u>1,047,880</u>
Assets held for sale	11	1,247	1,508
Total current assets		<u>1,003,727</u>	<u>1,049,389</u>
Non-current assets			
Property, plant and equipment	12, 20	462,131	487,089
Goodwill	13	262,914	295,735
Intangible assets	13	457,192	522,662
Investments accounted for using the equity method	15	208,146	227,790
Other financial assets	9, 33	187,221	173,956
Deferred tax assets	16	21,531	31,936
Other non-current assets	10, 23	24,941	32,355
Total non-current assets		<u>1,624,079</u>	<u>1,771,526</u>
Total assets		<u><u>2,627,807</u></u>	<u><u>2,820,915</u></u>

		(Millions of yen)	
	Note	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17, 33	164,950	170,103
Bonds and borrowings	18, 33	28,690	32,877
Lease liabilities	20	15,511	17,096
Other financial liabilities	19, 33	1,987	1,988
Income taxes payable		14,744	10,490
Provisions	22	–	9,542
Contract liabilities	25	12,644	12,458
Other current liabilities	21	177,350	213,302
Subtotal		415,878	467,859
Liabilities directly associated with assets held for sale	11	334	50
Total current liabilities		416,213	467,910
Non-current liabilities			
Bonds and borrowings	18, 33	124,564	102,754
Lease liabilities	20	57,314	59,726
Other financial liabilities	19, 33	16,737	24,815
Net defined benefit liabilities	23	16,724	14,075
Provisions	22	904	1,358
Contract liabilities	25	69,164	57,771
Deferred tax liabilities	16	25,457	27,560
Other non-current liabilities	21	17,294	19,753
Total non-current liabilities		328,161	307,815
Total liabilities		744,374	775,725
Equity			
Equity attributable to owners of the Company			
Share capital	24	81,690	81,690
Capital surplus	24	506,295	506,724
Treasury shares	24	(45,781)	(45,572)
Retained earnings	24	1,402,644	1,482,197
Other components of equity	24	(92,474)	(14,046)
Total equity attributable to owners of the Company		1,852,375	2,010,994
Non-controlling interests		31,057	34,195
Total equity		1,883,432	2,045,189
Total liabilities and equity		2,627,807	2,820,915

## (ii) Consolidated Statements of Income

(Millions of yen)

	Note	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Revenue	5, 25	1,422,826	1,498,276
Cost of sales	26	(439,749)	(495,030)
Gross profit		983,076	1,003,245
Selling, general and administrative expenses	22, 26	(562,434)	(622,326)
Share of profit of investments accounted for using the equity method	15	13,087	8,508
Research and development expenses	26	(216,841)	(232,299)
Impairment losses	14	(26,110)	(6,479)
Other income	27	11,436	11,348
Other expenses	28	(3,631)	(7,499)
Operating profit		198,582	154,497
Finance income	29	3,661	13,981
Finance expenses	29	(12,256)	(4,840)
Profit before tax		189,988	163,638
Income tax expenses	16	(38,254)	(34,429)
Profit for the year		151,733	129,209
Attributable to:			
Owners of the Company	31	148,137	125,463
Non-controlling interests	31	3,596	3,745
Earnings per share:			
Basic earnings per share (Yen)		273.15	231.32
Diluted earnings per share (Yen)		272.35	231.15

## (iii) Consolidated Statements of Comprehensive Income

(Millions of yen)

	Note	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Profit for the year		151,733	129,209
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	30	4,260	7,166
Financial assets measured at fair value through other comprehensive income	30	18,798	(13,092)
Share of other comprehensive income of investments accounted for using the equity method	15, 30	390	(252)
Subtotal		23,450	(6,178)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	30	(34,088)	81,254
Cash flow hedges	30	(4)	(0)
Share of other comprehensive income of investments accounted for using the equity method	15, 30	1,499	12,982
Subtotal		(32,593)	94,236
Total other comprehensive income		(9,143)	88,057
Comprehensive income for the year		142,590	217,267
Attributable to:			
Owners of the Company		139,321	212,218
Non-controlling interests		3,268	5,049
Comprehensive income for the year		142,590	217,267

## (iv) Consolidated Statements of Changes in Equity

FY2020 (Fiscal year ended December 31, 2020)

(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, 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 for the year		–	–	–	148,137	4,431	18,986	
Purchase of treasury shares		–	–	(1)	–	–	–	
Dividends	24	–	–	–	(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		–	774	237	(50,062)	(4,431)	264	
Balance as of December 31, 2020		81,690	506,295	(45,781)	1,402,644	–	43,298	

	Note	Equity attributable to owners of the Company					Total equity
		Other components of equity				Non-controlling interests	
		Exchange differences on translation of foreign operations	Cash flow hedges	Total	Total		
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 for the year		(32,229)	(4)	(8,815)	139,321	3,268	142,590
Purchase of treasury shares		–	–	–	(1)	–	(1)
Dividends	24	–	–	–	(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		–	–	(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

FY2021 (Fiscal year ended December 31, 2021)

(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	
	81,690	506,295	(45,781)	1,402,644	–	43,298	
	–	–	–	125,463	–	–	
	–	–	–	–	7,025	(13,364)	
	–	–	–	125,463	7,025	(13,364)	
	–	–	(1)	–	–	–	
24	–	–	–	(54,236)	–	–	
	–	456	210	–	–	–	
	–	(27)	–	–	–	–	
	–	–	–	–	–	–	
	–	–	–	8,326	(7,025)	(1,300)	
	–	428	209	(45,910)	(7,025)	(1,300)	
	81,690	506,724	(45,572)	1,482,197	–	28,632	

		Equity attributable to owners of the Company				Other components of equity	
Note	Exchange differences on translation of foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity	
	(135,766)	(5)	(92,474)	1,852,375	31,057	1,883,432	
	–	–	–	125,463	3,745	129,209	
	93,093	(0)	86,754	86,754	1,303	88,057	
	93,093	(0)	86,754	212,218	5,049	217,267	
	–	–	–	(1)	–	(1)	
24	–	–	–	(54,236)	(1,751)	(55,988)	
	–	–	–	666	–	666	
	–	–	–	(27)	(17)	(44)	
	–	–	–	–	(143)	(143)	
	–	–	(8,326)	–	–	–	
	–	–	(8,326)	(53,598)	(1,911)	(55,510)	
	(42,673)	(6)	(14,046)	2,010,994	34,195	2,045,189	

## (v) Consolidated Statements of Cash Flows

(Millions of yen)

