KIRIN HOLDINGS COMPANY, LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Consolidated Statement of Financial Position

Kirin Holdings Company, Limited and Consolidated Subsidiaries
At December 31, 2020 and 2019

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
ASSETS		
Non-current assets		
Property, plant and equipment (Notes 6, 9 and 18)	¥ 561,253	**¥ 521,919**
Goodwill (Notes 7 and 9)	233,899	**245,709**
Intangible assets (Notes 8, 9 and 18)	168,905	**209,291**
Equity-accounted investees (Notes 5 and 36)	384,756	**387,467**
Other financial assets (Note 10)	139,018	**105,740**
Other non-current assets (Note 19)	18,248	**21,162**
Deferred tax assets (Note 11)	94,656	**101,533**
Total non-current assets	1,600,735	**1,592,821**
Current assets		
Inventories (Note 12)	219,200	**217,176**
Trade and other receivables (Note 13)	395,656	**372,146**
Other financial assets (Note 10)	7,441	**7,948**
Other current assets	24,171	**33,941**
Cash and cash equivalents (Note 14)	165,671	**161,667**
(Sub-total)	812,139	**792,878**
Assets held for sale (Note 15)	-	**73,664**
Total current assets	812,139	**866,542**
Total assets	¥2,412,874	**¥2,459,363**

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Equity		
Share capital (Note 16)	¥ 102,046	**¥ 102,046**
Share premium (Note 16)	24,853	**24,940**
Retained earnings (Note 16)	958,292	**980,903**
Treasury shares (Note 16)	(124,999)	**(201,783)**
Reserves (Note 16)	(53,615)	**(67,522)**
Equity attributable to owners of the Company	906,576	**838,584**
Non-controlling interests (Note 35)	240,249	**257,355**
Total equity	1,146,825	**1,095,939**
Liabilities		
Non-current liabilities		
Bonds and borrowings (Notes 17 and 28)	291,207	**393,610**
Other financial liabilities (Notes 17, 18 and 28)	141,058	**140,343**
Defined benefit liability (Note 19)	65,274	**66,890**
Provisions (Note 20)	4,816	**4,456**
Other non-current liabilities (Note 22)	5,538	**3,408**
Deferred tax liabilities (Note 11)	20,786	**17,243**
Total non-current liabilities	528,679	**625,950**
Current liabilities		
Bonds and borrowings (Notes 17 and 28)	239,644	**249,033**
Trade and other payables (Note 21)	231,051	**220,277**
Other financial liabilities (Notes 17, 18 and 28)	64,658	**63,781**
Current tax liabilities	23,497	**8,707**
Provisions (Note 20)	5,690	**3,961**
Other current liabilities (Note 22)	172,831	**164,692**
(Sub-total)	737,370	**710,451**
Liabilities directly associated with assets held for sale (Note 15)	-	**27,024**
Total current liabilities	737,370	**737,475**
Total liabilities	1,266,049	**1,363,424**
Total equity and liabilities	¥2,412,874	**¥2,459,363**

Consolidated Statement of Profit or Loss

Kirin Holdings Company, Limited and Consolidated Subsidiaries
For the years ended December 31, 2020 and 2019

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Revenue (Notes 5 and 23)	¥1,941,305	**¥1,849,545**
Cost of sales	1,093,743	**1,045,662**
Gross profit	847,561	**803,883**
Selling, general and administrative expenses (Note 24)	656,807	**641,768**
Other operating income (Notes 9 and 25)	6,626	**6,376**
Other operating expenses (Notes 9 and 26)	109,654	**65,572**
Operating profit	87,727	**102,919**
Finance income (Note 27)	4,822	**5,400**
Finance costs (Note 27)	9,448	**8,521**
Share of profit of equity-accounted investees (Note 36)	33,722	**24,752**
Profit before tax	116,823	**124,550**
Income tax expense (Note 11)	35,385	**24,709**
Profit	81,438	**99,842**
Profit attributable to:		
Owners of the Company	59,642	**71,935**
Non-controlling interests (Note 35)	21,796	**27,907**
Profit	¥ 81,438	**¥ 99,842**
Earnings per share (Yen) (Note 30)		
Basic earnings per share	¥ 68.00	**¥ 85.57**
Diluted earnings per share	67.98	**85.54**

Consolidated Statement of Comprehensive Income

Kirin Holdings Company, Limited and Consolidated Subsidiaries
For the years ended December 31, 2020 and 2019

