Consolidated Financial Results for the Fiscal Year Ended December 31, 2016 [IFRS]

February 14, 2017

Company name:	**Otsuka Holdings Company Limited**
Stock exchange listing:	Tokyo Stock Exchange
Code number:	4578
URL:	http://www.otsuka.com/en/
Representative:	Tatsuo Higuchi President and Representative Director, CEO
Contact:	Yuji Kogure Director, Investor Relations Department Telephone: +81-3-6361-7411
Scheduled date of annual general meeting of shareholders:	March 30, 2017
Scheduled date of dividend payment commencement:	March 31, 2017
Scheduled date of securities report submission:	March 31, 2017
Supplementary materials for financial results:	Yes
Earnings announcement for financial results:	Yes (for institutional investors, analysts and the press)

(Figures are rounded down to the nearest million yen unless otherwise stated)

1. Consolidated Financial Results for FY2016 (January 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results

(% change from previous year)

	Net sales		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of parent		Total comprehensive income for the year	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2016 ended December	1,195,547	(16.2)	101,145	(32.1)	116,680	(22.4)	93,332	(6.1)	92,563	(9.2)	64,627	(28.1)
FY2015 ended December	1,427,375	-	148,886	-	150,299	-	99,380	-	101,957	-	89,853	-

	Basic earnings per share	Diluted earnings per share	Return on equity attributable to owners of parent	Ratio of profit before tax to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
FY2016 ended December	170.82	170.70	5.4	4.6	8.5
FY2015 ended December	188.16	188.15	6.1	6.2	10.4

(Reference) Share of profit of associates accounted for using equity method
FY2016 ended December ¥15,974 million
FY2015 ended December ¥12,370 million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
	Million yen	Million yen	Million yen	%	Yen
As of December 31, 2016	2,478,290	1,738,441	1,710,531	69.0	3,156.83
As of December 31, 2015	2,575,280	1,727,370	1,698,463	66.0	3,134.56

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2016 ended December	142,004	(135,100)	(93,094)	369,875
FY2015 ended December	257,892	(422,587)	175,020	460,619

2. Dividends

	Annual dividends per share					Total dividends	Dividend pay-out ratio (consolidated)	Ratio of dividends to equity attributable to owners of parent (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2015 ended December	-	50.00	-	50.00	100.00	54,184	53.1	3.2
FY2016 ended December	-	50.00	-	50.00	100.00	54,184	58.5	3.2
FY2017 ending December (Projection)	-	50.00	-	50.00	100.00		63.7	

3. Forecasts of Consolidated Financial Results for FY2017 (January 1, 2017 to December 31, 2017)

(% change from the same period of the previous fiscal year)

	Net sales		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Q2 (YTD)	605,000	3.0	58,000	(29.5)	58,000	(12.8)	43,000	(14.6)	42,000	(15.3)	77.51
FY2017	1,260,000	5.4	120,000	18.6	119,000	2.0	87,000	(6.8)	85,000	(8.2)	156.87

4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting policies required by IFRS: None
2) Changes in accounting policies due to other reasons: None
3) Changes in accounting estimates: None

(3) Number of shares issued and outstanding (common stock)
1) Number of shares issued and outstanding as of the end of the reporting period (including treasury shares):
December 31, 2016 557,835,617 shares
December 31, 2015 557,835,617 shares
2) Number of shares of treasury shares as of the end of the reporting period:
December 31, 2016 15,986,347 shares
December 31, 2015 15,985,891 shares
3) Average number of shares outstanding during the reporting period:
December 31, 2016 541,849,521 shares
December 31, 2015 541,838,851 shares

*** Information Regarding Audit Procedures**

At the time of disclosure of this financial report, the audit of our consolidated financial statements, as stipulated under the Financial Instruments and Exchange Act of Japan, is still in process.

*** Note to ensure appropriate use of forecasts, and other comments in particular**

The Group has adopted International Financial Reporting Standards (IFRS) from FY2016 ended December 31, and previous year's information is also based on IFRS accordingly. Please refer to "5. Consolidated Financial Statements (6) Notes to Consolidated Financial Statements First-time Adoption of IFRS" on page 37 for the differences between IFRS and Japanese GAAP regarding the consolidated financial statements.

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that the Company deems reasonable. Actual performance and other results may differ significantly due to various factors. Please refer to "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results" on page 7 for information regarding the forecast of consolidated financial results.

The Company plans to hold a meeting for institutional investors, analysts and the press on February 14, 2017. Presentation materials and the webcast of the meeting will be available on the Company's website promptly after the meeting.

Attachment Index

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

The Group adopted International Financial Reporting Standards (IFRS) from the fiscal year ending December 31, 2016 to enhance the international comparability of its financial reporting. Accordingly, financial results for fiscal year ending December 31, 2015 are reclassified based on IFRS.

Summary of Operating Results for FY2016 ended December 31, 2016

During the fiscal year under review, economies worldwide remained stuck in a cycle of low growth. Against that backdrop, the widening gap between rich and poor and the flow of immigrants to advanced countries became major social issues. Growing disquiet about the inability of incumbent politicians to seriously tackle those issues and about the structure of society in general triggered some major turning points during the year, including the decision by UK voters to leave the EU in a national referendum and the new US president whose election overturned prior expectations.

Amid weak economic growth, countries worldwide were forced to review their social welfare policies to address steadily rising costs. That also included moves to cut healthcare spending. Japan was no exception, with the government appearing to be introducing NHI price revisions every year.

Also, as emerging countries become wealthier, their citizens are increasingly interested in leading healthier lifestyles, mirroring the trend in advanced countries. This is opening up more business opportunities for the Otsuka Group, which supplies medicines as well as a wide range of other products that help to maintain health.

During 2016, the Otsuka Group recorded consolidated net sales of ¥1,195,547 million (down 16.2% from the previous fiscal year), with operating profit of ¥101,145 million (down 32.1%), profit for the year of ¥93,332 million (down 6.1%) and profit attributable to owners of parent of ¥92,563 million (down 9.2%).

Results by business segment are as follows:

Results for the Twelve Months Ended December 31, 2016

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	753,005	311,550	35,468	141,251	(45,727)	1,195,547
Operating profit	92,029	32,507	5,451	7,782	(36,624)	101,145

1) Pharmaceuticals

Under the Second Medium-Term Management Plan, which runs until the end of fiscal 2018, the Company is targeting sustainable growth over the medium and long term by positioning the antipsychotic agent *Abilify Maintena*, the antipsychotic agent *REXULTI*, and the vasopressin V_2 receptor antagonist *Samsca/JINARC* as its three global products and positioning the new anti-cancer agent *LONSURF* as one of three next-generation products[*1].

In the area of central nervous system and neurology, global sales of antipsychotic agent *ABILIFY* fell compared with the previous fiscal year due to the impact of the loss of exclusivity in the U.S. and Europe and NHI price revisions in Japan based on repricing measures for market expansion. However, global sales of *ABILIFY* intramuscular depot formulation *Abilify Maintena*[*2] (once-monthly injection) increased significantly compared with the previous fiscal year due to the growing number of markets. In the U.S., sales of *Abilify Maintena* increased compared with the previous fiscal year, supported by an increase in use for the treatment of acutely relapsed adults with schizophrenia, a ready-to-use prefilled syringe and an additional administration site at the deltoid muscle. The number of countries where it has been launched expanded in Europe, supporting a large increase in sales compared with the previous fiscal year. In Japan, sales of *ABILIFY for extended–release injectable suspension, for intramuscular use*, for which an additional administration site at the deltoid muscle was approved in March 2016, are rising steadily. The new antipsychotic agent *REXULTI*[*2] received approval from the U.S. Food and Drug Administration ("FDA") in July 2015 simultaneously for indications of schizophrenia and adjunctive therapy in major depressive disorder. Prescriptions have been growing since the drug was launched in the U.S. in August 2015 and the sales increased significantly compared with the previous fiscal year. In Japan, antiepileptic drug *E Keppra*, which is being co-promoted with UCB Japan, was affected by repricing measures for market expansion, but the drug continued to register firm growth in market share as the top-selling brand*[3] in the domestic antiepileptic drug market. That reflected growth in prescriptions for pediatric patients and for the monotherapy treatment of partial-onset seizures, a new drip formulation, and approval for the additional indication of adjunctive therapy for generalized tonic-clonic seizures in February 2016. *Neupro Patch*, the world's only transdermal dopamine agonist on the market for the treatment of Parkinson's disease and restless legs syndrome, registered steady sales due to increased understanding of patch-based treatments for Parkinson's disease and growing recognition of its effect in improving wearing-off[*4] symptoms. Also, a new 18mg patch was launched in June 2016 for patients requiring higher doses. Sales of *NUEDEXTA* climbed compared with the previous fiscal year. *NUEDEXTA* is developed by U.S. company Avanir Pharmaceuticals, Inc., which has strengths to develop drugs in the area of neurological disorders. The drug's growth in prescriptions and stronger sales reflected its increasingly recognized status as the world's first and only treatment for the neurologic disease pseudobulbar affect ("PBA") on the back of the strengthened sales network in the U.S. In addition, in January 2016, the U.S. FDA approved *ONZETRA Xsail* (sumatriptan nasal powder) for the acute treatment of migraine using a new intranasal medication delivery system. Sales of *ONZETRA Xsail* began in May 2016.

In the area of oncology, global sales of anti-cancer agent *TS-1* declined compared with the previous fiscal year, mainly due to the impacts of NHI price revisions and rival products in Japan. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined compared with the previous fiscal year, due to the impact of rival products. Sales of long-acting 5-HT_3 receptor antagonist antiemetic agent *Aloxi* increased compared with the previous fiscal year, supported by growth of prescriptions for patients with pancreatic cancer, lung cancer and colorectal cancer. Sales of anti-cancer agent *Abraxane* were affected by repricing measures for market expansion and by the impact of rival products, but sales remained level compared with the previous fiscal year supported by an increase in prescriptions for pancreatic cancer. Concerning *LONSURF*, a new anti-cancer agent, prescriptions have been growing steadily as it has come to hold a position as one of the standard therapies for unresectable advanced or recurrent colorectal cancer since its launch in Japan in May 2015 and the U.S. in October 2015, and globally, its sales have been considerably increasing. Also, Servier, which has concluded a license agreement for *LONSURF* in Europe with Taiho Pharmaceutical Co., Ltd., successively began selling the drug from August 2016, one country at a time. Anti-cancer agent *SPRYCEL*, which is being promoted in Japan, the U.S. and Europe in collaboration with BMS[*5], has been widely recognized in the global market as a first-line treatment for chronic myeloid leukemia. However, distributions on a yen basis received by the Company based on sales declined compared with the previous fiscal year due to forex factors.

In the area of the cardiovascular and renal system, *Samsca/JINARC*[*6], a vasopressin V_2 receptor antagonist developed by Otsuka Pharmaceutical, was affected by repricing measures for market expansion, but global sales increased compared with the previous fiscal year due to promotional activities targeting medical specialists to highlight its value as an oral aquaretic agent. Globally the drug has also started to be used as the world’s first drug for the autosomal dominant polycystic kidney disease (“ADPKD”), an intractable kidney disease. In Japan, the prescriptions for the drug have been increasing, as understanding of the drug has grown steadily after the drug has been approved for this additional indication in March 2014. The drug is also sold in Canada and Europe for the treatment of ADPKD. As of December 31, 2016, *Samsca/JINARC* was available in 24 markets worldwide. Sales of antiplatelet agent *Pletaal/Pletal* declined compared with the previous fiscal year due to the impact of promotion of generic products and NHI price revisions in Japan.

In the area of the digestive system, effective March 2016, it became possible to write long-term prescriptions of *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited since its launch in February 2015, and prescriptions grew steadily. Also, sales of pack formulations for eradication of Helicobacter pylori started in June 2016. Sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* declined compared with the previous fiscal year due to the impact of promotion of generic products and NHI price revisions in Japan. In the area of ophthalmology, prescriptions for dry eye treatment *Mucosta ophthalmic suspension UD 2%* expanded steadily and sales grew compared with the previous fiscal year.

In the area of clinical nutrition, sales volume of the high-calorie TPN (total parenteral nutrition) solution *ELNEOPA* remained level compared with the previous fiscal year, as a result of ongoing efforts to promote the solution to welfare facilities.

In the area of diagnostics, sales of Helicobacter pylori diagnostic agents and other products declined due to the impact of NHI price revisions, but sales rose overall compared with the previous fiscal year, mainly due to higher sales of *QuickNaviTM-Flu Influenza Diagnostic Kit* and *Otsuka Major BCR-ABL mRNA Measurement Kit*, which is used as a marker to monitor treatment effectiveness for chronic myeloid leukemia.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2016 totaled ¥753,005 million (down 22.6% from the previous fiscal year), with operating profit of ¥92,029 million (down 37.3%).

*1: Three products of *LONSURF*, Lu AE58054 and SGI-110
*2: Alliance products, under the global alliance with H. Lundbeck A/S, developed by Otsuka Pharmaceutical
*3: Copyright © 2016 QuintilesIMS. Estimated based on “Japan Pharmaceutical Market, January-December 2016.” All rights reserved, no reproduction without permission.
*4: Wearing-off is a complication of dopamine agonist treatments, where symptoms of Parkinson’s disease can repeatedly improve and worsen over the course of a day. It is one of the most serious issues affecting the everyday lives of Parkinson’s disease sufferers.
*5: Bristol-Myers Squibb Company
*6: Sold overseas as a treatment for ADPKD under the brand name *JINARC*.