	Note	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Cash flows from operating activities			
Profit before tax		189,988	163,638
Depreciation and amortization expenses		79,423	84,855
Impairment losses and reversal of impairment losses		26,110	6,479
Share of profit of investments accounted for using the equity method		(13,087)	(8,508)
Finance income		(3,661)	(13,981)
Finance expenses		12,256	4,840
(Increase) decrease in inventories		(19,245)	6,505
Decrease in trade and other receivables		16,680	13,322
Increase (decrease) in trade and other payables		9,152	(12,162)
Others		(11,281)	29,398
Subtotal		286,335	274,389
Interest and dividends received		9,153	9,281
Interest paid		(3,199)	(2,662)
Income taxes paid		(59,448)	(52,144)
Net cash flows provided by operating activities		232,839	228,864
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		168	1,697
Payments for acquisition of property, plant and equipment		(48,802)	(52,453)
Payments for acquisition of intangible assets		(49,073)	(60,699)
Proceeds from sales and redemption of investments		17,486	22,245
Payments for acquisition of investments		(18,082)	(23,714)
Payments for acquisition of subsidiaries		–	(8,035)
(Increase) decrease in time deposits		(2,120)	23,551
Others		558	2,119
Net cash flows used in investing activities		(99,863)	(95,288)
Cash flows from financing activities			
Purchase of treasury shares		(1)	(1)
Change in short-term borrowings, net	37	(10,614)	10
Proceeds from long-term borrowings	37	10,201	220
Repayments of long-term borrowings	37	(31,084)	(21,131)
Repayments of lease liabilities	37	(17,749)	(18,912)
Dividends paid		(55,695)	(55,984)
Others	37	10	(44)
Net cash flows used in financing activities		(104,932)	(95,844)
Increase in cash and cash equivalents		28,043	37,732
Cash and cash equivalents at the beginning of the year		334,040	356,851
Effect of exchange rate changes on cash and cash equivalents		(5,232)	16,101
Cash and cash equivalents at the end of the year		356,851	410,684

## 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, 2021, 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, 2021 were approved on March 25, 2022 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) Change in presentation and disclosure

The Group has revised the presentation and disclosure of the consolidated financial statements and notes to the consolidated financial statements for the current fiscal year, for the purpose of providing more useful information to its stakeholders. Due to this revision, comparative information in the consolidated financial statements and notes to the consolidated financial statements for the previous fiscal year has been additionally disclosed, while disclosure of less significant information has been omitted.

#### (5) 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, 2021. 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 asset exceeds 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 values 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 at the acquisition date 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 into the functional currency at the exchange rate on each reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date of measurement. Non-monetary assets and liabilities that are measured at cost in a foreign currency are translated into the functional currency using the spot exchange rate on the date of the original transaction. Translation differences arising from translations or settlements are recognized as profit or loss. However, equity instruments measured through other comprehensive income as well as the effective portion of translation differences arising from hedging instruments related to cash flow hedges used to hedge foreign currency risk are recognized as other comprehensive income.

#### (ii) Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen at the exchange rate on each reporting date. The revenues and expenses 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 as other comprehensive income. The exchange differences on translation of foreign operations are 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 contract of the 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. However, trade receivables that do not contain a significant financing component are measured at the transaction price. Transaction costs of financial assets measured 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 assets are 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 the 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 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 by using the effective interest method and any gains or losses on 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 as 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 their 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 after initial recognition.

If credit risk on financial instruments has not increased significantly after initial recognition, the allowance for those instruments is measured at an amount equal to the 12-month expected credit losses. If credit risk on financial instruments has increased significantly after initial recognition, the allowance for such financial instruments 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 after 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 contract 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 by using the effective interest method and any gains or losses on 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 their fair value are recognized in profit or loss.

iii) Derecognition

The Group derecognizes the financial liabilities only when they are extinguished, that is, the obligations specified in the 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 to 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 designates certain derivatives such as forward foreign exchange contracts, currency swap agreements, currency option transactions, and interest rate swap agreements to hedge foreign currency risk and interest rate risk.

At the 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

Property, plant and equipment are measured under the cost model and carried at their cost less any accumulated depreciation and impairment losses.

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

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 40 years
- Tools, furniture and fixtures: 2 to 20 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 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

Intangible assets are measured under the cost model and carried at their cost less any accumulated amortization and impairment losses.

Separately acquired intangible assets are initially measured at cost.

Intangible assets acquired in a business combination 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 through a business combination is included in intangible assets as “In-process research and development.” As these assets are intangible assets that are not yet available for use, they are tested for impairment without amortization. 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 depreciation periods of right-of-use assets of major underlying 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 expenses 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 total lease payments associated with short-term leases on either a straight-line method 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 (including right-of-use assets; the same applies hereinafter). 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 has defined benefit plans and defined contribution plans as post-employment benefit plans for its employees.

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 remeasured 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.

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 granted equity-linked remuneration entitlements to eligible personnel under a cash-settled share-based payment plan.

Cash-settled share-based payment is measured at the fair value of payment amount and recognized as expenses over the vesting periods with the corresponding amounts as increases in liabilities. The Group remeasures the fair value of those liabilities at the end of each reporting period until the liabilities are settled, and recognizes any changes of fair value in profit or loss.

(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.

Specifically, in connection with rebates for Medicaid, Medicare and Commercial Managed Care Program in the U.S., the Group estimates statutory and contractual rebate payments related to the public healthcare system provided by federal and state governments, and contractual rebate payments with medical institutions and customers to prepare for possible refunds after the end of the fiscal year. The Group estimates the accrual amounts through the process such as identifying the target products of each program, applicable product prices, estimated inventory at pharmacies and wholesalers, and time lag between sales of products and payment of rebates. However, these estimates are uncertain and may differ from the actual amount incurred. The estimated amount of these rebate payments is recorded in “Other current liabilities” on the consolidated statement of financial position.

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 includes up-front and milestone payments that the Group receives from a third party based on license agreements for development and distribution right of developing or finished products. Under license agreements, if contractual obligations are fulfilled at a point in time, up-front payments are recognized as revenue once development and distribution rights are granted, and milestone payments are recognized as revenue when the contractual milestones are achieved. If contractual obligations are fulfilled over a period of time, in principle, such payments are recorded as contract liabilities and recognized as revenue over a period such as an estimated contract term, in accordance with the measurement method of progress towards satisfaction of performance obligations, such as those related to development cooperation, determined by each contract. Income from milestone payments under license agreements is recognized as revenue from the point when the conditions are met to avoid future reversal of revenues.

Royalty income is the income that is calculated based on the sales of counterparties under license agreements, and is recognized as revenue at the later point of either the counterparty's revenue recognition, 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 expenses

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 expenses 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.

Estimates and judgments that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Impairment of intangible assets (item (11) of Note “3. Significant Accounting Policies” and Note “14. Impairment of Assets”)
- Fair value of the financial instruments (Notes “33. Financial Instruments” and “36. Business Combinations”)
- Recoverability of deferred tax assets (Note “16. Income Taxes”)
- Measurements of defined benefit obligations (Note “23. Post-employment Benefits”)
- Estimation of statutory and contractual rebates related to the public healthcare system in the U.S. (item (17) of Note “3. Significant Accounting Policies” and Note “21. Other Liabilities”)

Changes in circumstances occurring in the future pandemic of COVID-19 are uncertain, and there is a risk that they 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 and intravenous solutions. "Nutraceuticals" comprises manufacturing and sales of functional beverages, 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.