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Profit	¥81,438	**¥99,842**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in equity instruments measured at fair value through other comprehensive income (Note 29)	(2,174)	(10,513)
Remeasurements of defined benefit plans (Note 29)	6,551	512
Share of other comprehensive income of equity-accounted investees (Note 29)	442	(139)
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences on foreign operations (Note 29)	(1,041)	(1,028)
Cash flow hedges (Note 29)	283	407
Share of other comprehensive income of equity-accounted investees (Note 29)	(6,593)	2,754
Total other comprehensive income	(2,532)	(8,008)
Comprehensive income	¥78,906	¥91,834

Comprehensive income attributable to:		
Owners of the Company	¥54,134	¥64,028
Non-controlling interests (Note 35)	24,772	27,806
Comprehensive income	¥78,906	¥91,834

Consolidated Statement of Changes in Equity

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the year ended December 31, 2019

(¥ millions)

	Equity attributable to owners of the Company			
	Share capital	Share premium	Retained earnings	Treasury shares
Balance at January 1, 2019	¥102,046	¥ 2,238	¥932,789	¥(101,904)
Effect of changes in accounting policies	-	-	(1,262)	-
Restated balance at January 1, 2019	102,046	2,238	931,526	(101,904)
Profit	-	-	59,642	-
Other comprehensive income	-	-	-	-
Comprehensive income	-	-	59,642	-
Dividends from surplus (Note 16)	-	-	(51,366)	-
Acquisition of treasury shares (Note 16)	-	-	-	(23,253)
Disposal of treasury shares (Note 16)	-	(0)	-	6
Share-based payments (Note 31)	-	(13)	-	153
Changes in the ownership interest in a subsidiary without a loss of control	-	22,628	-	-
Transfer from reserves to retained earnings	-	-	18,832	-
Other	-	-	(343)	-
Total transactions with owners of the Company	-	22,615	(32,877)	(23,095)
Balance at December 31, 2019	¥102,046	¥24,853	¥958,292	¥(124,999)

	Equity attributable to owners of the Company							
	Reserves							
	Net change in equity instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Foreign currency translation differences on foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance at January 1, 2019	¥56,863	¥ -	¥(84,189)	¥(1,263)	¥(28,590)	¥906,578	¥284,840	¥1,191,418
Effect of changes in accounting policies	-	-	-	-	-	(1,262)	(215)	(1,477)
Restated balance at January 1, 2019	56,863	-	(84,189)	(1,263)	(28,590)	905,316	284,625	1,189,941
Profit	-	-	-	-	-	59,642	21,796	81,438
Other comprehensive income	(1,926)	5,172	(9,035)	280	(5,508)	(5,508)	2,976	(2,532)
Comprehensive income	(1,926)	5,172	(9,035)	280	(5,508)	54,134	24,772	78,906
Dividends from surplus (Note 16)	-	-	-	-	-	(51,366)	(14,034)	(65,400)
Acquisition of treasury shares (Note 16)	-	-	-	-	-	(23,253)	-	(23,253)
Disposal of treasury shares (Note 16)	-	-	-	-	-	6	-	6
Share-based payments (Note 31)	-	-	-	-	-	140	(36)	104
Changes in the ownership interest in a subsidiary without a loss of control	133	-	(839)	-	(706)	21,923	(55,078)	(33,156)
Transfer from reserves to retained earnings	(13,660)	(5,172)	-	-	(18,832)	-	-	-
Other	-	-	20	-	20	(323)	(1)	(323)
Total transactions with owners of the Company	(13,527)	(5,172)	(819)	-	(19,517)	(52,874)	(69,149)	(122,022)
Balance at December 31, 2019	¥41,410	¥ -	¥(94,043)	¥ (983)	¥(53,615)	¥906,576	¥240,249	¥1,146,825

For the year ended December 31, 2020

(¥ millions)

	Equity attributable to owners of the Company			
	Share capital	Share premium	Retained earnings	Treasury shares
Balance at January 1, 2020	¥102,046	¥ 24,853	¥958,292	¥(124,999)
Profit	-	-	71,935	-
Other comprehensive income	-	-	-	-
Comprehensive income	-	-	71,935	-
Dividends from surplus (Note 16)	-	-	(55,326)	-
Acquisition of treasury shares (Note 16)	-	-	-	(76,796)
Disposal of treasury shares (Note 16)	-	(1)	-	3
Share-based payments (Note 31)	-	28	-	9
Changes in the ownership interest in a subsidiary without a loss of control	-	60	-	-
Transfer from reserves to retained earnings	-	-	6,003	-
Other	-	1	-	-
Total transactions with owners of the Company	-	87	(49,323)	(76,784)
Balance at December 31, 2020	¥102,046	¥24,940	¥980,903	¥(201,783)