2) Nutraceuticals

Sales volume for the *Pocari Sweat* electrolyte supplement drink increased in Japan compared with the previous fiscal year, despite a weak domestic market for sports drinks[*7]. Growth was supported by efforts to promote the drink as a source of hydration during Japan’s dry autumn and winter period, and by stepped up marketing activities linking TV commercials with in-store promotions, which spurred increased demand from users. *Pocari Sweat Jelly*, launched in April 2016, and the relaunched *Pocari Sweat Ion Water*, also made steady inroads into the market. Overseas, where *Pocari Sweat* is sold in 19 markets worldwide, sales volume declined compared with the previous fiscal year. Despite steady growth for *Pocari Sweat 900ml* in China, where it was launched in August 2016, overseas sales were affected by slowing growth in the Chinese economy, unfavorable weather in Indonesia and competition from rival products.

Although promotional activities were stepped up from April 2016, sales volume for carbonated nutritional drink *Oronamin C* declined slightly compared with the previous fiscal year due to fewer consumers buying nutritional drinks.

In the *Calorie Mate* range of balanced nutrition food, *Calorie Mate Jelly* was launched in May 2016 with three flavors (*Apple*, *Lime & Grapefruit* and *Fruity Milk*). Combined sales volume for the *Calorie Mate* range increased compared with the previous fiscal year, supported by efforts to promote the benefits of the products including block-type *Calorie Mate* to office workers and students taking exams.

In the soy-related business, sales volume increased steadily across the entire *SOYJOY* range, supported by the April 2016 launch of *SOYJOY Crispy*, which has a new texture and is available in three flavors (*Plain*, *Mixed Berry* and *Golden Berry*), helping to attract different customers from the traditional purchasers of *SOYJOY* products.

Sales of *EQUELLE*, a food product containing equol that supports women’s health and beauty, increased significantly, supported by advertising activities and better provision of information through corporate seminars and other means, leading to greater awareness and understanding of the product.

Nature Made, supplied by subsidiary Pharmavite LLC of the U.S., is the number one retail vitamin and supplement brand in the U.S.*8 On a local currency basis, sales of *Nature Made* supplements in the U.S. increased compared with the previous fiscal year, partly due to growth in the U.S. market, but after forex conversion, sales were lower year on year due to the impact of the strong yen. In Japan, sales of multivitamin supplements and Foods with Nutrient Function Claims such as *Fish Oil Pearl* and *Super Fish Oil* increased compared with the previous fiscal year. Sales also continuously increased for *MegaFood* and *INNATE*, natural food-based supplements of FoodState Inc. of the U.S.

Sales increased at Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, supported by growth in gluten-free food products and organic and soy products, health food products sold under the *Gerblé* nutrition and health food brand and other brands.

Kenja-no-shokutaku (wise man's dining) *Double Support* is a Food for Specified Health Use that slows down the body's absorption of both sugars and lipids, thereby reducing the rise in blood glucose levels and triglycerides after meals. Sales rose compared with the previous fiscal year on the back of increased advertising on TV and other media, which was linked with in-store promotions, mainly at drugstores, and due to stepped up proposal-based marketing activities tailored to different situations in consumers' lives. Sales volume of *Kenja-no-shokutaku Double Support* are also rising steadily in Hong Kong, where the product was launched in 2015.

In the cosmedics area, sales of the *UL•OS* men's skincare brand were firm overall, driven by growth in sales for cleansing-related products and skincare items. *UL•OS Medicated Skin Whitening*, a pen-type skin treatment that inhibits dark spots, has also proven to be popular with consumers thanks to its unique product value, supporting growth in the number of users. Also in South Korea, sales of the brand increased significantly, supported by efforts to develop the brand. Sales of the women's skincare brand *InnerSignal* registered significant growth continuously as a result of acquiring new customers and expanding the base of loyal users.

Sales volume of nutrient tonic *Tiovita* increased compared with the previous fiscal year, reflecting in-store sales promotions and advertising, etc. to attract new users.

Sales volume of oral rehydration solution *OS-1* increased compared with the previous fiscal year, reflecting greater awareness of the product and increased understanding about the product.

Domestic sales of *Oronine H Ointment* increased slightly compared with the previous fiscal year, supported by efforts to promote the benefits of a laminated tube product, which attracted new customers. Sales in Hong Kong declined compared with the previous fiscal year, due mainly to a drop in the number of tourists visiting the territory.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2016 totaled ¥311,550 million (down 1.2% from the previous fiscal year), with operating profit of ¥32,507 million (down 5.6%). In this business, the Group is making improvements to the value chain, such as rebuilding its product strategy to emphasize growth and profitability.

*7: INTAGE SRI (01/2016 to 12/2016 +0.2%). All rights reserved, no reproduction without permission.
*8: © 2017, The Nielsen Company, Scantrack® service, US xAOC channels 2007-2016. All rights reserved, no reproduction without permission.
*9: © 2016, The Nielsen Company, US xAOC channels 12/2016 +3.0%. All rights reserved, no reproduction without permission.

3) Consumer products

Sales volume of *MATCH*, a carbonated electrolyte drink containing vitamins, increased compared with the previous fiscal year, reflecting the launch of new products *Berry MATCH* in March 2016 and *MATCH Set Position* in October 2016 and efforts to reenergize the brand by continuing to implement an aggressive marketing strategy, sales promotion activities and other initiatives. Despite active marketing efforts such as stepped up communication initiatives to attract new customers, sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the previous fiscal year. The weaker sales volume mainly reflected a review of profit structure in the vending machine business. In the *Bon Curry* range of instant curry dishes, while there are impacts of competition, etc., ongoing steps were taken to increase brand value, such as implementing product strategies tailored to consumer needs and stepping up marketing and sales promotion activities.

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2016 totaled ¥35,468 million (down 8.0% from the previous fiscal year), with operating profit of ¥5,451 million (down 13.1%). In the consumer products segment, the Group is continuing its efforts to improve profitability by reviewing marketing strategies and sales promotion activities and improve the expense-to-sales ratio.

4) Others

In the specialty chemical business, sales remained level compared with the previous fiscal year with growth in the sales of deodorizers for construction materials, flame retardant agents used in mobile devices and conducting materials grew but decline in the sales volume of hydrazine. In the fine chemical business, sales decreased compared with the previous fiscal year, mainly due to making price reductions on pharmaceutical intermediates overseas and forex factors.

In the transportation and warehousing business, there was growth in new external customers and increased handling volume resulting from the promotion of a "common distribution platform (distribution of products to market for the Group as well as for other firms)" business. However, overall sales remained level compared with the previous fiscal year. Sales in the direct sales support business increased compared with the previous fiscal year mainly due to the growth in the volume of orders handled.

As a result, net sales in the others segment for the fiscal year ended December 31, 2016 totaled ¥141,251 million (down 2.7% from the previous fiscal year), with operating profit of ¥7,782 million (up 708.1%).

Projected Consolidated Financial Results for FY2017

(Millions of yen)

	FY December, 2016 (Actual)	FY December, 2017 (Forecast)	Change	% Change
Net sales	1,195,547	1,260,000	64,453	5.4%
Operating profit	101,145	120,000	18,885	18.6%
Profit before tax	116,680	119,000	2,320	2.0%
Profit for the year	93,332	87,000	(6,332)	(6.8)%
Profit attributable to owners of parent	92,563	85,000	(7,563)	(8.2)%

R&D Expenses	168,818	180,000	11,182	6.6%

(Note) FY2017 projected exchange rate: 115 yen/USD 120 yen/EUR

In our pharmaceutical business we project an increase in sales and earnings driven by global products including *Abilify Maintena*, *REXULTI*, *Lonsurf*, and *Samsca/JINARC* as well as new drugs in Japan. In our nutraceutical business, we expect higher revenues driven by global sales of *Pocari Sweat*, *Nature Made*, and *Nutrition & Santé*'s products.

We will continue to optimize the cost structure of sales and general administrative expenses, while R&D expenses are projected to increase for the future growth.

We project that this will result in consolidated sales in FY2017 (January through December) of ¥1,260,000 million (increase of 5.4% compared to FY2016), operating profit of ¥120,000 million (increase of 18.6%), profit before tax of ¥119,000 million (increase of 2.0%), profit for the year of ¥87,000 million (decrease of 6.8%), and profit attributable to owners of parent of ¥85,000 million (decrease of 8.2%).

(2) Research and Development Activities

Research and development expense for the fiscal year ended December 31, 2016 totaled ¥168,818 million.

The primary areas of research and development as well as the status of new product development by business segment were as follows:

<u>Pharmaceuticals</u>

The Otsuka Group conducts research and development with a primary focus on the areas of the central nervous system and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, ophthalmology, etc.

Research and development expense for the pharmaceutical business for the fiscal year ended December 31, 2016 were ¥159,447 million.

Research and development activities carried out during the fiscal year ended December 31, 2016 in the pharmaceutical business are summarized below.

Category	*Brand Name,* (Generic Name), Development Code	Status
Central nervous system and neurology	AVP-786	<U.S.> • Phase II trial for the disinhibition syndrome in neurodegenerative disorders was initiated in May 2016. • Development for the treatment of major depressive disorder was halted as Phase II trial did not provide sufficient evidence of efficacy to justify continued development.
	ONZETRA Xsail (sumatriptan) AVP-825	<U.S.> • Approval was granted in January 2016 for the indications of acute migraine. Also, sales started in May 2016.
	E Keppra (levetiracetam)	<Japan> • Approval was granted in February 2016 for the additional indication of adjunctive therapy for generalized tonic-clonic seizures.
	TAS-205	<Japan> • Phase II trial for the treatment of duchenne muscular dystrophy was initiated in May 2016.
	ABILIFY (aripiprazole)	<Japan> • Approval was granted in September 2016 for the additional indication of irritability associated with pediatric autism spectrum disorder. Also, sales of *ABILIFY 1 mg Tablet* started in November 2016.
	Abilify Maintena (aripiprazole)	<U.S.> • An application was accepted in November 2016 for the additional indication of bipolar disorder.
Oncology	*LONSURF* (trifluridine, tipiracil) TAS-102	<Europe> Approval was granted in April 2016 for the indications of advanced or recurrent colorectal cancer.. <Japan, U.S. and Europe> • Phase III trial for the treatment of gastric cancer was initiated in February 2016.
	ASTX727	<U.S.> • Phase II trial for the treatment of myelodysplastic syndrome was initiated in January 2016.

Category	*Brand Name,* (Generic Name), Development Code	Status
	TAS3681	<U.S. and Europe> • Phase I trial for the treatment of prostate cancer was initiated in March 2016.
	TAS-116	<Japan> • Phase II trial for the treatment of gastrointestinal stromal tumor was initiated in May 2016.
	Yondelis ET-743	<Japan> • Phase I trial for the treatment of ovarian cancer was initiated in April 2016.
	TS-1/Teysuno (tegafur, gimeracil, oteracil) S-1	<Japan and Asia> • Development for the treatment of uterocervical cancer was halted as Phase III trial did not present sufficient evidence of efficacy.
	(fosnetupitant) Pro-NETU	<Japan> • Phase II trial for the treatment of nausea and vomiting related to the administration of anti-cancer agents was initiated in September 2016.
	TAS-114	<Japan, U.S. and Europe> • Phase II trial for the treatment of non-small cell lung cancer was initiated in August 2016.
	Iclusig (ponatinib)	<Japan> • Approval was granted for the indications of chronic myeloid leukemia and Philadelphia chromosome-positive acute lymphoblastic leukemia in September 2016. Also, sales started in November 2016.
Cardiovascular and renal system	(vadadustat) AKB-6548	<U.S.> • Akebia Therapeutics and Otsuka Pharmaceutical concluded an agreement in December 2016 to collaborate in developing and commercializing a new drug in the U.S. to treat anemia associated with kidney disease (currently in Phase III trial).
	OPC-108459	<Japan and U.S.> • Development for the treatment of paroxysmal and persistent atrial fibrillation was halted as Phase I trial did not present sufficient scientific data to justify continued development.
Other categories	(emixustat) ACU-4429	<U.S.> • It was decided to discontinue trial for the treatment of dry age-related macular degeneration in May 2016 as Phase II/ III trial did not meet the primary endpoint. An agreement with Acucela Inc. for the co-development and commercialization of the drug was terminated in June 2016.
	(tetomilast) OPC-6535	<Japan, U.S. and Asia> • Development for the treatment of chronic obstructive pulmonary disease was halted as Phase II trial did not present sufficient scientific data to justify continued development.

Category	*Brand Name*, (Generic Name), Development Code	Status
	OPA-6566	<U.S.> • Development for the treatment of glaucoma was halted as Phase I/ II trial did not provide sufficient evidence of efficacy to justify continued development.
	Bilanoa (bilastine) TAC-202	<Japan> • Approval was granted in September 2016 for the indications of allergic rhinitis, and chronic urticaria and pruritus associated with skin disease. Also, sales started in November 2016.
	ZOSYN (tazobactam, piperacillin) YP-18	<Japan> • An application was filed for the indications of complicated skin and soft tissue infections (including diabetic foot infections) in July 2016.
	ELNEOPA-NF No.1 / No. 2 Injection OPF-108	<Japan> • Approval was granted in July 2016 as a high-calorie TPN solution.
	Mikeluna combination ophthalmic solution (carteolol, latanoprost) OPC-1085EL	<Japan> • Approval was granted in September 2016 for the indications of glaucoma and ocular hypertension.
	OPA-15406	<Japan> • Phase II trial for the treatment of atopic dermatitis was initiated in September 2016.
	TAS-303	<Japan> • Phase II trial for the treatment of stress urinary incontinence was initiated in October 2016.
Diagnostics	*WT1 mRNA Assay Kit II 'Otsuka'* ODK-1003 ODK-1003-CN (Asia)	<Japan> • An application was filed as an in-vitro diagnostic agent for acute lymphoblastic leukemia in July 2016. <Asia> • An application was filed as an in-vitro diagnostic agent for myelodysplastic syndrome in August 2016.