FY2020 (Fiscal year ended December 31, 2020)

(Millions of yen)

	Reportable segment					Adjustments*1	Consolidated
	Pharmaceuticals	Nutraceuticals	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 investments accounted for using the equity method	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

FY2021 (Fiscal year ended December 31, 2021)

(Millions of yen)

	Reportable segment					Adjustments* <sup>1</sup>	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	977,508	376,600	31,893	112,274	1,498,276	–	1,498,276
Intersegment revenue or transfers	–	50	25	37,713	37,788	(37,788)	–
Total	977,508	376,650	31,918	149,987	1,536,064	(37,788)	1,498,276
Segment profit	137,342	46,559	5,312	11,437	200,652	(46,154)	154,497
Other items							
Depreciation and amortization expenses	55,718	14,501	1,611	8,584	80,416	4,438	84,855
Share of profit (loss) of investments accounted for using the equity method	(1,971)	411	7,906	2,160	8,508	–	8,508
Impairment losses	5,376	61	20	1,006	6,465	14	6,479
Capital expenditures* <sup>2</sup>	93,625	19,598	2,673	10,742	126,638	17,470	144,109

\*<sup>1</sup> Details of adjustments are as follows:

(i) Segment profit

Details of adjustments to segment profit are as follows:

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Intersegment eliminations	(172)	329
Unallocated expenses*	(43,819)	(47,359)
Other income	549	874
Total	(43,442)	(46,154)

\* Unallocated expenses are incurred in administrative departments such as headquarters 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 corporate assets associated with headquarters functions of the Company and certain subsidiaries.

(iii) Capital expenditures

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

\*<sup>2</sup> 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
(Pharmaceuticals)		
<i>ABILIFY MAINTENA</i>	116,028	130,275
<i>REXULTI/RXULTI</i>	104,634	121,096
<i>Samsca</i>	88,335	92,000
<i>JINARC/JYNARQUE</i>	79,989	100,401
Clinical nutrition	107,352	113,034
(Nutraceuticals)		
Functional beverages, etc.* <sup>1</sup>	108,786	116,629
Functional foods, etc.* <sup>2</sup>	83,617	88,424
Supplements* <sup>3</sup>	117,270	144,956

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

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

\*<sup>3</sup> Supplements consist of products of Pharmavite LLC Group, *EQUELLE*, etc.

(4) Information by geographical area

Revenue from external customers

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Japan	660,270	647,220
North America	460,839	509,747
Europe	145,914	156,669
Others	155,801	184,639
Total	1,422,826	1,498,276

<sup>1</sup> Revenue from external customers is classified based on the location of customers.

<sup>2</sup> Of the amounts for North America, revenue in the U.S. for FY2020 and FY2021 is ¥448,599 million and ¥496,112 million, respectively.

Non-current assets

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Japan	441,251	491,337
North America	575,526	640,160
Europe	107,836	111,353
Others	60,720	65,923
Total	1,185,334	1,308,774

<sup>1</sup> Non-current assets are classified based on the location of assets.

<sup>2</sup> Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other non-current assets (excluding long-term prepaid expenses).

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

<sup>4</sup> Of the amounts for North America, non-current assets in the U.S. for FY2020 and FY2021 are ¥528,622 million and ¥588,076 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)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Cash and cash equivalents		
Cash and deposits with banks with deposit terms of three months or less	353,400	402,567
Short-term investments with original maturities of three months or less	3,451	8,117
Total cash and cash equivalents	356,851	410,684

7. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Notes and accounts receivable - trade	369,617	370,191
Accounts receivable - other	11,355	12,041
Allowance for credit losses	(1,865)	(2,041)
Total	379,107	380,191

The amount of assets pledged as collateral for borrowings included in trade and other receivables is ¥116 million in FY2020 and ¥244 million in FY2021.

8. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Merchandise and finished goods	94,430	88,784
Work-in process	33,201	37,941
Raw materials	42,718	49,706
Supplies	3,478	3,918
Total	173,827	180,350
Of which, inventories scheduled to be sold after 12 months	510	197

Cost of inventories that is recognized as expenses is ¥430,035 million in FY2020 and ¥485,554 million in FY2021.

The amount of assets pledged as collateral for borrowings included in inventories is ¥487 million in FY2020 and ¥498 million in FY2021.

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

	(Millions of yen)	
	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Amount of write-downs	5,546	7,136

## 9. Other Financial Assets

The breakdown of other financial assets is as follows:

	(Millions of yen)	
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Financial assets measured at amortized cost		
Time deposits	29,876	6,750
Money trusts	10,500	11,500
Leasehold and guarantee deposits	5,847	6,229
Bonds	562	570
Others	9,431	3,075
Financial assets measured at fair value through profit or loss		
Equity instruments	7,769	9,825
Derivatives	–	11
Financial assets measured at fair value through other comprehensive income		
Equity instruments	168,155	156,067
Total	232,142	194,031
Other financial assets (current)	44,920	20,074
Other financial assets (non-current)	187,221	173,956

## 10. Other Assets

The breakdown of other assets is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Prepaid expenses	26,250	30,822
Net defined benefit assets	9,414	14,013
Others	33,764	35,555
Total	69,429	80,391
Total current assets (Other current assets)	44,488	48,036
Total non-current assets (Other non-current assets)	24,941	32,355

## 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)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Assets held for sale		
Property, plant and equipment		
Buildings and structures	–	66
Machinery and vehicles	511	–
Land	173	89
Construction in progress	541	1,252
Others	21	100
Total	1,247	1,508
Liabilities directly associated with assets held for sale		
Lease liabilities	315	–
Others	18	50
Total	334	50

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 major assets held for sale in FY2021 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 ¥1,080 million were recorded in FY2021 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, 2020	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
Purchase	22,629	12,542	6,935	424	32,744	75,275
Business combination	58	–	0	–	–	58
Disposal	(11,055)	(9,500)	(6,196)	(746)	(32)	(27,530)
Transfer	7,341	13,858	1,408	55	(23,830)	(1,167)
Transfer to assets held for sale	(80)	–	(947)	(319)	(3,410)	(4,757)
Deconsolidation	(1,053)	(1,012)	(171)	(244)	–	(2,482)
Foreign currency translation differences	11,565	13,985	1,504	789	1,728	29,574
Others	(138)	153	(11)	5	24	33
Balance as of December 31, 2021	541,019	477,048	122,749	92,110	31,705	1,264,633

## (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, 2020	(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)
Depreciation expenses	(27,246)	(20,839)	(8,931)	(257)	–	(57,274)
Impairment losses	(239)	(727)	(152)	(444)	(93)	(1,657)
Disposal	8,886	8,730	6,065	427	23	24,132
Transfer to assets held for sale	5	–	941	–	3,004	3,950
Deconsolidation	756	765	46	50	–	1,618
Foreign currency translation differences	(4,456)	(8,799)	(1,148)	(8)	(303)	(14,716)
Others	96	(154)	(54)	(7)	18	(100)
Balance as of December 31, 2021	(317,973)	(349,748)	(101,179)	(7,974)	(666)	(777,543)

## (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, 2020	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
Balance as of December 31, 2021	223,046	127,300	21,570	84,135	31,038	487,089

- <sup>1</sup> In the above table, the amount related to property, plant and equipment under construction is presented as construction in progress.
- <sup>2</sup> The amounts related to each item of property, plant and equipment include the amount of right-of-use assets.
- <sup>3</sup> 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 FY2020 and FY2021. 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.
- <sup>4</sup> Please refer to Note “14. Impairment of Assets” for details of impairment losses.
- <sup>5</sup> Please refer to Note “38. Commitments” for commitments related to acquisition of property, plant and equipment.
- <sup>6</sup> 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, 2020	478	810	8	727	2,025
Balance as of December 31, 2020	346	910	5	505	1,768
Balance as of December 31, 2021	203	1,287	–	172	1,663