	Equity attributable to owners of the Company							
	Reserves							
	Net change in equity instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Foreign currency translation differences on foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance at January 1, 2020	¥41,410	¥ -	¥(94,043)	¥(983)	¥(53,615)	¥906,576	¥240,249	¥1,146,825
Profit	-	-	-	-	-	71,935	27,907	99,842
Other comprehensive income	(10,095)	(554)	2,337	406	(7,907)	(7,907)	(101)	(8,008)
Comprehensive income	(10,095)	(554)	2,337	406	(7,907)	64,028	27,806	91,834
Dividends from surplus (Note 16)	-	-	-	-	-	(55,326)	(10,946)	(66,273)
Acquisition of treasury shares (Note 16)	-	-	-	-	-	(76,796)	-	(76,796)
Disposal of treasury shares (Note 16)	-	-	-	-	-	2	-	2
Share-based payments (Note 31)	-	-	-	-	-	38	(155)	(118)
Changes in the ownership interest in a subsidiary without a loss of control	(0)	-	4	-	3	63	371	434
Transfer from reserves to retained earnings	(6,557)	554	-	-	(6,003)	-	-	-
Other	-	-	0	-	0	1	31	32
Total transactions with owners of the Company	(6,558)	554	4	-	(6,000)	(132,020)	(10,700)	(142,720)
Balance at December 31, 2020	¥24,757	¥ -	¥(91,702)	¥ (577)	¥(67,522)	¥838,584	¥257,355	¥1,095,939

Consolidated Statement of Cash Flows

Kirin Holdings Company, Limited and Consolidated Subsidiaries
For the years ended December 31, 2020 and 2019

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Cash flows from operating activities		
Profit before tax	¥116,823	**¥124,550**
Depreciation and amortization	80,742	**82,109**
Impairment losses	64,318	**29,619**
Interest and dividends received	(4,511)	**(2,752)**
Share of profit of equity-accounted investees	(33,722)	**(24,752)**
Interest paid	6,700	**4,890**
Gain on sale of property, plant and equipment and intangible assets	(3,218)	**(1,629)**
Loss on disposal and sale of property, plant and equipment and intangible assets	1,956	**1,704**
Gain on sale of shares of subsidiaries	-	**(42)**
(Increase) decrease in trade receivables	6,182	**3,781**
(Increase) decrease in inventories	(17,248)	**(6,081)**
Increase (decrease) in trade payables	(8,039)	**(1,106)**
Increase (decrease) in liquor taxes payable	(5,021)	**(392)**
Other	(2,027)	**(7,100)**
Sub-total	202,935	**202,800**
Interest and dividends received	19,717	**21,470**
Interest paid	(6,398)	**(4,791)**
Income taxes paid	(37,428)	**(54,641)**
Cash flows from operating activities	178,826	**164,839**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(96,397)	**(93,026)**
Proceeds from sale of property, plant and equipment and intangible assets	5,876	**2,083**
Acquisition of investments	(3,674)	**(606)**
Proceeds from sale of investments	37,265	**19,401**
Acquisition of shares of subsidiaries, net of cash acquired (Note 38)	(4,508)	**(39,628)**
Proceeds from sale of shares of subsidiaries, net of cash disposed of (Note 28)	21,087	**18**
Acquisition of equity-accounted investees	(134,497)	**(1,885)**
Other	(772)	**(2,339)**
Cash flows from (used in) investing activities	(175,619)	**(115,981)**
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	393	**356**
Increase (decrease) in commercial paper	127,000	**28,003**
Proceeds from long-term borrowings	40,659	**135,000**
Repayment of long-term borrowings	(69,596)	**(86,570)**
Proceeds from issuance of bonds	70,000	**60,000**
Payment for redemption of bonds	(50,000)	**(20,000)**
Repayment of lease liabilities	(16,437)	**(16,554)**
Payment for acquisition of treasury shares	(23,270)	**(76,811)**
Payment for acquisition of treasury shares by a consolidated subsidiary	(22,601)	**(14)**
Payment for settlement of derivatives	-	**(5,091)**
Dividends paid (Note 16)	(51,366)	**(55,326)**
Dividends paid to non-controlling interests	(13,871)	**(14,815)**
Other	(909)	**(652)**
Cash flows used in financing activities (Note 28)	(9,997)	**(52,474)**
Effect of exchange rate changes on cash and cash equivalents	(641)	**(388)**
Net increase (decrease) in cash and cash equivalents	(7,431)	**(4,004)**
Cash and cash equivalents at beginning of year	173,102	**165,671**
Cash and cash equivalents at end of year (Note 14)	¥165,671	**¥161,667**

Notes to Consolidated Financial Statements

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2020 and 2019

1. REPORTING ENTITY

Kirin Holdings Company, Limited ("the Company") is a corporation domiciled in Japan. Its registered address is disclosed on the Company's website (https://www.kirinholdings.co.jp/).