Nutraceuticals

In the nutraceutical business, the Group draws on its knowledge in the pharmaceutical business to constantly conduct research and development of world-class products centering on functional foods and beverages that support the maintenance and improvement of day-to-day well-being.

SOYJOY Crispy, a new addition to the *SOYJOY* baked soy bar range, was launched in April 2016. Characterized by the light and crunchy texture of puffed soy, *SOYJOY Crispy* is available in three flavors (*Plain*, *Mixed Berry* and *Golden Berry*). In the *Pocari Sweat* range, new products were released to address hydration needs for different everyday situations. *Pocari Sweat Jelly* for "edible hydration," the first new form of *Pocari Sweat* in 36 years, was launched in April 2016, and *Pocari Sweat Ion Water Powder* (for 750ml) was launched in June 2016. In the *Calorie Mate* range of balanced nutrition food, *Calorie Mate Jelly* was launched in May 2016 with three flavors (*Apple*, *Lime & Grapefruit* and *Fruity Milk*) as a jelly-type balanced nutrition food to suit different tastes and situations.

In research results, the Saga Nutraceuticals Research Institute and the Kindai University Research Institute of Traditional Asian Medicine announced the results of joint research confirming the relationship between premenstrual syndrome (PMS)/premenstrual dysphoric disorder (PMDD) and equol production status. The research results were published in "The Journal of Obstetrics and Gynaecology Research" in November 2016. Research and development expenses for the nutraceutical business for the fiscal year ended December 31, 2016 were ¥5,184 million.

Consumer products

In the consumer products business, the Group is engaged in the research and development of original and unique products in the field of food and beverage that are part of everyone's daily life.

Research and development expenses for the consumer products business for the fiscal year ended December 31, 2016 were ¥486 million.

Others

In the other businesses, the Group is primarily engaged in the research and development of specialty chemical products and fine chemicals.

Research and development expenses for the other businesses for the fiscal year ended December 31, 2016 were ¥3,699 million.

(3) Analysis of Financial Position

1) Assets

Total assets as of December 31, 2016 were ¥2,478,290 million, a decrease of ¥96,990 million compared to ¥2,575,280 million at the end of the previous fiscal year. This was due to a ¥26,724 million decrease in current assets and a ¥70,265 million decrease in non-current assets.

Current Assets

Total current assets as of December 31, 2016 were ¥1,113,855 million, a decrease of ¥26,724 million compared to ¥1,140,580 million at the end of the previous fiscal year. This was mainly due to decreases in cash and cash equivalents by ¥90,744 million, trade and other receivables by ¥34,649 million, and other current assets by ¥11,637 million, while there was an increase in other financial assets by ¥100,290 million.

Non-current Assets

Total non-current assets as of December 31, 2016 were ¥1,364,434 million, a decrease of ¥70,265 million compared to ¥1,434,700 million at the end of the previous fiscal year. This was mainly due to decreases in goodwill by ¥12,903 million, intangible assets by ¥34,235 million, and other financial assets by ¥12,359 million.

2) Liabilities

Current Liabilities

Total current liabilities as of December 31, 2016 were ¥436,613 million, a decrease of ¥43,423 million compared to ¥480,036 million at the end of the previous fiscal year. This was mainly due to a decrease in other current liabilities by ¥56,520 million, while there was an increase of ¥12,255 million in trade and other payables.

Non-current Liabilities

Total non-current liabilities as of December 31, 2016 were ¥303,235 million, a decrease of ¥64,638 million compared to ¥367,873 million at the end of the previous fiscal year. This mainly resulted from decreases in bonds and borrowings by ¥40,320 million, net defined benefit liabilities by ¥15,820 million, and deferred tax liabilities by ¥13,226 million.

3) Equity

Total equity as of December 31, 2016 were ¥1,738,441 million, an increase of ¥11,071 million compared to ¥1,727,370 million at the end of the previous fiscal year. This was mainly due to payment of ¥54,184 million in dividends, a ¥49,601 million increase in retained earnings as a result of profit for the year of ¥93,332 million, and a ¥38,126 million decrease of other components of equity influenced by stock market and exchange rate.

(4) Analysis of Cash Flows

Cash and cash equivalents decreased by ¥90,744 million during fiscal year ended December 31, 2016 to ¥369,875 million. Net cash provided by operating activities was ¥142,004 million, while net cash used in investing activities and financing activities were ¥135,100 million and ¥93,094 million respectively.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥142,004 million in the fiscal year ended December 31, 2016. Contributing factors were ¥116,680 million in profit before tax, ¥59,574 million in depreciation and amortization expenses, ¥32,133 million in impairment loss and reversal of impairment loss, a ¥22,817 million decrease in trade and other receivables, ¥(24,846) million in other non-operating income, ¥(30,439) million in other cash flows from operating activities, and ¥(43,929) million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥(135,100) million in the fiscal year ended December 31, 2016. Main investing activities included ¥(44,385) million in payments for acquisition of property, plant and equipment, ¥100,061 million in proceeds from sales and redemption of investments, ¥(72,087) million in payments for acquisition of investments, and ¥(111,083) million in decrease (increase) in time deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥(93,094) million in the fiscal year ended December 31, 2016. Main financing activities included ¥(35,841) million in repayments of non-current borrowings and ¥(54,699) million in dividends paid.

Cash Flow Indicators

	FY2015 ended December	FY2016 ended December
Ratio of equity attributable to owners of parent to total assets (%)	66.0	69.0
Ratio of equity attributable to owners of parent to total assets on a market value basis (%)	90.8	111.4
Interest-bearing debt to cash flow ratio (%)	73.2	155.2
Interest coverage ratio (times)	72.3	54.0

Ratio of equity attributable to owners of parent to total assets:
Equity attributable to owners of parent / Total assets
Ratio of equity attributable to owners of parent to total assets on a market value basis:
Total market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow
Interest coverage ratio: Cash flow / Interest paid
(Notes)

1. All indicators are calculated on a consolidated basis.
2. Total market capitalization is calculated based on the total number of outstanding shares (excluding treasury shares) and the closing market price at fiscal year-end.
3. Cash flow equals net cash provided by operating activities, less interest paid and income taxes paid.
4. Interest-bearing debt includes all liabilities reported on the consolidated statement of financial position which is subject to interest payments.
5. Indicators before and including FY2014 ended December are not presented as the Company adopted IFRS from FY2016 ended December, and the transition date to IFRS was January 1, 2015.

(5) Basic Policy for Profit Distribution and Dividends for FY2016 and FY2017

The Company views profit distribution to shareholders as one of its key management priorities. Our basic policy is to distribute profits to shareholders in line with profit growth while securing an adequate amount of internal cash reserves to invest in future growth and to retain flexibility to address changes in the business environment.

In accordance with this policy, the Company plans to pay a year-end dividend of ¥50 per share, resulting in a total of ¥100 per share annual dividend for the fiscal year ended December 31, 2016 with an interim dividend of ¥50 per share which was paid on September 5, 2016. The effective date for the year-end dividend of FY2016 is March 31, 2017.

2. Group Overview

The Otsuka Group consists of Otsuka Holdings Co., Ltd., its 147 subsidiaries and 32 affiliates. Otsuka is a globally operating diversified healthcare group engaged in pharmaceuticals, nutraceuticals, consumer products and other businesses, which include logistics services, optical inspection and measurement equipment, and specialty chemicals.

As the Group's holding company, Otsuka Holdings directs the Group's strategic planning, monitors group operations and provides various services to its group companies.

The group companies in their respective business segments are as follows:

Pharmaceutical Segment

Otsuka Pharmaceutical Co., Ltd., Taiho Pharmaceutical Co., Ltd., and others engage in sales of pharmaceutical products in Japan while Otsuka America Pharmaceutical, Inc., Taiho Oncology, Inc., Otsuka Pharmaceutical Europe Ltd. and others conduct sales of pharmaceutical products overseas.

In the area of therapeutic drugs, Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. conduct manufacturing and sales in Japan, while Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. also export pharmaceutical products to Otsuka America Pharmaceutical, Inc., Taiho Oncology, Inc., Otsuka Pharmaceutical Europe Ltd., and other group companies. In the area of clinical nutrition, manufacturing and sales are conducted by Otsuka Pharmaceutical Factory, Inc. and EN Otsuka Pharmaceutical Co., Ltd. for the Japanese market, and group companies overseas expand business in China, India, Indonesia and Egypt. Research and development activities are conducted mainly in Japan and in the United States. Otsuka Pharmaceutical Co., Ltd. outsources part of its development activities to its U.S. subsidiaries such as Otsuka Pharmaceutical Development & Commercialization, Inc. and Astex Pharmaceuticals, Inc.

Nutraceutical Segment

Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. conduct manufacturing and sales of nutraceutical products in Japan while Pharmavite LLC, P.T. Amerta Indah Otsuka, and Nutrition & Santé SAS are mainly responsible for manufacturing and sales of nutraceutical products outside Japan. Otsuka Pharmaceutical Co., Ltd. purchases part of its products from other consolidated subsidiaries, including Otsuka Pharmaceutical Factory, Inc., Otsuka Foods Co., Ltd., and Pharmavite LLC.

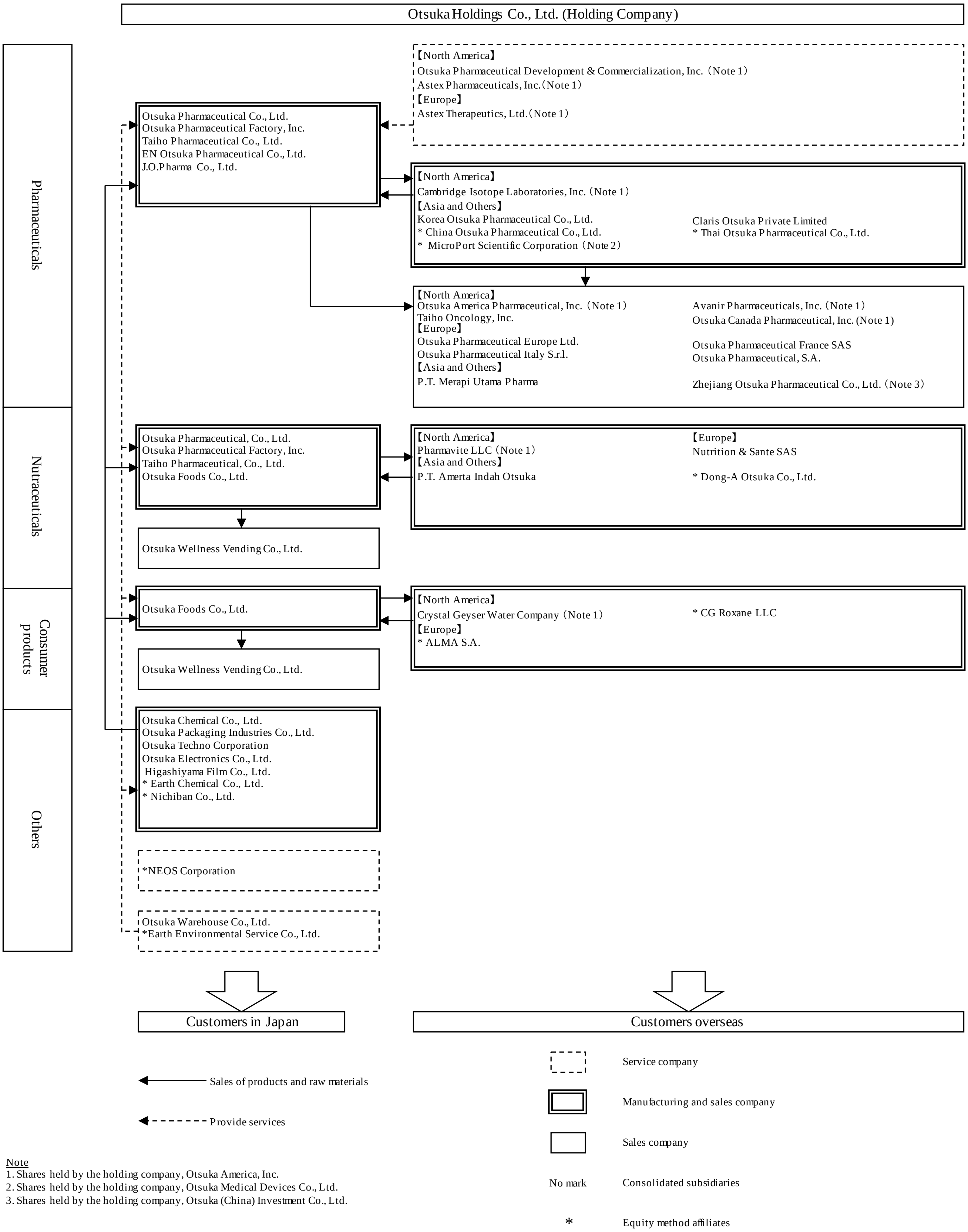
Consumer Product Segment

Otsuka Foods Co., Ltd. manufactures and markets consumer products in Japan. CG Roxane LLC and ALMA S.A. engage in the manufacturing and sales of bottled mineral water overseas.