(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, 2020	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
Purchase	116	34,503	17,139	6,271	2,389	60,303
Business combination	6,395	–	1,933	–	465	2,398
Disposal	–	(2,600)	(119)	(2,253)	(470)	(5,442)
Transfer	–	(7,493)	7,493	(322)	9	(313)
Transfer to assets held for sale	–	–	(340)	(0)	–	(340)
Deconsolidation	(193)	–	–	(19)	(505)	(524)
Foreign currency translation differences	26,342	28,923	14,941	1,939	3,232	49,036
Others	–	160	77	19	184	442
Balance as of December 31, 2021	300,896	370,777	296,620	68,175	52,905	788,479

## (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, 2020	(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)
Amortization expenses	–	–	(18,968)	(5,334)	(3,277)	(27,580)
Impairment losses	–	(3,809)	(186)	3	0	(3,990)
Disposal	–	2,600	119	2,161	471	5,352
Transfer to assets held for sale	–	–	340	0	–	340
Deconsolidation	193	–	–	15	161	176
Foreign currency translation differences	(33)	(3,992)	(8,076)	(1,439)	(614)	(14,123)
Others	–	–	(77)	(3)	(184)	(266)
Balance as of December 31, 2021	(5,160)	(58,114)	(144,489)	(48,136)	(15,077)	(265,817)

## (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, 2020	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
Balance as of December 31, 2021	295,735	312,663	152,131	20,039	37,828	522,662

<sup>1</sup> 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.

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

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

<sup>4</sup> 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, 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 are ¥147,826 million in FY2020 and ¥164,248 million in FY2021.

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:

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Pharmaceuticals	25,972	5,376
Nutraceuticals	82	61
Consumer products	56	20
Others	–	1,006
Corporate	–	14
Total	26,110	6,479

Pharmaceuticals

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.

Impairment losses of ¥5,376 million in the pharmaceutical business recognized in FY2021 consist of impairment losses on property, plant and equipment of ¥555 million, on intangible assets of ¥3,999 million, and on assets held for sale of ¥821 million.

The impairment losses on property, plant and equipment of ¥555 million are principally a reduction of the carrying amount of machinery and vehicles to the recoverable amount of zero, which is value in use, as a result of certain machinery becoming idle due to suspension of the operation.

The impairment losses on intangible assets of ¥3,999 million are principally a reduction of the carrying amount of certain in-process research and development to the recoverable amount of zero, which is value in use, as a result of reviewing the probability of success in the development due to a delay from the original development schedule.

The impairment losses on assets held for sale of ¥821 million are principally a reduction of the carrying amount of assets held for sale to the fair value less costs to sell due to the decision made to sell certain businesses.

## (2) Impairment test of goodwill

The Company considers cash-generating units to which goodwill is allocated, in principle, as cash-generating units that are expected to benefit from the synergies of the business combination.

The breakdown of the carrying amount of goodwill by segment and by major cash-generating unit is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Pharmaceuticals	214,468	238,192
Prescription drugs and clinical nutrition products	202,380	224,862
Nutraceuticals	42,729	51,661
Consumer products	441	490
Others	5,274	5,391
Total	262,914	295,735

The Group tests major goodwill for impairment in each fiscal period, or whenever there is an indication of impairment as follows:

### Prescription drugs and clinical nutrition products

Goodwill allocated to prescription drugs and clinical nutrition products is principally recognized in association with acquisitions of U.S.-based Avanir Pharmaceuticals, Inc., Astex Pharmaceuticals, Inc., Visterra, Inc. and others, and its carrying amount is ¥224,862 million (FY2020: ¥202,380 million).

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 to the present value. The estimated amount of cash flows reflects the probability of obtaining sales approval from regulatory authorities (probability of success), and sales forecasts and market share after the launch. The pre-tax weighted average cost of capital for the cash-generating unit is used as the discount rate, which is 8.4% (FY2020: 7.7 to 7.8%). Beyond the forecast period of the business plan, considering future uncertainty, the amount of cash flows is assumed to equal to the amount for the final fiscal year of the business plan with the subsequent growth rate deemed to be 0%.

There is a risk that impairment may occur 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 even if key assumptions used in the impairment test change, provided the change is within a reasonably predictable range, it is considered unlikely that the value in use will fall below the carrying amount.

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

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 to the present value. The pre-tax weighted average cost of capital for the cash-generating unit is used as the discount rate. The measurement of value in use reflects the probability of obtaining sales approval from regulatory authorities (probability of success), and sales forecasts and market share after the launch, and the management considers assumptions used in these estimates appropriate. However, there is uncertainty in the healthcare market of which the environment changes rapidly, and therefore, if the assumed situation changes due to a delay or halt of the development and launches of competing products, the calculation result of the value in use could be different.

In-process research and development in FY2021 is principally rights related to research and development of AVP-786, and their carrying amount is ¥164,248 million (FY2020: ¥147,826 million) and their discount rate is 12.0% (FY2020: 9.2%).

15. Investments Accounted for Using the Equity Method

(1) Significant associates

Not applicable.

(2) Individually insignificant associates

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

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Carrying amount of investments accounted for using the equity method	208,146	227,790

Financial information on individually insignificant associates is as follows.

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

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Profit for the year	13,087	8,508
Other comprehensive income	1,890	12,730
Comprehensive income for the year	14,978	21,238

## 16. Income Taxes

### (1) Deferred taxes

Deferred tax assets and deferred tax liabilities in the consolidated statements of financial position are as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Deferred tax assets	21,531	31,936
Deferred tax liabilities	(25,457)	(27,560)
Net amount	(3,925)	4,375

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

(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)

(Millions of yen)

	Balance as of January 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	Business combination	Others	Balance as of December 31, 2021
Inventories	25,800	3,184	–	(11)	149	29,123
Securities, etc.	(29,085)	3	6,461	–	(147)	(22,766)
Intangible assets	(76,020)	3,060	–	(545)	(8,303)	(81,809)
Post-employment benefits	419	581	(2,846)	–	444	(1,401)
Accrued expenses and other liabilities	21,662	6,631	–	–	1,532	29,826
Contract liabilities	23,249	(2,861)	–	–	–	20,387
Unused tax losses	5,428	(1,885)	–	164	479	4,186
Unused tax credits	31,219	732	–	–	3,494	35,446
Others	(6,599)	(1,793)	0	–	(222)	(8,615)
Total	(3,925)	7,652	3,615	(392)	(2,573)	4,375

Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is highly probable that taxable profits will be available against which they could be utilized. 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, and the carrying amount is reviewed each fiscal year 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, 2021 will be recovered.