Other Segment

Otsuka Chemical Co., Ltd. conducts the manufacturing and sales of specialty chemical products. Otsuka Electronics Co., Ltd. conducts the manufacturing, sales and import of optical inspection and measurement devices. Otsuka Packaging Industries Co., Ltd. conducts printing and packaging and Otsuka Techno Corporation manufactures plastic products as suppliers for other group companies in Japan. Otsuka Warehouse Co., Ltd. provides logistics services to Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd. and other group companies in Japan.

The chart below shows the Group's business segments as of December 31, 2016.



3. Management Policy

(1) Basic Management Policy

Based on the Otsuka Group's corporate philosophy "Otsuka-people creating new products for better health worldwide," the Group strives to develop innovative and original products that enable people around the world to lead healthier lives.

To accomplish this, the Group focuses on its two main businesses: Pharmaceuticals, where it meets a whole range of medical needs from diagnosis to treatment of medical disorders; and Nutraceuticals, where it supports people to maintain and improve their daily health and well-being. As a corporate group active in the comprehensive healthcare business, the Group's mission is to discover and develop technologies and solutions that are unique to itself, and to deliver the fruits of these efforts to people all over the world in the form of products and services.

(2) Target Performance Indicators

To sustain the Group's growth, management recognizes that when conducting business activities, it is important to efficiently invest the Group's capital based on a medium to long-term perspective. The Group thus considers ROE as one of several important performance indicators along with operating margin and net income.

(3) Medium and Long Term Management Plan

The Group announced its Second Medium-Term Management Plan on August 26, 2014. Documents from this disclosure can be obtained at the following URL.

The Company's website (News Releases)

http://www.otsuka.com/en/hd_release/release/

(4) Key Issues to be Addressed

The Otsuka Group is implementing specific initiatives under its Second Medium-Term Management Plan covering the period up to fiscal 2018, with the aim of realizing its corporate philosophy "Otsuka-people creating new products for better health worldwide."

<Positioning of Second Medium-Term Management Plan and main initiatives>

Under the Second Medium-Term Management Plan, the Otsuka Group will establish a diversified business portfolio and promote sustainable growth through continued investment and corporate structural reform. The Group aims to become an indispensable contributor to people's health worldwide by working to expand business opportunities using its people, technologies and products, guided by its corporate philosophy and the concept of total healthcare provision, which is aimed at delivering organic growth.

A. Strengthen core therapeutic areas

In the pharmaceutical business, the Otsuka Group will focus on strengthening the core therapeutic areas of CNS and oncology. In doing so, the Group will seek out unmet medical needs of patients, and aim to create a wide range of new values to satisfy those needs.

- In CNS, the Group will step up efforts to maximize the medical and commercial value of *Abilify Maintena* and *REXULTI* (generic name: brexpiprazole). Furthermore, the Group has positioned its development pipeline for Alzheimer-related diseases as the most important driver of medium to long-term growth from 2020 onward. The Group will also accelerate its strategy to expand its entire CNS area by combining its business base in the neurologic area, which has been strengthened with the acquisition of Avanir Pharmaceuticals, Inc., with its business base in the psychiatric area, where the Group has been active for a long time.
- In the field of oncology, the Group is developing its business in a wide range of areas, including hematological cancer, solid cancer and cancer-supportive care, and is actively working to increase the medical value of its portfolio of oncology products. The Group will establish an in-house sales platform for *Lonsurf* in the U.S. to accelerate its growth, and will work to maximize its value quickly through an alliance with Servier which mainly operates in Europe.
- The Group will promote the global development of a vasopressin V_2-receptor antagonist *Samsca/Jinarc*, not only through growth in its conventional application as an aquaretic agent, but also as the first and only drug therapy for ADPKD.
- In Japan, the Group will focus on quickly nurturing new products that were launched during the period of the Second Medium-Term Management Plan in addition to promoting the continued growth of new products launched during the period of the First Medium-Term Management Plan.
- In the clinical nutrition business, the Group will pursue overseas development, mostly in Asia, and in the medical devices business, the Group will focus efforts on diversifying treatment solutions.

B. Structural reform, evolution and growth of the nutraceutical business

- The Group will accelerate research and development related to the theme of "healthy life expectancy," carry out product value appealing sales promotion and cultivate new products.
- Targeting growth in overseas sales, the Group will expand the Pocari Sweat business in Asia, the Nature Made business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
- Aiming for sustainable growth over the long term, the Group will invest strategically in products and overseas sales channels, and actively promote proprietary brands overseas.
- In order to accelerate product development and overseas business expansion, the Group will review business assets that support the value chain and work toward implementing structural reforms.

C. Active investment in new growth areas and shareholder return

- The Group will continue to invest in R&D under the Second Medium-Term Management Plan in order to achieve sustainable growth from fiscal 2018 and beyond.
- The Group will strike a balance between strategic investment for future growth and return to shareholders.

4. Basic Rationale for Selection of Accounting Standards

The Group adopted IFRS from the fiscal year ending December 31, 2016 to enhance the international comparability of its financial reporting.

5. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of yen)

	IFRS Transition Date (As of January 1, 2015)	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)
Assets			
Current assets			
Cash and cash equivalents	459,090	460,619	369,875
Trade and other receivables	412,309	387,842	353,193
Inventories	143,331	135,846	133,758
Income taxes receivables	17,782	2,603	14,381
Other financial assets	137,690	108,999	209,289
Other current assets	36,215	44,668	33,031
Subtotal	1,206,420	1,140,580	1,113,529
Assets held for sale	–	–	325
Total current assets	1,206,420	1,140,580	1,113,855
Non-current assets			
Property, plant and equipment	350,463	359,561	358,762
Goodwill	92,308	244,743	231,839
Intangible assets	206,588	481,210	446,974
Investments accounted for using equity method	183,026	175,762	166,600
Other financial assets	154,121	155,637	143,278
Deferred tax assets	39,667	9,560	6,939
Other non-current assets	6,069	8,224	10,038
Total non-current assets	1,032,245	1,434,700	1,364,434
Total assets	2,238,665	2,575,280	2,478,290

	IFRS Transition Date (As of January 1, 2015)	FY2015 (As of December 31, 2015)	(Millions of yen) FY2016 (As of December 31, 2016)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	233,982	150,093	162,349
Bonds and borrowings	72,112	80,538	79,264
Other financial liabilities	2,297	2,774	3,872
Income taxes payables	14,025	18,961	21,482
Provisions	–	2,056	552
Other current liabilities	130,204	225,612	169,091
Total current liabilities	452,622	480,036	436,613
Non-current liabilities			
Bonds and borrowings	22,660	234,292	193,972
Other financial liabilities	16,604	9,097	11,942
Net defined benefit liabilities	38,226	31,151	15,331
Provisions	478	487	504
Deferred tax liabilities	13,032	83,491	70,264
Other non-current liabilities	9,377	9,353	11,219
Total non-current liabilities	100,379	367,873	303,235
Total liabilities	553,002	847,910	739,848
Equity			
Equity attributable to owners of parent			
Share capital	81,690	81,690	81,690
Share premium	502,945	503,384	503,979
Treasury shares	(47,415)	(47,262)	(47,264)
Retained earnings	1,105,678	1,159,537	1,209,139
Other components of equity	10,085	1,113	(37,012)
Total equity attributable to owners of parent	1,652,984	1,698,463	1,710,531
Non-controlling interests	32,678	28,906	27,910
Total equity	1,685,663	1,727,370	1,738,441
Total liabilities and equity	2,238,665	2,575,280	2,478,290

(2) Consolidated Statement of Income

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
		(Millions of yen)
Net sales	1,427,375	1,195,547
Cost of sales	(452,466)	(406,331)
Gross profit	974,909	789,216
Selling, general and administrative expenses	(636,400)	(535,852)
Research and development expenses	(202,747)	(168,818)
Share of profit of associates accounted for using equity method	12,370	15,974
Other income	5,307	4,569
Other expenses	(4,552)	(3,943)
Operating profit	148,886	101,145
Finance income	9,996	3,814
Finance costs	(7,836)	(13,126)
Other non-operating income (expenses)	(746)	24,846
Profit before tax	150,299	116,680
Income tax expenses	(50,919)	(23,347)
Profit for the year	99,380	93,332
Attributable to:		
Owners of parent	101,957	92,563
Non-controlling interests	(2,577)	769
Earnings per share:		
Basic earnings per share (Yen)	188.16	170.82
Diluted earnings per share (Yen)	188.15	170.70

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Profit for the year	99,380	93,332
Other comprehensive income		
Components that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	566	11,336
Financial assets measured at fair value through other comprehensive income	13,577	(860)
Share of other comprehensive income of entities accounted for using equity method	173	(255)
Subtotal	14,317	10,221
Components that may be reclassified to profit or loss		
Translation differences of foreign operations	(12,053)	(29,596)
Cash flow hedges	(262)	(123)
Share of other comprehensive income of entities accounted for using equity method	(11,528)	(9,205)
Subtotal	(23,844)	(38,926)
Total other comprehensive income	(9,526)	(28,705)
Comprehensive income	89,853	64,627
Attributable to:		
Owners of parent	93,633	65,660
Non-controlling interests	(3,780)	(1,032)
Comprehensive income	89,853	64,627

(4) Consolidated Statement of Changes in Equity

FY2015 (From January 1, 2015 to December 31, 2015)

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Share premium	Treasury shares	Retained earnings	Remeasure-ments of defined benefit plans	Financial assets measured at fair value through other comprehen-sive income
Balance as of January 1, 2015	81,690	502,945	(47,415)	1,105,678	–	9,693
Profit for the year	–	–	–	101,957	–	–
Other comprehensive income	–	–	–	–	577	13,473
Comprehensive income	–	–	–	101,957	577	13,473
Purchase of treasury shares	–	–	(1)	–	–	–
Disposals of treasury shares	–	(45)	155	–	–	–
Dividends	–	–	–	(48,764)	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	484	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	648	(577)	(71)
Other	–	–	–	16	–	–
Total transactions with owners	–	438	153	(48,098)	(577)	(71)
Balance as of December 31, 2015	81,690	503,384	(47,262)	1,159,537	–	23,096

	Equity attributable to owners of parent					
	Other components of equity					
	Translation differences of foreign operations	Cash flow hedges	Total	Total	Non-controll ing interests	Total equity
Balance as of January 1, 2015	–	392	10,085	1,652,984	32,678	1,685,663
Profit for the year	–	–	–	101,957	(2,577)	99,380
Other comprehensive income	(22,112)	(262)	(8,323)	(8,323)	(1,203)	(9,526)
Comprehensive income	(22,112)	(262)	(8,323)	93,633	(3,780)	89,853
Purchase of treasury shares	–	–	–	(1)	–	(1)
Disposals of treasury shares	–	–	–	110	–	110
Dividends	–	–	–	(48,764)	(465)	(49,229)
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	484	474	958
Transfer from other components of equity to retained earnings	–	–	(648)	–	–	–
Other	–	–	–	16	–	16
Total transactions with owners	–	–	(648)	(48,155)	9	(48,146)
Balance as of December 31, 2015	(22,112)	130	1,113	1,698,463	28,906	1,727,370

FY2016 (From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Share premium	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2016	81,690	503,384	(47,262)	1,159,537	–	23,096
Profit for the year	–	–	–	92,563	–	–
Other comprehensive income	–	–	–	–	11,159	(673)
Comprehensive income	–	–	–	92,563	11,159	(673)
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	147	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	448	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	11,223	(11,159)	(63)
Total transactions with owners	–	595	(2)	(42,961)	(11,159)	(63)
Balance as of December 31, 2016	81,690	503,979	(47,264)	1,209,139	–	22,358

	Equity attributable to owners of parent					
	Other components of equity					
	Translation differences of foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2016	(22,112)	130	1,113	1,698,463	28,906	1,727,370
Profit for the year	–	–	–	92,563	769	93,332
Other comprehensive income	(37,265)	(123)	(26,903)	(26,903)	(1,802)	(28,705)
Comprehensive income	(37,265)	(123)	(26,903)	65,660	(1,032)	64,627
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	–	(54,184)	(501)	(54,686)
Share-based payment transactions	–	–	–	147	–	147
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	448	538	986
Transfer from other components of equity to retained earnings	–	–	(11,223)	–	–	–
Total transactions with owners	–	–	(11,223)	(53,951)	36	(53,555)
Balance as of December 31, 2016	(59,377)	6	(37,012)	1,710,531	27,910	1,738,441

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Cash flows from operating activities		
Profit before tax	150,299	116,680
Depreciation and amortization expenses	59,156	59,574
Impairment loss and reversal of impairment loss	22,064	32,133
Share of loss (profit) of associates accounted for using equity method	(12,370)	(15,974)
Finance income	(9,996)	(3,814)
Finance costs	7,836	13,126
Other non-operating expenses (income)	746	(24,846)
Decrease (increase) in inventories	12,841	(629)
Decrease (increase) in trade and other receivables	26,930	22,817
Increase (decrease) in trade and other payables	(62,763)	11,623
Other	76,280	(30,439)
Subtotal	271,026	180,250
Interest and dividends received	8,931	9,191
Interest paid	(3,869)	(3,507)
Income taxes paid	(18,194)	(43,929)
Net cash flows from (used in) operating activities	257,892	142,004
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	1,654	1,703
Payments for acquisition of property, plant and equipment	(56,915)	(44,385)
Payments for acquisition of intangible assets	(18,625)	(27,202)
Proceeds from sales and redemption of investments	47,502	100,061
Payments for acquisition of investments	(51,152)	(72,087)
Payments for acquisition of subsidiaries	(392,434)	–
Decrease (increase) in time deposits	29,603	(111,083)
Other	17,778	17,893
Net cash flows from (used in) investing activities	(422,587)	(135,100)
Cash flows from financing activities		
Purchase of treasury shares	(6)	(2)
Increase (decrease) in current borrowings	(16,364)	(2,648)
Proceeds from non-current borrowings	266,694	1,944
Repayments of non-current borrowings	(24,535)	(35,841)
Dividends paid	(49,180)	(54,699)
Other	(1,587)	(1,847)
Net cash flows from (used in) financing activities	175,020	(93,094)
Increase (decrease) in cash and cash equivalents	10,325	(86,190)
Cash and cash equivalents at beginning of period	459,090	460,619
Effect of exchange rate changes on cash and cash equivalents	(8,796)	(4,553)
Cash and cash equivalents at end of period	460,619	369,875

(6) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Basis of Preparation

(1) Compliance with IFRS and first-time adoption

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

The Group has adopted IFRS for the first time in the fiscal year ended December 31, 2016, and the date of transition to IFRS (hereinafter referred to as the “IFRS Transition Date”) is January 1, 2015. The impact of the transition to IFRS on financial position, operating results and cash flows of the Group on the IFRS Transition Date and in the comparative year is provided in note “First-time Adoption of IFRS.”

Except for IFRS that have not been early adopted and exemptions permitted under IFRS 1 “First-time Adoption of International Financial Reporting Standards” (hereinafter referred to as “IFRS 1”), the Group’s accounting policies are in accordance with IFRS effective as of December 31, 2016.

The exemptions adopted and reconciliations required to be disclosed under IFRS are provided in note “First-time Adoption of IFRS.”

(2) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments, etc. 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) Early adoption of new accounting standards

The Group has early adopted IFRS 9 “Financial Instruments” (amended on July 2014) from the IFRS Transition Date (January 1, 2015).

(5) New standards not yet adopted

Major standards and interpretations newly established or amended that have not been early adopted by the Group are as follows.

The impact of adoption of these standards and interpretations on the Group is under consideration and cannot be estimated at this point.

IFRS		Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Group	Description of new standards, interpretations and amendments
IAS 7	Statement of Cash Flows	January 1, 2017	Fiscal year ending December 31, 2017	Amendment concerning disclosure for changes in liabilities attributable to financing activities
IAS 12	Income Taxes	January 1, 2017	Fiscal year ending December 31, 2017	Amendment concerning recognition of deferred tax assets on unrealized losses
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending December 31, 2018	Amendment concerning accounting treatment for revenue recognition
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 31, 2019	Amendment concerning accounting treatment for leases

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 gains 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 where needed. The balances of payables and receivables and internal transactions within the group companies as well as unrealized gains or losses arising from internal 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 parent.

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

(2) Business combinations

Business combinations are accounted for using the acquisition method.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree as of the acquisition date over the net of the amounts of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the above sum of the consideration, etc. is a shortfall, the shortfall is immediately recognized as profit or loss.

The consideration transferred in a business combination is calculated as the sum of the 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 as of the acquisition date. The consideration transferred includes all assets or liabilities arising from a contingent consideration arrangement. The amount of non-controlling interests in the acquiree is measured either at fair value or as the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets for each business combination.

Identifiable assets acquired and liabilities assumed at the acquisition date are measured at their fair values 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.

The Group has adopted the exemptions of IFRS 1 and did not apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the IFRS Transition Date (January 1, 2015).

(3) Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the group companies at exchange rates on the transaction dates or exchange rates which are close to the actual rate on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate on the reporting date. Monetary assets and liabilities denominated in foreign currencies measured at fair value are translated into the functional currency at the exchange rate on the date of measurement.

Translation differences arising from translations or settlements are recognized as profit or loss; provided, however, that translation differences arising from financial assets measured through other comprehensive income as well as from cash flow hedges 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 the reporting date. The revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate during the reporting period. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. Translation differences of foreign operations are recognized as profit or loss for the period in which the foreign operations concerned are disposed of.

The Group has adopted the exemptions of IFRS 1 and accordingly the cumulative amount of translation differences of foreign operations before the IFRS Transition Date (January 1, 2015) is deemed to be zero and the entire amount has been reclassified to retained earnings.

(4) Financial instruments

(i) Financial assets

i) Initial recognition and measurement

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

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

At the initial recognition, financial assets are classified into (a) Financial assets measured at amortized cost, (b) Debt instruments measured at fair value through other comprehensive income, (c) Equity instruments measured at fair value through other comprehensive income or (d) Financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

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

● The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

● The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

● The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

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

Debt instruments measured at fair value through other comprehensive income are measured at fair value.
Any changes in fair value, except for impairment gains or impairment losses and foreign exchange gains or losses, are recognized in other comprehensive income until the financial asset is derecognized. When such financial assets are derecognized, the cumulative amount previously recognized in other comprehensive income is transferred to profit or loss.

(c) 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.

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

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

iii) Impairment

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

The Group evaluates the credit risk of financial instruments at the end of each fiscal year to verify whether such risk has significantly increased since the initial recognition.

If credit risk on a financial instrument has not increased significantly since the initial recognition, the allowance for credit losses on such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since the initial recognition, the allowance for credit losses of such financial instrument is measured at an amount equal to the lifetime expected credit losses. However, for trade receivables, etc. that do not contain any significant financing component, the allowance for credit losses is always measured at an amount equal to the lifetime expected credit losses.

The amounts of these measurements are recognized as profit or loss. If an event that reduces an impairment loss occurs after the impairment loss has been recognized, the impairment loss is reversed to the extent of the decrease and credited to profit or loss.

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 financial assets and substantially all the risks and rewards of ownership of the financial assets.

(ii) Financial liabilities

i) Initial recognition and measurement

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

Financial liabilities are classified into (a) financial liabilities measured at amortized cost and (b) financial liabilities measured at fair value through profit or loss at the initial recognition.

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

ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

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

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

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

iii) Derecognition

When a financial liability is extinguished, that is, the obligations specified in a contract are discharged, cancelled or expire, the Group derecognizes the financial liability.

(iii) Offsetting of financial assets and financial liabilities

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

(iv) Derivatives and hedge accounting

Derivatives are initially recognized at fair value. After the initial recognition, derivatives are measured at fair value.

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

At 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. In addition, the Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at the inception and on an ongoing basis. Ongoing assessments are conducted either 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 accounted for as follows.

Of the gains or losses associated with the hedging instruments, the portions of the hedges considered to be effective are recognized as other comprehensive income, while the remaining ineffective portions are recognized as 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 as 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 shall be 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 as other comprehensive income are reclassified to profit or loss.

The Group does not undertake any fair value hedges and 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 repayment terms of three months or less from the date of acquisition that are readily convertible to cash and subject to an 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 using the weighted-average cost formula. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

(7) Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are recorded at the value calculated as cost less any accumulated depreciation and any accumulated impairment losses.

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

Depreciation expenses for assets except for land and construction in progress is recorded 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 58 years
● Tools, furniture and fixtures: 2 to 30 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 the initial recognition is stated in “(2) Business combinations.” After the initial recognition, goodwill is recorded at its cost less any accumulated impairment losses.

Goodwill is allocated to each of the cash-generating units or group of cash-generating units (hereinafter referred to as the "Cash-Generating Units") that are 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, they are recognized as impairment loss in profit or loss. With regard to allocation of impairment losses recognized in association with Cash-Generating Units, first the carrying amount of goodwill that has been allocated to the unit is reduced, and then the impairment loss is allocated to other assets in the unit on a pro-rata basis based on the carrying amount of each asset in the unit. For impairment losses recognized on goodwill, no reversal is made in subsequent periods.

(9) Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are recorded at the value calculated as cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition.

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

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

Amortization expenses on each intangible asset with a finite useful life are recorded by the straight-line method over its estimated useful life. The estimated useful lives of major intangible assets are as follows:

● Patents: 5 to 10 years
● Trademarks, distribution rights and others: 3 to 16 years
● Software: 2 to 10 years

The estimated useful lives, residual values and amortization methods of intangible assets 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 are mainly brands and trademarks acquired separately or through 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 see whether the decision that the useful life is indefinite remains appropriate. If the decision is no longer appropriate, the useful life is changed from an indefinite useful life to a finite useful life, and this change is accounted for as a change in an accounting estimate.

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

(10) Leases

Lease transactions in which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. All other lease transactions are classified as operating leases.

The Group initially recognizes finance leases as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms whichever is shorter. Lease payments are apportioned between the finance costs and the repayments of the lease obligations. Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments under operating leases are recognized as expenses using the straight-line method 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 fiscal year for the carrying amounts of property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the Cash-Generating Unit to which the asset belongs. A Cash-Generating Unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amounts are estimated at the same time in each fiscal period, regardless of whether there is 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 Group-wide assets do not independently generate cash inflows. When indications of impairment become apparent in the Group-wide assets, the recoverable amount of the Cash-Generating Unit to which such assets belong is calculated.
Impairment loss is recognized in profit or loss when the carrying amount of the asset or Cash-Generating Unit exceeds the recoverable amount.
For previously recognized impairment loss, the Group assesses whether there is any indication of a decrease or disappearance of the impairment loss at the end of each fiscal year. If there is any indication of reversal of impairment loss, the recoverable amounts of assets or Cash-Generating Units are 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 as no impairment loss had been recognized.

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

(13) Post-employment benefits
The Group’s post-employment benefit plans for its employees include defined benefit and defined contribution plans.
The Group uses the projected unit credit method to determine the present value of the defined benefit obligations, the related current service cost and the past service cost.
Discount rate is determined based on the market yield on high quality corporate bonds as of the end of fiscal year for the discount period which is set for the projected period until the expected date of benefit payment in each fiscal year.
The 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 present value of any future economic benefits available in the form of reductions in the future contributions to the plan or cash refunds.
Service cost and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss.
Remeasured amount of a defined benefit plan is recognized at once as other comprehensive income in the period in which the remeasurement takes place, and immediately reclassified to retained earnings.
Payments for defined contribution retirement benefits are recognized as expenses when employees have rendered the related service.

(14) Provisions
Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is highly probable that outflows of resources with 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 risks and uncertainties for expenditure necessary to settle the present obligations on the reporting date. When the time value of money is material, a provision is measured at the present value of the amount 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 share premium.

(16) Share-based payments
(i) Equity-settled share-based payment plan
The Group has adopted a stock option plan accounted for as an equity-settled share-based payment plan.
Stock options are measured at fair value at the grant date and recognized as expenses over the vesting periods with corresponding increases to equity, taking into account the estimated number of options to be vested. The fair value of stock options granted is measured using the Black-Scholes model at the grant date.

(ii) Cash-settled share-based payment plan
The Group has adopted equity-linked compensation entitlements as a cash-settled share-based payment plan.
For the cash-settled share-based payments, the fair value of payments is recognized as a liability, and any changes in the fair value of

the liability are recognized as profit or loss until the liability is settled.

(17) Net sales

(i) Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuous managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is highly probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect to the transaction can be measured reliably.

Such revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and others.

(ii) License and royalty income

License income is income from up-front and milestone payments received under license agreements, etc. on development and distribution rights and others of products under development or finished products, which the Group has concluded with a third party. License income is recognized when contractual obligations are fulfilled. If not all contractual obligations have been fulfilled, such income is recorded in liabilities, and the amount allocated to each period over the contract term on a pro-rata basis is recognized.

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

(18) Government grants

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

(19) Finance income and finance costs

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

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

(20) Income taxes

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

Current taxes are measured 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 in every period, 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 in every period and recognized to the extent that it is highly probable that deferred tax assets are realizable with future taxable profit.

In the fiscal year ended December 31, 2016, the Company and certain domestic subsidiaries applied for approval of the adoption of the consolidated taxation system and its adoption from the following fiscal year was approved. Therefore, from the fiscal year ended December 31, 2016, deferred tax assets and liabilities have been accounted for assuming the adoption of 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 parent, 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.

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 amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

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

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

● Useful lives of property, plant and equipment and intangible assets (items (7) and (9) of "Significant Accounting Policies)

● Impairment of property, plant and equipment, goodwill and intangible assets (items (8) and (11) of "Significant Accounting Policies")

● Fair value measurement of the financial instruments

● Recoverability of deferred tax assets

● Measurements of defined benefit obligations

● Contingent liabilities

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 group operations and provides various services to its group companies. Business activities are conducted by the Group's subsidiaries and associates.

Centering on healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: "Pharmaceuticals," "Nutraceuticals," "Consumer products" and "Others" businesses.

The Group defines the reportable segments as follows:

"Pharmaceuticals" comprises manufacturing and sales of prescription drugs, intravenous solutions, and others.

"Nutraceuticals" comprises manufacturing and sales of functional beverages, etc., over-the-counter drugs and nutritional supplements.

"Consumer products" comprises manufacturing and sales of mineral water, soft beverages and food products.