The future taxable profit and tax planning are estimated based on the Group's business plan. If a different result from forecasts such as revenue in the business plan occurs, this may have a significant impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

(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)		
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Deductible temporary differences	309,058	341,787
Unused tax losses	42,198	39,163
Unused tax credits	196	316
Total	351,454	381,266

Deferred tax assets on the above items are not recognized because there is a low probability that temporary differences will be reversed in the foreseeable future, or 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)		
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Due within one year	3,475	3,892
Due after one year through five years	13,306	11,540
Due after five years	25,417	23,730
Total	42,198	39,163

(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)		
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
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	1,048,797	1,180,048

(4) Income tax expenses

The effective tax rates for FY2020 and FY2021 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Current tax expenses:		
Current income taxes	48,433	42,622
Income taxes for prior periods	(1,463)	(540)
Total current tax expenses	46,969	42,081
Deferred tax expenses:		
Origination and reversal of temporary differences, etc.	(8,342)	(8,127)
Changes in unrecognized deferred tax assets	(372)	475
Total deferred tax expenses	(8,715)	(7,652)
Total income tax expenses	38,254	34,429

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.

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Effective statutory tax rate	30.6%	30.6%
Special deduction for research and development expenses	(9.0)%	(8.6)%
Entertainment expenses not deductible from the taxable income	0.4%	0.3%
Pharma fees not deductible from the taxable income	0.3%	0.4%
Share of profit of investments accounted for using the equity method	(1.5)%	(1.2)%
Changes in unrecognized deferred tax assets	(0.2)%	0.3%
Difference from tax rate applied to subsidiaries	0.3%	(0.7)%
Others	(0.8)%	(0.1)%
Actual tax rate	20.1%	21.0%

## 17. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Notes and accounts payable - trade	93,216	93,923
Accounts payable - other	70,943	74,595
Others	790	1,583
Total	164,950	170,103

## 18. Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	Average interest rate* <sup>1</sup>	Year of maturity
(Secured)				
Short-term borrowings	158	513	2.2%	—
Current portion of long-term borrowings	230	116	2.5%	—
Long-term borrowings (excluding current portion)	303	57	2.7%	2023 to 2025
(Unsecured)				
Short-term borrowings	8,070	8,482	1.8%	—
Current portion of long-term borrowings	20,230	23,764	1.1%	—
Long-term borrowings (excluding current portion)	44,456	22,855	0.7%	2023 to 2034
Bonds	79,805	79,841	* <sup>3</sup>	2024 to 2029
Total	153,254	135,632	—	—
Bonds and borrowings (current)	28,690	32,877	—	—
Bonds and borrowings (non-current)	124,564	102,754	—	—

\*<sup>1</sup> Average interest rate represents the weighted average interest rate to the balance of borrowings, etc. at the end of the year.

\*<sup>2</sup> For the breakdown of long-term borrowings by repayment date and fair value, please refer to Note “33. Financial Instruments.”

\*<sup>3</sup> The summary of terms and conditions of bonds issued is as follows:

Company name	Name	Date of issuance	FY2020 (As of December 31, 2020) (Millions of yen)	FY2021 (As of December 31, 2021) (Millions of yen)	Interest rate (%)	Collateral	Maturity
Otsuka Holdings Co., Ltd.	1st unsecured bonds	March 7, 2019	19,962 [-]	19,974 [-]	0.120	None	March 7, 2024
Otsuka Holdings Co., Ltd.	2nd unsecured bonds	March 7, 2019	29,928 [-]	29,942 [-]	0.260	None	March 6, 2026
Otsuka Holdings Co., Ltd.	3rd unsecured bonds	March 7, 2019	29,914 [-]	29,925 [-]	0.375	None	March 7, 2029
Total			79,805 [-]	79,841 [-]	-	-	-

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)	
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Financial liabilities measured at amortized cost		
Others	2,151	2,127
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	107	58
Contingent consideration	16,465	24,618
Total	18,724	26,804
Other financial liabilities (current)	1,987	1,988
Other financial liabilities (non-current)	16,737	24,815

## 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)	
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Property, plant and equipment owned by the Company	390,681	410,915
Right-of-use assets	71,450	76,174
Total	462,131	487,089

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 January 1, 2020	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
Purchase	17,571	2,917	892	317	21,698
Depreciation expenses	(14,813)	(2,751)	(1,484)	(257)	(19,306)
Others	2,627	(193)	(31)	(69)	2,332
Balance as of December 31, 2021	65,403	5,992	3,253	1,524	76,174

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)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Due within one year	16,825	18,711
Due after one year through two years	13,538	14,536
Due after two years through three years	9,972	10,859
Due after three years through four years	8,532	8,758
Due after four years through five years	6,635	6,768
Due after five years	26,424	25,963
Contractual cash flows	81,927	85,597
Balance of lease liabilities at the end of the year recognized in the consolidated statements of financial position	72,825	76,822
Current liabilities	15,511	17,096
Non-current liabilities	57,314	59,726

(3) Amount recognized in profit or loss

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Interest expense on lease liabilities	1,689	1,522
Expense relating to short-term leases	5,750	5,866

(4) Amount recognized in the statements of cash flows

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Total cash outflow for leases	25,188	26,300

## 21. Other Liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Accrued expenses	133,836	157,608
Deposits received	10,433	10,248
Employees' bonuses	20,694	26,567
Others	29,680	38,631
<b>Total</b>	<b>194,645</b>	<b>233,055</b>
Total current liabilities (Other current liabilities)	177,350	213,302
Total non-current liabilities (Other non-current liabilities)	17,294	19,753

As stated in item (17) of Note "3. Significant Accounting Policies," the above accrued expenses include the estimated amount of rebate payments for Medicaid, Medicare and Commercial Managed Care Program in the U.S. of ¥39,357 million (FY2020: ¥32,182 million).

## 22. Provisions

The breakdown of provisions is as follows:

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Provision for asset retirement obligations	904	1,362
Provision for loss on contracts	–	9,380
Other provisions	–	158
<b>Total</b>	<b>904</b>	<b>10,900</b>
Current liabilities	–	9,542
Non-current liabilities	904	1,358

The breakdown and changes of provisions are as follows:

FY2020 (Fiscal year ended 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

FY2021 (Fiscal year ended December 31, 2021)

(Millions of yen)

	Provision for asset retirement obligations	Provision for loss on contracts	Other provisions	Total
Balance as of January 1, 2021	904	–	–	904
Increase during the year	531	9,380	158	10,069
Reversal of discounts due to passage of time	22	–	–	22
Decrease during the year (utilization)	(43)	–	–	(43)
Decrease during the year (reversal)	(168)	–	–	(168)
Foreign currency translation differences and others	115	–	–	115
Balance as of December 31, 2021	1,362	9,380	158	10,900

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.

#### Provision for loss on contracts

Provisions have been recorded for onerous contracts concerning co-promotion agreements related to some prescription drugs.

The Group expects that the timing at which economic resources flow out is principally within one year 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.”

Defined benefit obligations are calculated using an actuarial technique, and actuarial assumptions include an estimate of discount rate. These assumptions may be affected by uncertain future economic conditions or changes in social situations, and other factors. If a different result from their assumptions occurs, this may have a significant impact on the amounts of net defined benefit liabilities and net defined benefit assets included in other non-current assets in the consolidated financial statements for the following fiscal year.