"Others" encompass logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

(2) Net sales and performances by reportable segment

Net sales and performances by the Group's reportable segment are as follows.

Segment profit is based on operating profit.

Intersegment sales and transfers are based on market value.

FY2015 (From January 1, 2015 to December 31, 2015)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Consolidated (Note 2)
	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	973,501	306,723	38,216	108,934	1,427,375	–	1,427,375
Intersegment sales or transfers	–	8,647	325	36,238	45,211	(45,211)	–
Total	973,501	315,371	38,541	145,173	1,472,587	(45,211)	1,427,375
Segment profit	146,871	34,438	6,275	963	188,549	(39,662)	148,886
Other items							
Depreciation and amortization expenses	39,201	10,397	1,102	4,784	55,485	3,670	59,156
Share of profit of associates accounted for using equity method	887	646	9,280	1,555	12,370	–	12,370
Capital expenditures	491,029	18,761	5,964	8,009	523,765	2,737	526,502

FY2016 (From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Consolidated (Note 2)
	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	753,005	300,883	35,151	106,507	1,195,547	–	1,195,547
Intersegment sales or transfers	–	10,666	317	34,743	45,727	(45,727)	–
Total	753,005	311,550	35,468	141,251	1,241,275	(45,727)	1,195,547
Segment profit	92,029	32,507	5,451	7,782	137,770	(36,624)	101,145
Other items							
Depreciation and amortization expenses	39,714	10,163	1,138	5,280	56,297	3,277	59,574
Share of profit of associates accounted for using equity method	1,804	504	11,539	2,125	15,974	–	15,974
Capital expenditures	52,163	11,562	2,909	6,303	72,939	2,518	75,457

(Notes) 1. Details of adjustments are as follows.

Segment profit

(Millions of yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Intersegment eliminations	11	287
Unallocated expenses*	(40,995)	(38,012)
Other income	1,320	1,100
Total	(39,662)	(36,624)

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

Other items

Depreciation and amortization expenses

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

Capital expenditures

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

2. Segment profit is adjusted to operating profit as stated in the consolidated statement of income.

(3) Information about products and services

Sales to external customers by product and service are as follows.

(Millions of yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
(Pharmaceuticals)		
ABILIFY	347,470	95,381
Clinical nutrition	106,188	107,398
(Nutraceuticals)		
Functional beverages, etc. *1	115,692	112,553
Functional foods, etc. *2	72,076	74,741
Supplements	95,160	87,922

*1 Functional beverages, etc. consist mainly of *Pocari Sweat*, *Tiovita Drink*, *Oronamin C* and *FIBE-MINI*.

*2 Functional foods, etc. consist mainly of products of Nutrition & Santé SAS (N&S), *Calorie Mate* and *SOYJOY*.

(4) Information by geographical area

Sales to external customers

(Millions of yen)

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Japan	622,513	624,001
U.S.	464,192	305,594
Others	340,669	269,951
Total	1,427,375	1,195,547

(Note) Sales to external customers are classified based on the location of customers.

Non-current assets

(Millions of yen)

	IFRS Transition Date (As of January 1, 2015)	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)
Japan	351,278	343,634	340,942
U.S.	118,526	577,842	540,593
Others	182,284	168,903	159,940
Total	652,089	1,090,379	1,041,475

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

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

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

(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 net sales.

Earnings Per Share

(1) Basis of calculating basic earnings per share

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Profit for the year attributable to owners of parent (Millions of yen)	101,957	92,563
Amount not attributable to ordinary equity holders of parent (Millions of yen)	–	–
Profit for the year used for calculation of basic earnings per share (Millions of yen)	101,957	92,563
Weighted average number of ordinary shares (Thousands of shares)	541,838	541,849
Basic earnings per share (Yen)	188.16	170.82

(2) Basis of calculating diluted earnings per share

	FY2015 (From January 1, 2015 to December 31, 2015)	FY2016 (From January 1, 2016 to December 31, 2016)
Profit for the year used for calculation of basic earnings per share (Millions of yen)	101,957	92,563
Adjustments of profit for the year (Millions of yen)	–	(66)
Profit for the year used for calculation of diluted earnings per share (Millions of yen)	101,957	92,496
Weighted average number of ordinary shares (Thousands of shares)	541,838	541,849
Increase in ordinary shares		
Warrants (Thousands of shares)	42	15
Weighted average number of diluted ordinary shares (Thousands of shares)	541,880	541,865
Diluted earnings per share (Yen)	188.15	170.70

Subsequent Events

Not applicable.

First-time Adoption of IFRS

The Group prepared consolidated financial statements in accordance with the generally accepted accounting principles in Japan (Japanese GAAP) for all periods up to and including the fiscal year ended December 31, 2015. The consolidated financial statements for the fiscal year ended December 31, 2016 are the first consolidated financial statements prepared by the Company in accordance with the International Financial Reporting Standards (IFRS). In the preparation of the consolidated financial statements, the Group has prepared the consolidated opening statement of financial position under IFRS on the IFRS Transition Date.

(1) Exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards”

IFRS requires a company adopting IFRS for the first time to apply the standards required under IFRS retrospectively. However, IFRS 1 allows exemptions from retrospective application of some IFRS requirements on first-time adoption of IFRS.

The Group applied the following exemption:

● Business combinations

It is allowed not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the IFRS Transition Date. The Group did not apply IFRS 3 retrospectively to business combinations that occurred before the IFRS Transition Date.

● Share-based payment transactions

It is allowed not to apply IFRS 2 “Share-based Payment” to share-based payment vested before the IFRS Transition Date. The Group did not apply IFRS 2 retrospectively to share-based payment vested before the IFRS Transition Date.

● Leases

It is allowed to determine whether or not an arrangement contains a lease based on facts and circumstances existing as of the IFRS Transition Date. The Group determined whether or not an arrangement contains a lease based on facts and circumstances existing as of the IFRS Transition Date.

● Cumulative translation differences

It is allowed to deem cumulative translation differences of foreign operations to be zero at the IFRS Transition Date. The Group deemed all cumulative translation differences of foreign operations to be zero as of the IFRS Transition Date.

● Designation of previously recognized financial instruments

It is allowed to designate equity financial assets as financial assets measured through other comprehensive income based on facts and circumstances existing as of the IFRS Transition Date. The Group designated all equity financial assets as financial assets measured through other comprehensive income as of the IFRS Transition Date.

(2) Reconciliations

Reconciliations required to be disclosed in the first-time adoption of IFRS are as follows and include the following content.

The Group has disclosed the “reconciliation of equity (reconciliation from the consolidated balance sheet under Japanese GAAP to the consolidated statement of financial position under IFRS) as of January 1, 2015,” the IFRS Transition Date, which is required under IFRS 1 and the “reconciliation of equity (reconciliation from the consolidated balance sheet under Japanese GAAP to the consolidated statement of financial position under IFRS) as of December 31, 2015,” which is the final date for the consolidated financial statements issued in accordance with Japanese GAAP, and the “reconciliation of comprehensive income (reconciliation from the consolidated statement of comprehensive income and the consolidated statement of income under Japanese GAAP to the consolidated statement of comprehensive income and the consolidated statement of income under IFRS) for the fiscal year ended December 31, 2015.”

Items that do not influence retained earnings and comprehensive income are included in “Adjustments of differences in presentation,” and items that influence retained earnings and comprehensive income are included in “Adjustments of differences in recognition and measurement” in the below reconciliations.

(i) Reconciliation of equity as of January 1, 2015 (IFRS Transition Date)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	523,135	(66,595)	2,550	459,090	J	Cash and cash equivalents
Notes and accounts receivable - trade	406,431	5,276	601	412,309	J	Trade and other receivables
Marketable securities	48,535	(48,535)	–	–	J	
Merchandise and finished goods	80,011	64,362	(1,042)	143,331		Inventories
Work-in process	31,783	(31,783)	–	–		
Raw materials and supplies	41,915	(41,915)	–	–		
	–	17,764	17	17,782	J	Income taxes receivables
Deferred tax assets	37,782	(37,782)	–	–	J	
	–	139,871	(2,181)	137,690	J	Other financial assets
Other (current assets)	76,547	(41,126)	794	36,215	J	Other current assets
Allowance for doubtful accounts	(541)	541	–	–		
Total current assets	1,245,602	(39,922)	740	1,206,420		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	344,784	–	5,679	350,463	A	Property, plant and equipment
Goodwill	93,162	–	(853)	92,308	B	Goodwill
In-process research and development	33,106	(33,106)	–	–	J	
Other (intangible assets)	94,904	33,106	78,577	206,588	B, C, J	Intangible assets
Investment securities	270,804	(270,804)	–	–	J	
Investments in capital	42,538	(42,538)	–	–	J	
Long-term loans receivable	5,636	(5,636)	–	–		
	–	183,385	(358)	183,026	J	Investments accounted for using equity method
	–	145,712	8,408	154,121	D, J	Other financial assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net defined benefit asset	17,486	(1,415)	(16,070)	–	G	
Deferred tax assets	15,476	37,359	(13,168)	39,667	J	Deferred tax assets
Other (investments and other assets)	15,461	(15,461)	–	–	J	
Allowance for investment loss	(78)	78	–	–		
Allowance for doubtful accounts	(759)	759	–	–		
	–	5,996	73	6,069		Other non-current assets
Total non-current assets	932,522	37,435	62,287	1,032,245		Total non-current assets
Deferred assets	59	(59)	–	–		
Total assets	2,178,184	(2,546)	63,027	2,238,665		Total assets

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	130,784	102,274	923	233,982	J	Trade and other payables
Short-term loans payable	70,178	80	1,854	72,112		Bonds and borrowings
Lease obligations	2,139	(2,139)	–	–		
	–	2,136	161	2,297		Other financial liabilities
Accounts payable - other	102,005	(102,005)	–	–	J	
Accrued expenses	67,127	(67,127)	–	–	J	
Income taxes payable	14,498	–	(472)	14,025		Income taxes payables
Provision for bonuses	8,563	(8,563)	–	–	J	
Provision for directors' bonuses	600	(600)	–	–		
Provision for sales returns	13	(13)	–	–		
Other (current liabilities)	41,116	(41,116)	–	–	J	
	–	115,218	14,985	130,204	E, J	Other current liabilities
Total current liabilities	437,026	(1,856)	17,452	452,622		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term loans payable	22,251	20	388	22,660		Bonds and borrowings
Lease obligations	5,800	(5,800)	–	–	J	
	–	5,944	10,660	16,604	F, J	Other financial liabilities
Deferred tax liabilities	12,027	(422)	1,428	13,032	J	Deferred tax liabilities
Net defined benefit liability	10,921	2,674	24,630	38,226	G	Net defined benefit liabilities
Provision for directors' retirement benefits	2,787	(2,787)	–	–		
Negative goodwill	19,691	–	(19,691)	–	B	
	–	478	–	478		Provisions
Other (non-current liabilities)	9,077	(796)	1,095	9,377		Other non-current liabilities
Total non-current liabilities	82,557	(689)	18,511	100,379		Total non-current liabilities
Total liabilities	519,584	(2,546)	35,964	553,002		Total liabilities

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net assets						Equity
Shareholders' equity						
Capital stock	81,690	–	–	81,690		Share capital
Capital surplus	512,747	–	(9,802)	502,945	F	Share premium
Retained earnings	990,906	–	114,772	1,105,678	H	Retained earnings
Treasury shares	(47,415)	–	–	(47,415)		Treasury shares
Accumulated other comprehensive income	89,873	–	(79,787)	10,085	D, G, I	Other components of equity
Minority interests	30,798	–	1,879	32,678		Non-controlling interests
Total net assets	1,658,600	–	27,062	1,685,663		Total equity
Total liabilities and net assets	2,178,184	(2,546)	63,027	2,238,665		Total liabilities and equity

Notes on reconciliation

The main adjustments of differences are as follows:

A. Adjustment to property, plant and equipment

For some subsidiaries that were not consolidated or to which the equity method was applied under Japanese GAAP, the scope of consolidation was reviewed under IFRS and they are considered to be consolidated subsidiaries. Consequently, property, plant and equipment have been capitalized and the adjustments are made to retained earnings.

Incidental costs such as import duties, acquisition taxes and professional fees for acquisition of property, plant and equipment, which were recorded as expenses under Japanese GAAP, are recognized and measured at the amount included in acquisition cost of the property, plant and equipment under IFRS, and the adjustments are made to retained earnings.

B. Adjustment to goodwill and negative goodwill

Under Japanese GAAP, for some business combinations, allocation of acquisition cost was not completed as of the transition date and goodwill was recognized and measured at the amount calculated by the tentative accounting treatment based on reasonable information that was available at that time; however, under IFRS, the finalization of the tentative accounting treatment is retrospectively reflected as of the transition date, and the adjustments are mainly made to intangible assets and retained earnings. In addition, under Japanese GAAP, goodwill of foreign subsidiaries arising from business combinations conducted before April 1, 2010 was translated at exchange rates prevailing at the date of the transaction; however, under IFRS, such goodwill is translated at exchange rates prevailing at the time of closing of accounts. The adjustments are made to other components of equity and immediately transferred to retained earnings.

Under Japanese GAAP, negative goodwill arising from business combinations conducted before April 1, 2010 was recognized as liabilities at the date of the acquisition and amortized on a straight-line basis; however, under IFRS, since such negative goodwill is recognized as a gain at the date of the acquisition, the adjustments are made to retained earnings.