#### (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)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Present value of defined benefit obligations	265,703	265,514
Fair value of plan assets	(270,110)	(289,592)
Funding position	(4,407)	(24,078)
Effect of asset ceiling	11,716	24,140
Net amount of defined benefit obligations and plan assets	7,309	61
Amounts in the consolidated statements of financial position		
Net defined benefit liabilities	16,724	14,075
Net defined benefit assets (other non-current assets)	(9,414)	(14,013)
Net defined benefit liabilities (assets) recognized in the consolidated statements of financial position	7,309	61

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

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Balance of defined benefit obligations at the beginning of the year	269,248	265,703
Current service cost	10,045	9,499
Interest cost	2,011	2,300
Remeasurement		
Difference between the assumption and actual amount of retirement benefit obligations	2,018	(589)
Actuarial gains and losses arising from changes in demographic assumptions	858	4
Actuarial gains and losses arising from changes in financial assumptions	(4,820)	(325)
Retirement benefits paid	(12,055)	(13,700)
Curtailement/settlement	(72)	(261)
Foreign currency translation differences	(1,309)	2,866
Others	(221)	15
Balance of defined benefit obligations at the end of the year	265,703	265,514

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

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Balance of fair value of plan assets at the beginning of the year	258,531	270,110
Interest income on plan assets	1,831	2,366
Remeasurement		
Return on plan assets (excluding interest income)	15,009	21,222
Contributions by the employer	6,967	6,760
Retirement benefits paid	(11,250)	(12,829)
Curtailement/settlement	(72)	18
Foreign currency translation differences	(823)	1,923
Others	(82)	20
Balance of fair value of plan assets at the end of the year	270,110	289,592

The Group plans to pay contributions of ¥6,342 million in FY2022.

#### 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)

	FY2020 (As of December 31, 2020)		FY2021 (As of December 31, 2021)	
	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	14,415	–	15,287	–
Shares	14,639	68,750	17,613	77,742
Bonds	177	99,269	163	105,581
Others	8,200	64,656	6,704	66,499
Total	37,433	232,676	39,768	249,824

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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Balance of effect of asset ceiling at the beginning of the year	800	11,716
Interest income	4	75
Remeasurement		
Effect of limiting a net defined benefit asset to the asset ceiling	10,912	12,347
Balance of effect of asset ceiling at the end of the year	11,716	24,140

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:

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Discount rate	0.6-0.8%	0.6-0.8%

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

The sensitivity analysis shows the 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 FY2021 was made using the same fundamentals as those for FY2020.

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
0.5% increase in the discount rate	(17,153)	(17,133)
0.5% decrease in the discount rate	15,955	15,936

The weighted average duration of the defined benefit obligations as of December 31, 2020 and 2021 is 15.1 years and 14.6 years, respectively.

(2) Defined contribution plans

Amounts recognized as expenses in association with defined contribution plans are ¥7,018 million for FY2020 and ¥7,407 million for FY2021. 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, 2020	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
Changes during the year	–	–	–	428
Balance as of December 31, 2021	1,600,000,000 shares	557,835,617 shares	81,690	506,724

### (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, 2020	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
Increase due to request for buyback of shares less than one share unit	325	1
Acquisition without contribution of ordinary shares that were allotted as restricted stock remuneration	15,560	–
Decrease due to disposal as restricted stock remuneration	(71,320)	(210)
Balance as of December 31, 2021	15,443,722	45,572

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) Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations represent 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:

FY2020 (Fiscal year ended 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	50.0	December 31, 2019	March 30, 2020
Meeting of the Board of Directors held on August 7, 2020	27,116	50.0	June 30, 2020	September 7, 2020

FY2021 (Fiscal year ended December 31, 2021)

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
Meeting of the Board of Directors held on August 6, 2021	27,120	50.0	June 30, 2021	September 6, 2021

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

FY2020 (Fiscal year ended 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

FY2021 (Fiscal year ended December 31, 2021)

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 10, 2022	27,119	50.0	December 31, 2021	March 31, 2022

## 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:

FY2020 (Fiscal year ended December 31, 2020)

(Millions of yen)

	Reportable segment				
	Pharmaceuticals	Nutraceuticals	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
Europe	92,704	46,599	328	6,281	145,914
Others	90,245	36,064	969	28,522	155,801
Total	955,159	334,054	31,346	102,265	1,422,826

\* Revenue is classified based on the location of customers.

FY2021 (Fiscal year ended December 31, 2021)

(Millions of yen)

	Reportable segment				
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total
By type of goods or services					
Sales of products	908,937	376,548	31,434	88,334	1,405,255
License and royalty income	26,015	40	0	567	26,625
Others	42,554	10	458	23,371	66,395
Total	977,508	376,600	31,893	112,274	1,498,276
By geographical area*					
Japan	415,134	142,271	21,021	68,793	647,220
North America	360,344	137,413	8,964	3,025	509,747
Europe	97,317	51,203	439	7,708	156,669
Others	104,712	45,712	1,467	32,747	184,639
Total	977,508	376,600	31,893	112,274	1,498,276

\* 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, 2020	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Receivables from contracts with customers	390,003	367,752	368,150
Notes and accounts receivable - trade	391,948	369,617	370,191
Allowance for credit losses	(1,945)	(1,865)	(2,041)
Contract liabilities (current liabilities)	12,407	12,644	12,458
Contract liabilities (non-current liabilities)	80,792	69,164	57,771

Of the opening balance of contract liabilities, the amount of revenue recognized is ¥12,379 million in FY2020 and ¥12,710 million in FY2021.

The amount of revenue recognized from performance obligations satisfied (or partially satisfied) in the past period was ¥12,184 million for FY2020 and ¥11,682 million for FY2021, 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Due within one year	12,643	12,459
Due after one year through two years	10,496	11,862
Due after two years through three years	10,327	10,343
Due after three years through four years	10,255	7,908
Due after five years	38,084	27,656
Total	81,807	70,229

## 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Personnel expenses	(315,989)	(325,793)
Sales promotion expenses	(122,039)	(144,202)
Depreciation and amortization expenses	(77,585)	(82,946)

## 27. Other Income

The breakdown of other income is as follows:

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Grant income	745	845
Rent received	199	179
Gain on sales of non-current assets* <sup>1</sup>	362	1,225
Change in fair value of contingent considerations* <sup>2</sup>	3,203	–
Gain on change in equity	2,657	4,774
Others	4,268	4,323
Total other income	11,436	11,348

\*<sup>1</sup> The amount includes gain on sales of assets held for sale.

\*<sup>2</sup> The fair value changes of the contingent considerations attributable to time value are recognized in “Finance expenses,” and those attributable to other than time value are recognized in either “Other income” or “Other expenses.” The fair value changes of the contingent considerations recorded in “Other income” relates to the acquisition of Neurovance, Inc.

## 28. Other Expenses

The breakdown of other expenses is as follows:

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Loss on sales of non-current assets	(159)	(330)
Loss on retirement of non-current assets	(1,120)	(802)
Change in fair value of contingent considerations*	–	(4,648)
Others	(2,351)	(1,718)
Total other expenses	(3,631)	(7,499)

\* The fair value changes of the contingent considerations attributable to time value are recognized in “Finance expenses,” and those attributable to other than time value are recognized in either “Other income” or “Other expenses.” The fair value changes of the contingent considerations recorded in “Other expenses” relates to the acquisition of Neurovance, Inc.

## 29. Finance Income and Finance Expenses

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

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Finance income		
Interest income		
Financial assets measured at amortized cost	1,255	879
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,960	1,882
Gain on fair value valuation		
Financial assets and liabilities measured at fair value through profit or loss	229	116
Foreign exchange gains	–	10,686
Others	216	416
Total finance income	3,661	13,981
Finance expenses		
Interest expenses		
Financial liabilities measured at amortized cost	(1,438)	(1,091)
Lease liabilities	(1,689)	(1,522)
Loss on fair value valuation		
Financial assets and liabilities measured at fair value through profit or loss	(2,347)	(573)
Foreign exchange losses	(5,950)	–
Others	(830)	(1,653)
Total finance expenses	(12,256)	(4,840)

### 30. Other Comprehensive Income

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

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Amount arising during the year	6,087	10,012
Before income taxes	6,087	10,012
Income taxes	(1,826)	(2,846)
Remeasurements of defined benefit plans	4,260	7,166
Financial assets measured at fair value through other comprehensive income		
Amount arising during the year	27,183	(18,874)
Before income taxes	27,183	(18,874)
Income taxes	(8,384)	5,781
Financial assets measured at fair value through other comprehensive income	18,798	(13,092)
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the year	390	(252)
Share of other comprehensive income of investments accounted for using the equity method	390	(252)
Subtotal	23,450	(6,178)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the year	(34,088)	81,237
Reclassification adjustments	—	17
Before income taxes	(34,088)	81,254
Exchange differences on translation of foreign operations	(34,088)	81,254
Cash flow hedges		
Amount arising during the year	27	(0)
Reclassification adjustments	(33)	(0)
Before income taxes	(5)	(0)
Income taxes	1	0
Cash flow hedges	(4)	(0)
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the year	1,102	12,973
Reclassification adjustments	397	8
Share of other comprehensive income of investments accounted for using the equity method	1,499	12,982
Subtotal	(32,593)	94,236
Total other comprehensive income	(9,143)	88,057

## 31. Earnings per Share

### (1) Basis of calculating basic earnings per share

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Profit for the year attributable to owners of the Company (Millions of yen)	148,137	125,463
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)	148,137	125,463
Weighted average number of ordinary shares (Thousands of shares)	542,316	542,377
Basic earnings per share (Yen)	273.15	231.32

### (2) Basis of calculating diluted earnings per share

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Profit for the year used for calculation of basic earnings per share (Millions of yen)	148,137	125,463
Adjustments of profit for the year (Millions of yen)	(435)	(90)
Profit for the year used for calculation of diluted earnings per share (Millions of yen)	147,702	125,373
Weighted average number of ordinary shares (Thousands of shares)	542,316	542,377
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	–	–
Weighted average number of diluted ordinary shares (Thousands of shares)	542,316	542,377
Diluted earnings per share (Yen)	272.35	231.15

## 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 granted equity-linked remuneration entitlements under a cash-settled share-based payment plan to 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:

Date of grant	May 20, 2019	April 24, 2020	April 28, 2021
Number of shares granted	340,120 shares	80,880 shares	71,320 shares
Fair value at date of grant	¥4,196	¥3,785	¥4,804
Settlement method	Equity-settled	Equity-settled	Equity-settled
Transfer restriction period	From May 20, 2019 to June 1, 2026	From April 24, 2020 to June 1, 2026	From April 28, 2021 to June 1, 2026

<sup>1</sup> Persons granted are Directors of the Company (excluding Outside Directors) and certain Directors of its subsidiaries (hereinafter referred to as “Eligible Directors”).

- <sup>2</sup> 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.
- <sup>3</sup> The Company shall remove the transfer restriction on the Allotted Shares on the condition that (1) the Eligible Director continuously holds 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 are 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.
- <sup>4</sup> 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 remuneration expenses

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

	(Millions of yen)	
	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Equity-settled	1,028	666
Cash-settled	1,484	1,247
Total	2,512	1,913

The carrying amount of liabilities arising from share-based payment transactions is ¥2,973 million for FY2020 and ¥2,494 million for FY2021.

## 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)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
<Financial assets>		
Financial assets measured at amortized cost		
Cash and cash equivalents	356,851	410,684
Trade and other receivables	379,107	380,191
Other financial assets	56,217	28,125
Financial assets measured at fair value through profit or loss		
Other financial assets	7,769	9,837
Financial assets measured at fair value through other comprehensive income		
Other financial assets	168,155	156,067
Total financial assets	968,101	984,907
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Trade and other payables	164,950	170,103
Bonds and borrowings	153,254	135,632
Other financial liabilities	2,151	2,127
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities	16,573	24,676
Total financial liabilities	336,930	332,539

## (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 its 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
US dollar		
Impact on profit before tax	(959)	(808)
Impact on other comprehensive income (before the application of tax effects)	(49)	(48)
Euro		
Impact on profit before tax	(76)	(104)
Impact on other comprehensive income (before the application of tax effects)	(4)	(7)

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.

The Group's exposures to foreign exchange fluctuation risks other than the US dollar and Euro are not significant.

## 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Impact on profit before tax	(86)	(84)

## 3) Risk of fluctuations in equity instrument prices

### (i) Risk management of price fluctuations in equity instruments

The Group is exposed to risk of stock price fluctuations in equity instruments. The Group has no equity instruments held for short-term trading but owns equity instruments to execute business strategies smoothly. With regard to equity instruments, the Group regularly assesses fair value and monitors issuers' financial conditions.

(ii) Price sensitivity analysis

For equity instruments (listed shares) held by the Group, the following table shows the 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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Impact on other comprehensive income (before the application of tax effects)	(12,033)	(11,643)

(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)

	FY2020 (Fiscal year ended December 31, 2020)		FY2021 (Fiscal year ended December 31, 2021)	
	Fair value	Dividend income	Fair value	Dividend income
Listed	120,337	1,248	116,432	1,607
Unlisted	47,818	711	39,634	274
Total	168,155	1,960	156,067	1,882

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.

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).

FY2021 (As of December 31, 2021)

(Millions of yen)

Name	Amount
Listed	
DAIICHI SANKYO COMPANY, LIMITED	31,166
VV Food and Beverage Co., Ltd.	7,853
EIKEN CHEMICAL CO., LTD.	7,720
BML, INC.	7,150
The Awa Bank, Ltd.	6,099
Others	56,442
Unlisted	
Electrical equipment	20,039
Pharmaceuticals	18,364
Others	1,230
Total	156,067

Names of major unlisted shares are Nichia Corporation (electrical equipment), Dren Bio, 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)

FY2020 (Fiscal year ended December 31, 2020)		FY2021 (Fiscal year ended December 31, 2021)	
Fair value at time of sale	Cumulative gains or losses	Fair value at time of sale	Cumulative gains or losses
2,394	(370)	5,763	1,986

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

The amounts (net of tax) transferred in FY2020 and FY2021 are ¥(264) million and ¥1,300 million, respectively.

In FY2020, dividend income from financial assets measured at fair value through other comprehensive income that were sold (derecognized) is ¥4 million, and there is no such dividend income in FY2021.