C. Adjustment to intangible assets

Under Japanese GAAP, expenditures for technology introduction contracts and others were recognized as research and development expenses; however, under IFRS, such expenditures that meet the definition of intangible assets under IAS 38 are capitalized, and the adjustments are made to retained earnings.

Under Japanese GAAP, for intangible assets with indefinite useful lives, amortization expenses on intangible assets were recognized on a straight-line basis with the useful life deemed as 20 years; however, under IFRS, because such assets are not amortized, the adjustments are made to retained earnings.

D. Adjustment to other financial assets (non-current)

Under Japanese GAAP, for securities of which the market value significantly decreased, impairment was recognized and acquisition cost was reduced; however, under IFRS, reduction of acquisition cost due to impairment is not made. Under Japanese GAAP, unlisted shares were mainly valued at cost using the moving average method, while under IFRS, such shares are measured at fair value. The adjustments for the resulting differences are made to retained earnings and other components of equity. Furthermore, for some subsidiaries that were not consolidated under Japanese GAAP, the scope of consolidation was reviewed under IFRS and they are considered to be consolidated subsidiaries. Consequently, elimination of investments and recording of assets and liabilities are conducted and the adjustments for the resulting differences are made to retained earnings.

E. Adjustment to other current liabilities

Unused paid absences, which are not required to be accounted for under Japanese GAAP, are recognized in liabilities under IFRS and the adjustments are made to retained earnings.

F. Adjustment to other financial liabilities (non-current)

For put options written on shares of foreign subsidiaries granted by the foreign subsidiaries to owners of non-controlling interests, which are not required to be accounted for under Japanese GAAP, the present value of the option exercise price is recognized as financial liabilities under IFRS, and the adjustments for the resulting differences are made to share premium and retained earnings.

G. Adjustments to retirement benefits

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence and immediately transferred to retained earnings.

Under Japanese GAAP, past service cost is amortized starting in the fiscal year incurred using a straight-line method over a certain period (5 to 23 years), but within the average remaining service period of employees; however, under IFRS, past service cost is recognized in gains or losses at the time of occurrence and immediately transferred to retained earnings.

Under IFRS, unlike Japanese GAAP, when a defined benefit plan is overfunded, the net defined benefit asset is limited to the asset ceiling, and when there are minimum funding requirements for past service, a reduction in assets or an increase in liabilities is made to the extent that minimum funding contributions payable to the plan will not be available as either a refund or a reduction in future contributions. Consequently, the adjustments are made to other comprehensive income and immediately transferred to retained earnings.

Retirement benefit obligations are recalculated in accordance with provisions of IFRS, and the adjustments are made to retained earnings.

H. Adjustments to retained earnings

(Millions of yen)

	IFRS Transition Date (January 1, 2015)
Adjustment to property, plant and equipment (Please refer to Note A)	2,470
Adjustment to goodwill and negative goodwill (Please refer to Note B)	18,838
Adjustment to intangible assets (Please refer to Note C)	76,307
Adjustment to other financial assets (non-current) (Please refer to Note D)	11,549
Adjustment to other current liabilities (Please refer to Note E)	(14,514)
Adjustment to other financial liabilities (non-current) (Please refer to Note F)	(414)
Adjustment related to retirement benefits (Please refer to Note G)	(21,793)
Adjustment to other components of equity (Please refer to Note I)	57,161
Other	(4,710)
Subtotal	124,893
Adjustment of tax effect	(10,121)
Total adjustments to retained earnings	114,772

I. Adjustments to other components of equity

The Group applied the exemption of IFRS 1 and transferred all of cumulative translation differences of foreign operations to retained earnings on IFRS Transition Date.

J. In addition to the above adjustments, the Group makes reclassifications to comply with provisions of IFRS. The major reclassifications are as follows:

● Cash and cash equivalents

Deposits with the deposit term of over three months included in “cash and deposits” under Japanese GAAP are reclassified to “other financial assets (current)” under IFRS.

● Trade and other receivables

Accounts receivable - other included in “other” in current assets under Japanese GAAP is presented as “trade and other receivables” under IFRS.

● Other financial assets (current)

“Marketable securities,” which was presented separately, and short-term loans receivable, etc. included in “other” in current assets under Japanese GAAP are presented as “other financial assets (current)” under IFRS.

● Other current assets

Short-term loans receivable included in “other” in current assets under Japanese GAAP are presented as “other financial assets (current)” under IFRS. In addition, income taxes receivable, etc. included in “other” in current assets under Japanese GAAP are presented separately as “income taxes receivables” under IFRS.

● Investments accounted for using equity method

Investments accounted for using equity method included in “investment securities” and “investments in capital” under Japanese GAAP are presented separately under IFRS.

● Other financial assets (non-current)

Financial assets including shares and bonds presented as “investment securities” under Japanese GAAP are presented as “other financial assets (non-current)” under IFRS. In addition, long-term deposits, long-term loans receivable and lease and guarantee deposits, etc. presented as “other” in investments and other assets under Japanese GAAP are presented as “other financial assets (non-current)” under IFRS.

● Deferred tax assets (non-current) and deferred tax liabilities (non-current)

All current portions of deferred tax assets and deferred tax liabilities are reclassified to non-current portions.

● Trade and other payables

Accounts payable - other, etc. presented as “other” in current liabilities under Japanese GAAP are presented as “trade and other payables” under IFRS.

● Other current liabilities

Advances received, unearned revenue, accrued expenses and accrued consumption taxes included in “provision for bonuses” and “other” in current liabilities under Japanese GAAP are presented as “other current liabilities” under IFRS.

● Other financial liabilities (non-current)

Lease obligations presented as “non-current liabilities” under Japanese GAAP are presented as “other financial liabilities (non-current)” under IFRS.

(ii) Adjustment to equity as of December 31, 2015

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	439,377	21,231	10	460,619	J	Cash and cash equivalents
Notes and accounts receivable - trade	379,459	8,270	113	387,842	J	Trade and other receivables
Marketable securities	127,601	(127,601)	–	–	J	
Merchandise and finished goods	71,254	65,518	(926)	135,846		Inventories
Work-in process	34,725	(34,725)	–	–		
Raw materials and supplies	38,908	(38,908)	–	–		
	–	2,630	(27)	2,603	J	Income taxes receivables
Deferred tax assets	32,455	(32,455)	–	–	J	
	–	109,601	(602)	108,999	J	Other financial assets
Other (current assets)	53,833	(9,572)	408	44,668	J	Other current assets
Allowance for doubtful accounts	(733)	733	–	–		
Total current assets	1,176,882	(35,278)	(1,023)	1,140,580		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	356,422	–	3,138	359,561	A	Property, plant and equipment
Goodwill	233,971	–	10,771	244,743	B	Goodwill
In-process research and development	238,301	(238,301)	–	–	J	
Other (intangible assets)	170,219	238,301	72,689	481,210	B, C, J	Intangible assets
Investment securities	258,928	(258,928)	–	–	J	
Investments in capital	42,917	(42,917)	–	–	J	
Long-term loans receivable	5,600	(5,600)	–	–		
	–	175,560	202	175,762	J	Investments accounted for using equity method
	–	140,670	14,966	155,637	D, J	Other financial assets

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net defined benefit asset	22,769	(1,889)	(20,880)	–	G	
Deferred tax assets	7,397	14,105	(11,942)	9,560	J	Deferred tax assets
Other (investments and other assets)	15,833	(15,833)	–	–	J	
Allowance for investment loss	(75)	75	–	–		
Allowance for doubtful accounts	(707)	707	–	–		
	–	8,223	1	8,224		Other non-current assets
Total non-current assets	1,351,578	14,173	68,948	1,434,700		Total non-current assets
Deferred assets	49	(49)	–	–		
Total assets	2,528,510	(21,154)	67,924	2,575,280		Total assets

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	82,690	66,458	945	150,093	J	Trade and other payables
Short-term loans payable	79,679	20	838	80,538		Bonds and borrowings
Lease obligations	2,106	(2,106)	–	–		
	–	2,616	157	2,774		Other financial liabilities
Accounts payable - other	66,454	(66,454)	–	–	J	
Accrued expenses	169,960	(169,960)	–	–	J	
Income taxes payable	19,336	–	(374)	18,961		Income taxes payables
Provision for bonuses	14,149	(14,149)	–	–	J	
Provision for directors' bonuses	259	(259)	–	–		
Provision for sales returns	11	(11)	–	–		
Other (current liabilities)	32,428	(32,428)	–	–	J	
	–	2,082	(25)	2,056		Provisions
	–	211,451	14,160	225,612	E, J	Other current liabilities
Total current liabilities	467,075	(2,740)	15,701	480,036		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term loans payable	234,229	–	62	234,292		Bonds and borrowings
Lease obligations	5,299	(5,299)	–	–	J	
	–	5,427	3,669	9,097	F, J	Other financial liabilities
Deferred tax liabilities	99,941	(18,349)	1,899	83,491	J	Deferred tax liabilities
Provision for directors' retirement benefits	2,495	(2,495)	–	–		
Net defined benefit liability	9,753	2,495	18,902	31,151	G	Net defined benefit liabilities
Negative goodwill	17,227	–	(17,227)	–	B	
	–	487	–	487		Provisions
Other (non-current liabilities)	9,051	(680)	982	9,353		Other non-current liabilities
Total non-current liabilities	377,998	(18,414)	8,289	367,873		Total non-current liabilities
Total liabilities	845,073	(21,154)	23,990	847,910		Total liabilities

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net assets						Equity
Shareholders’ equity						
Capital stock	81,690	–	–	81,690		Share capital
Capital surplus	512,702	–	(9,317)	503,384	F	Share premium
Retained earnings	1,025,663	–	133,874	1,159,537	H	Retained earnings
Treasury shares	(47,262)	–	–	(47,262)		Treasury shares
Accumulated other comprehensive income	81,952	–	(80,839)	1,113	D, G, I	Other components of equity
Minority interests	28,689	–	216	28,906		Non-controlling interests
Total net assets	1,683,436	–	43,933	1,727,370		Total equity
Total liabilities and net assets	2,528,510	(21,154)	67,924	2,575,280		Total liabilities and equity

Notes on reconciliation

The main adjustments of differences are as follows:

A. Adjustment to property, plant and equipment

Incidental costs such as import duties, acquisition taxes and professional fees for acquisition of property, plant and equipment, which were recorded as expenses under Japanese GAAP, are recognized and measured at the amount included in acquisition cost of the property, plant and equipment under IFRS, and the adjustments are made to retained earnings.

B. Adjustment to goodwill and negative goodwill

Under Japanese GAAP, for some business combinations, allocation of acquisition cost was not completed as of the transition date and goodwill was recognized and measured at the amount calculated by the tentative accounting treatment based on reasonable information that was available at that time; however, under IFRS, the finalization of the tentative accounting treatment is retrospectively reflected as of the transition date, and the adjustments are mainly made to intangible assets and retained earnings. In addition, under Japanese GAAP, goodwill of foreign subsidiaries arising from business combinations conducted before April 1, 2010 was translated at exchange rates prevailing at the date of the transaction; however, under IFRS, such goodwill is translated at exchange rates prevailing at the time of closing of accounts, and the adjustments are made to other components of equity. Differences recognized as of the IFRS Transition Date are transferred to retained earnings. Under Japanese GAAP, goodwill was amortized over the period in which its effects were expected to occur; however, under IFRS, goodwill has not been amortized since the transition date.

Under Japanese GAAP, negative goodwill arising from business combinations conducted before April 1, 2010 was recognized as liabilities at the date of the acquisition and amortized on a straight-line basis; however, under IFRS, since such negative goodwill is recognized as a gain at the date of the acquisition, the adjustments are made to retained earnings.

C. Adjustment to intangible assets

Under Japanese GAAP, expenditures for technology introduction contracts and others were recognized as research and development expenses; however, under IFRS, such expenditures that meet the definition of intangible assets under IAS 38 are capitalized, and amortization expenses and impairment losses arising after the commencement of amortization are recognized in selling, general and administrative expenses.

Under Japanese GAAP, for intangible assets with indefinite useful lives, amortization expenses on intangible assets was recognized on a straight-line basis with the useful life deemed as 20 years; however, under IFRS, such assets are not amortized.

D. Adjustment to other current assets (non-current)

Under Japanese GAAP, for securities of which the market value significantly decreased, impairment was recognized and acquisition cost was reduced; however, under IFRS, reduction of acquisition cost due to impairment is not made. Under Japanese GAAP, unlisted shares were mainly valued at cost using the moving average method, while under IFRS, such shares are measured at fair value. The adjustments for the resulting differences are made to retained earnings and other components of equity.

E. Adjustment to other current liabilities

Unused paid absences, which are not required to be accounted for under Japanese GAAP, are recognized in liabilities under IFRS and the adjustments are made to retained earnings.

F. Adjustment to other financial liabilities (non-current)

For put options written on shares of foreign subsidiaries granted by the foreign subsidiaries to owners of non-controlling interests, which are not required to be accounted for under Japanese GAAP, the present value of the option exercise price is recognized as financial liabilities under IFRS, and the adjustments for the resulting differences are made to share premium and retained earnings.

G. Adjustments to retirement benefits

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence and immediately transferred to retained earnings.

Under Japanese GAAP, past service cost is amortized starting in the fiscal year incurred using a straight-line method over a certain period (5 to 23 years), but within the average remaining service period of employees; however, under IFRS, past service cost is recognized in gains or losses at the time of occurrence and immediately transferred to retained earnings.