#### (6) Credit risk management

Credit risk is the risk that causes financial loss to the Group when a counterparty of a financial asset held by the Group goes into default for contractual obligations. According to its credit management policy, the Group's sales department and accounting and finance department regularly monitor the credit status of each counterparty to claims such as trade receivables, manage due dates and balances, and strive for early identification and mitigation of any concerns about collections due to deterioration in the financial position of the counterparty and other factors. When full or partial collection of trade receivables and other is considered impossible, or extremely difficult, it is deemed as 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 significantly 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:

FY2020 (Fiscal year ended 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

FY2021 (Fiscal year ended December 31, 2021)

(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, 2021	161	1,865	2,026
Increase during the year	12	387	399
Decrease during the year (utilization)	(59)	(248)	(307)
Decrease during the year (reversal)	(2)	(123)	(126)
Others	0	160	160
Balance as of December 31, 2021	112	2,041	2,153

2) Exposure to credit risk of financial assets

The carrying amounts presented in the consolidated statement 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)

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

(Millions of yen)

FY2021 (As of December 31, 2021)	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	93,923	93,923	93,923	–	–	–	–	–
Borrowings	55,790	57,442	33,322	10,867	4,302	1,417	917	6,615
Bonds	79,841	81,186	214	214	20,195	190	30,126	30,245
Contingent consideration	24,618	25,068	–	11,933	3,105	–	10,029	–
Others	78,306	78,306	78,159	–	–	–	–	147
Total	332,481	335,928	205,620	23,014	27,603	1,607	41,073	37,008
Derivative financial liabilities								
Forward exchange contracts and others	8	8	8	–	–	–	–	–
Interest rate swaps	49	49	–	49	–	–	–	–
Total	58	58	8	49	–	–	–	–

(8) Fair value of financial instruments

The details of fair value of financial instruments are as follows. If financial instruments are settled in a short term and their carrying amount approximates to their fair value, information on fair value of the financial instruments is omitted.

Fair value hierarchy

The fair value hierarchy classifies the inputs as follows:

Level 1: Observable inputs such as quoted market prices of identical assets or liabilities in active markets

Level 2: Inputs other than Level 1 that are observable inputs for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

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)

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

(Millions of yen)

FY2021 (As of December 31, 2021)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
<Financial assets>					
Securities	570	620	–	–	620
Total	570	620	–	–	620
<Financial liabilities>					
Borrowings	55,790	–	55,923	–	55,923
Bonds	79,841	–	80,253	–	80,253
Total	135,632	–	136,176	–	136,176

The fair value calculation methods are as follows:

Securities

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

Borrowings

The fair value of borrowings with floating interest rates reflects market interest rates in a short term, and its carrying amount approximates to its 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 to which approximates 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)

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)

(Millions of yen)

FY2021 (As of December 31, 2021)	Cash flow hedges	Derivatives not designated as hedges	Total
Forward exchange contracts and others	(8)	–	(8)
Interest rate swaps	–	(49)	(49)
Currency swaps	–	1	1
Call options	–	10	10
Total	(8)	(38)	(46)

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 present value, which is derived by discounting future cash flows at the interest rate reflecting the period up to the maturity date and credit risk.

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 present value, which is derived by discounting future cash flows at the interest rate reflecting the period up to the maturity date and credit risk.

Call options

The fair value of call options is calculated based on the Black-Scholes model.

## (iii) Financial instruments measured at fair value

(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

(Millions of yen)

FY2021 (As of December 31, 2021)	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	116,433	–	39,634	156,067
Financial assets measured at fair value through profit or loss				
Equity instruments	6,750	–	3,074	9,825
Derivatives	–	11	–	11
Total	123,184	11	42,709	165,905
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	58	–	58
Contingent consideration	–	–	24,618	24,618
Total	–	58	24,618	24,676

In FY2020 and FY2021, 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, such as shares of Neurovance, Inc. and shares of ReCor Medical Inc. 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

FY2020 (Fiscal year ended 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)

FY2021 (Fiscal year ended December 31, 2021)	Fair value measurement as of the end of the year (Millions of yen)	
	Financial assets	Financial liabilities
Balance at the beginning of the year	49,921	16,465
Gains (losses)		
Recorded in profit or loss*1	91	6,036
Recorded in other comprehensive income*2	(8,586)	1,203
Purchase and issuance	8,063	—
Increase through business combinations	—	912
Sales and settlements	(1)	—
Transfer into Level 1 due to listing	(5,977)	—
Others	(801)	—
Balance at the end of the year	42,709	24,618
Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year	91	6,036

\*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 expenses” 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 “Exchange differences on translation of foreign operations” 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 insignificant so that the descriptions is omitted.

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). In FY2021, there were no significant changes in major subsidiaries and associates of the Company.

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)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)
Fixed remuneration and bonuses	1,681	1,678
Post-employment benefits	66	66
Share-based payment	586	397
Total remuneration for key management personnel	2,334	2,142

36. Business Combinations

(1) Significant business combinations

FY2020 (Fiscal year ended December 31, 2020)

There were no significant business combinations.

FY2021 (Fiscal year ended December 31, 2021)

There were no significant business combinations.

(2) Contingent consideration

Contingent considerations are recorded as a result of the business combinations involving Neurovance, Inc., ReCor Medical Inc., etc.

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 expenses," and those attributable to other than time value are 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, 2020	18,279
Changes in fair value	(1,296)
Foreign currency translation adjustment	(517)
Balance as of December 31, 2020	16,465
Business combination	912
Changes in fair value	6,036
Foreign currency translation adjustment	1,203
Balance as of December 31, 2021	24,618

### 37. Reconciliation of Liabilities Arising from Financing Activities

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

FY2020 (Fiscal year ended 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

FY2021 (Fiscal year ended December 31, 2021)

(Millions of yen)

	Balance as of December 31, 2020	Cash flow	Changes due to non-cash transactions					Balance as of December 31, 2021
			Business combination and others	Leases	Transfer	Exchange rate fluctuations	Others	
Current liabilities								
Bonds and borrowings	28,690	(21,511)	67	–	23,881	1,750	–	32,877
Lease liabilities	15,511	(16,988)	15	5,085	13,073	398	–	17,096
Other financial liabilities	1,980	–	–	–	–	–	–	1,980
Total	46,181	(38,499)	82	5,085	36,954	2,149	–	51,953
Non-current liabilities								
Bonds and borrowings	124,564	609	75	–	(23,881)	1,350	36	102,754
Lease liabilities	57,314	(1,924)	(121)	14,623	(13,073)	2,907	–	59,726
Total	181,879	(1,314)	(46)	14,623	(36,954)	4,257	36	162,481

### 38. Commitments

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

(Millions of yen)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Acquisition of property, plant and equipment	–	19,822
Acquisition of intangible assets	374,485	502,691
Others	–	2,990

Commitments related to the acquisition of intangible assets

The Group has entered into license agreements for development and distribution rights 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 FY2021

(Cumulative period)	First three months	First six months	First nine months	Full year
Revenue (Millions of yen)	336,789	718,815	1,107,417	1,498,276
Profit before tax (Millions of yen)	58,001	119,207	166,308	163,638
Profit attributable to owners of the Company (Millions of yen)	44,682	91,407	126,648	125,463
Basic earnings per share (Yen)	82.38	168.53	233.50	231.32

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	82.38	86.14	64.97	(2.18)

### (ii) Litigation, etc.

Not applicable.

### (iii) Events after the reporting date

Not applicable.