Under IFRS, unlike Japanese GAAP, when a defined benefit plan is overfunded, the net defined benefit asset is limited to the asset ceiling, and when there are minimum funding requirements for past service, a reduction in assets or an increase in liabilities is made to the extent that minimum funding contributions payable to the plan will not be available as either a refund or a reduction in future contributions. Consequently, the adjustments are made to other comprehensive income and immediately transferred to retained earnings.

Retirement benefit obligations are recalculated in accordance with provisions of IFRS, and the adjustments are made to retained earnings.

H. Adjustments to retained earnings

(Millions of yen)

	FY2015 (As of December 31, 2015)
Adjustment to property, plant and equipment (Please refer to Note A)	2,467
Adjustment to goodwill and negative goodwill (Please refer to Note B)	30,350
Adjustment to intangible assets (Please refer to Note C)	72,692
Adjustment to other financial assets (non-current) (Please refer to Note D)	15,031
Adjustment to other current liabilities (Please refer to Note E)	(13,450)
Adjustment to other financial liabilities (non-current) (Please refer to Note F)	6,396
Adjustment related to retirement benefits (Please refer to Note G)	(26,757)
Adjustment to other components of equity (Please refer to Note I)	57,161
Other	(1,447)
Subtotal	142,443
Adjustment of tax effect	(8,569)
Total adjustments to retained earnings	133,874

I. Adjustments to other components of equity

The Group applied the exemption of IFRS 1 and transferred all of cumulative translation differences of foreign operations to retained earnings on IFRS Transition Date.

J. In addition to the above adjustments, the Group makes reclassifications to comply with provisions of IFRS. The major reclassifications are as follows:

● Cash and cash equivalents

Deposits with the deposit term of over three months included in “cash and deposits” under Japanese GAAP are reclassified to “other financial assets (current)” under IFRS. In addition, cash equivalents included in “marketable securities” under Japanese GAAP are presented as “cash and cash equivalents” under IFRS.

● Trade and other receivables

Accounts receivable - other included in “other” in current assets under Japanese GAAP is presented as “trade and other receivables” under IFRS.

● Other financial assets (current)

“Marketable securities,” which was presented separately, and short-term loans receivable, etc. included in “other” in current assets under Japanese GAAP are presented as “other financial assets (current)” under IFRS.

● Other current assets

Short-term loans receivable included in “other” in current assets under Japanese GAAP are presented as “other financial assets (current)” under IFRS. In addition, income taxes receivable, etc. included in “other” in current assets under Japanese GAAP are presented separately as “income taxes receivables” under IFRS.

● Intangible assets

“In-process research and development” which was presented as non-current assets under Japanese GAAP are presented as intangible assets.

● Investments accounted for using equity method

Investments accounted for using equity method included in “investment securities” and “investments in capital” under Japanese GAAP are presented separately under IFRS.

● Other financial assets (non-current)

Financial assets including shares and bonds presented as “investment securities” under Japanese GAAP are presented as “other financial assets (non-current)” under IFRS. In addition, long-term deposits, long-term loans receivable and lease and guarantee deposits, etc. presented as “other” in investments and other assets under Japanese GAAP are presented as “other financial assets (non-current)” under IFRS.

● Deferred tax assets (non-current) and deferred tax liabilities (non-current)

All current portions of deferred tax assets and deferred tax liabilities are reclassified to non-current portions.

● Trade and other payables

Accounts payable - other, etc. presented as “other” in current liabilities under Japanese GAAP are presented as “trade and other payables” under IFRS.

● Other current liabilities

Advances received, unearned revenue and accrued consumption taxes included in “provision for bonuses” “accrued expenses” and “other” in current liabilities under Japanese GAAP are presented as “other current liabilities” under IFRS.

● Other financial liabilities (non-current)

Lease obligations presented as “non-current liabilities” under Japanese GAAP are presented as “other financial liabilities (non-current)” under IFRS.

(iii) Reconciliation of profit or loss and comprehensive income for the fiscal year ended December 31, 2015

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
(Consolidated Statement of Income)						
Net sales	1,445,227	(19,952)	2,101	1,427,375	A, I	Net sales
Cost of sales	(449,270)	592	(3,788)	(452,466)	B, I	Cost of sales
Gross profit	995,956	(19,360)	(1,687)	974,909		Gross profit
Selling, general and administrative expenses	(844,118)	203,848	3,869	(636,400)	C, I	Selling, general and administrative expenses
	–	(203,025)	278	(202,747)	D, I	Research and development expenses
	–	8,032	4,338	12,370	E, I	Share of profit of associates accounted for using equity method
	–	9,803	(4,495)	5,307	F, I	Other income
	–	(5,683)	1,131	(4,552)	I	Other expenses
Operating income	151,837	(6,386)	3,435	148,886		Operating profit
Non-operating income	16,364	(16,364)	–	–		
Non-operating expenses	(8,301)	8,301	–	–		
Extraordinary income	4,994	(4,994)	–	–		
Extraordinary losses	(26,727)	26,727	–	–		
	–	3,286	6,709	9,996	G, I	Finance income
	–	(10,012)	2,176	(7,836)	I	Finance costs
	–	(557)	(189)	(746)	I	Loss on sales of shares of subsidiaries and associates
Income before income taxes and minority interests	138,167	–	12,132	150,299		Profit before tax
Total income taxes	(56,446)	–	5,526	(50,919)	H	Income tax expenses
Income before minority interests	81,721	–	17,658	99,380		Profit for the year

Accounts under Japanese GAAP	Japanese GAAP	Adjustments of differences in presentation	Adjustments of differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
(Consolidated Statements of Comprehensive Income)						
Income before minority interests	81,721	–	17,658	99,380		Profit for the year
Other comprehensive income						Other comprehensive income
Valuation difference on available-for-sale securities	13,999	–	(422)	13,577	K	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(6,234)	–	6,801	566	J	Remeasurements of defined benefit plans
Deferred gains or losses on hedges	(262)	–	–	(262)		Cash flow hedges
Foreign currency translation adjustment	(9,322)	–	(2,731)	(12,053)		Translation differences of foreign operations
Share of other comprehensive income of entities accounted for using equity method	(7,581)	–	(3,773)	(11,355)		Share of other comprehensive income of entities accounted for using equity method
Total other comprehensive income	(9,401)	–	(125)	(9,526)		Other comprehensive income, net of tax
Comprehensive income	72,319	–	17,533	89,853		Comprehensive income

Notes on reconciliation

A. Adjustments to net sales

For some subsidiaries to which the equity method was applied under Japanese GAAP, the scope of consolidation was reviewed under IFRS and they are considered to be consolidated subsidiaries. Consequently, the adjustments are made.

B. Adjustments to cost of sales

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence and immediately transferred to retained earnings.

Under Japanese GAAP, past service cost is amortized starting in the fiscal year incurred using a straight-line method over a certain period (5 to 23 years), but within the average remaining service period of employees; however, under IFRS, past service cost is recognized in gains or losses at the time of occurrence.

For some subsidiaries to which the equity method was applied under Japanese GAAP, the scope of consolidation was reviewed under IFRS and they are considered to be consolidated subsidiaries. Consequently, the adjustments are made.

C. Adjustments to selling, general and administrative expenses

Under Japanese GAAP, goodwill was amortized over the period in which its effects were expected to occur; however, under IFRS, goodwill has not been amortized since the transition date.

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence and immediately transferred to retained earnings.

Under Japanese GAAP, past service cost is amortized starting in the fiscal year incurred using a straight-line method over a certain period (5 to 23 years), but within the average remaining service period of employees; however, under IFRS, past service cost is recognized in gains or losses at the time of occurrence.

Retirement benefit obligations are recalculated in accordance with provisions of IFRS, and the adjustments are made to retained earnings.

Under Japanese GAAP, expenditures for technology introduction contracts and others were recognized as research and development expenses; however, under IFRS, such expenditures that meet the definition of intangible assets under IAS 38 are capitalized and amortized over the estimated useful life, and impairment loss is recorded or reversed as necessary. Consequently, under IFRS, amortization expenses and impairment loss on trademarks, distribution rights and others have increased compared with those under Japanese GAAP. The amortization expenses and impairment loss are included in selling, general and administrative expenses.

Under Japanese GAAP, for intangible assets with indefinite useful lives, amortization expenses on intangible assets was recognized on a straight-line basis with the useful life deemed as 20 years; however, under IFRS, such assets are not amortized.

D. Adjustments to research and development expenses

Under Japanese GAAP, expenditures for technology introduction contracts and others were recognized as research and development expenses; however, under IFRS, such expenditures that meet the definition of intangible assets under IAS 38 are capitalized, and impairment loss is recorded or reversed as necessary. Under IFRS, such recording or reversal of impairment loss is recognized in research and development expenses.

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence and immediately transferred to retained earnings.

Under Japanese GAAP, past service cost is amortized starting in the fiscal year incurred using a straight-line method over a certain period (5 to 23 years), but within the average remaining service period of employees; however, under IFRS, past service cost is recognized in gains or losses at the time of occurrence.

Retirement benefit obligations are recalculated in accordance with provisions of IFRS, and the adjustments are made to retained earnings.

E. Adjustments to share of profit of associates accounted for using equity method

Under Japanese GAAP, goodwill on associates was amortized over the period in which its effects were expected to occur, and recognized as share of profit of associates accounted for using equity method; however, under IFRS, goodwill has not been amortized since the transition date.

F. Adjustments to other income

Under Japanese GAAP, negative goodwill arising from business combinations conducted before April 1, 2010 was recognized as liabilities at the date of the acquisition and amortized on a straight-line basis; however, under IFRS, since such negative goodwill is recognized as a gain at the date of the acquisition, the negative goodwill is not amortized.

G. Adjustments to finance income

For put options written on shares of foreign subsidiaries granted by the foreign subsidiaries to owners of non-controlling interests, which are not required to be accounted for under Japanese GAAP, the present value of the option exercise price is recognized as financial liabilities, and any changes after the initial recognition are recognized in profit or loss.

H. Adjustments to income tax expenses

Under Japanese GAAP, deferred tax assets associated with unrealized gains or losses were calculated using the effective tax rate of the seller; however, under IFRS, such deferred tax assets are calculated using the effective tax rate of the buyer. In addition, adjustments are made to the amount of income tax expenses due to temporary differences arising as a result of adjustments of other differences with IFRS and other factors.

I. In addition to the above adjustments, the Group makes reclassifications to comply with provisions of IFRS. The major reclassifications are as follows:

● Net sales

Payments of certain sales rebates were included in “cost of sales” and “selling, general and administrative expenses” under Japanese GAAP; however, they are deducted from “net sales” under IFRS.

● Selling, general and administrative expenses

Payments of certain sales rebates were included in “cost of sales” and “selling, general and administrative expenses” under Japanese GAAP; however, they are deducted from “net sales” under IFRS.

Impairment loss other than in-process research and development was included in “impairment loss” in extraordinary losses under Japanese GAAP; however, it is included in “selling, general and administrative expenses” under IFRS.

● Research and development expenses

Research and development expenses was included in “selling, general and administrative expenses,” while impairment loss of in-process research and development was included in “impairment loss” in “extraordinary losses” under Japanese GAAP; however, they are aggregated and presented separately as “research and development expenses” under IFRS.

● Share of profit of associates accounted for using equity method

Equity in earnings of affiliates was included in “non-operating income” under Japanese GAAP; however, it is presented separately as “share of profit of associates accounted for using equity method” under IFRS.

● Other income, other expenses, finance income, finance costs and loss on sales of shares of subsidiaries and associates

Of the items included in non-operating income, non-operating expenses, extraordinary income and extraordinary losses under Japanese GAAP, items related to finance are reclassified to finance income and finance costs, while other items are reclassified to “selling, general and administrative expenses,” “research and development expenses,” “other income,” “other expenses” and “loss on sales of shares of subsidiaries and associates” under IFRS.

J. Remeasurements of defined benefit plans

Under Japanese GAAP, for actuarial gains or losses, the amount was amortized by the straight-line method over a period within the average remaining service period (5 to 20 years) of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in other comprehensive income at the time of occurrence. Under IFRS, unlike Japanese GAAP, when a defined benefit plan is overfunded, the net defined benefit asset is limited to the asset ceiling, and when there are minimum funding requirements for past service, a reduction in assets or an increase in liabilities is made to the extent that minimum funding contributions payable to the plan will not be available as either a refund or a reduction in future contributions. Consequently, the adjustments are made to other comprehensive income.

K. Financial assets measured at fair value through other comprehensive income

Some equity instruments of which the balance sheet amount was the acquisition cost under Japanese GAAP are measured at fair value under IFRS, and the adjustments for the resulting differences are made to other comprehensive income. In addition, losses from valuation of equity instruments that were impaired under Japanese GAAP are recognized in other comprehensive income under IFRS.

(iv) Adjustments to cash flows

The material differences between the Consolidated Statement of Cash Flows disclosed in accordance with Japanese GAAP and the Consolidated Statement of Cash Flows disclosed in accordance with IFRS are as follows.

The expenditures associated with research and development expenses were classified as cash flows from operating activities under Japanese GAAP because they were recognized as expenses when they were incurred, while under IFRS, the capitalized research and development expenses have been classified as cash flows from investing activities.

As a result, cash flows from investing activities decreased by ¥2,726 million and cash flows from operating activities increased by the same amount.