The Company and its subsidiaries ("the Group") are involved in the production and sale of alcoholic beverages, soft drinks, and pharmaceutical products, and other related businesses.

2. BASIS OF PREPARATION

(1) COMPLIANCE WITH IFRS

In accordance with Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Group's consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") as the Group meets the requirements concerning the "Specified Company Complying with Designated International Accounting Standards" prescribed in Article 1-2 of the Ordinance.

(2) AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements were authorized for issue by Yoshinori Isozaki, President & CEO of the Company, and Noriya Yokota, Director of the Board, Senior Executive Officer of the Company, on March 30, 2021.

(3) BASIS OF MEASUREMENT

The Group's consolidated financial statements have been prepared based on historical cost, except for specific financial instruments and other assets as set out in Note 3. Significant accounting policies.

(4) FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and all amounts have been rounded to the nearest million, unless otherwise indicated.

(5) KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Group's consolidated financial statements include accounting judgments by management and management's estimates and assumptions concerning the measurement of income, expenses, assets and liabilities and the disclosure of contingencies at the reporting date. By their nature, actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed by management on an ongoing basis. The effects of any revisions to these estimates and assumptions are recognized in the period of the revisions and subsequent periods.

Accounting judgments that have significant effects on the amounts recognized in the Group's consolidated financial statements are as follows:

- Determination of cash-generating units or groups of cash-generating units in impairment tests for property, plant and equipment, goodwill and intangible assets (Note 9. Impairment of non-financial assets)

Moreover, estimates and assumptions that have significant effects on the amounts recognized in the Group's consolidated financial statements are as follows:

- Valuation of property, plant and equipment, goodwill and intangible assets (Note 9. Impairment of non-financial assets)
- Recoverability of deferred tax assets and uncertainty over income tax treatments (Note 11. Income tax)

Taking account of the impacts of a decline in sales due to the suspension of operations at restaurants and other outlets, and restrictions on the activities of each business amid the spread of COVID-19 and other factors, the Company has reviewed its accounting estimates and assumptions. Although there will be differences among the businesses and operating areas of the Group, the Company assumes that the spread of COVID-19 will be confined by the end of the year ending December 31, 2021 and that the declined demand will recover in the next few years. These assumptions have been reflected in the accounting estimates. However, the actual time of recovery is uncertain and future development may have an impact on the accounting estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

(1) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, and interests in associates and joint arrangements.

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date on which control commences until the date on which control ceases.

A subsidiary with a different reporting period is consolidated based on its additional financial statements at the consolidated reporting date.

Changes in the ownership interest of a subsidiary without a loss of control are accounted for as equity transactions. Any difference between the adjustment of non-controlling interests and the fair value of the consideration received is recognized directly in equity as equity attributable to owners of the Company. If control over a subsidiary is lost, the Company derecognizes the subsidiary's assets and liabilities and the non-controlling interests related to the subsidiary. Any interest retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss related to the loss of control is accounted for as profit or loss.

Intra-group balances of receivables and payables, intra-group transactions, and unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method from the date on which significant influence commence until the date on which it loses such influence, and are recognized at cost at the date of acquisition.

With regard to certain equity-accounted investees, such as SAN MIGUEL BREWERY INC., it is impracticable to access their financial statements in a timely manner and unify the ends of the reporting periods, due to regulatory constraints in the jurisdictions where such entities (including their parents) are located or listed, or in the light of relationships with other shareholders. As a result, the equity method is applied to such equity-accounted investees based on financial information for the period ended three months before the Group's reporting date with adjustments for the effects of significant transactions and events which occurred between the end of the reporting period of the equity-accounted investees and that of the Group.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

If significant influence over an associate is lost and the application of the equity method is discontinued, gain or loss on sale of the interest in the associate is recognized in profit or loss. Any remaining interest is remeasured at fair value, and any gain or loss on such remeasurement is also recognized in profit or loss.

3) Joint arrangements

Joint arrangements are contractual arrangements based on which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation where the Group has rights to the assets and obligations to the liabilities relating to the arrangement, and a joint venture where the Group has only rights to the net assets of the arrangement.

The Group recognizes the assets, liabilities, income and expenses relating to its interest from the date on which joint control commences until the date on which joint control ceases in a joint operation while a joint venture is accounted for using the equity method from the date on which joint control commences until the date on which joint control ceases.

If joint control over a joint venture is lost, it is accounted for similarly to associates.

4) Business combinations

Business combinations are accounted for using the acquisition method.

Identifiable assets acquired and liabilities assumed of are measured at fair value at the date of acquisition (the date on which control commences).

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of non-controlling interest in the acquiree and the acquisition-date fair value of equity interest in the acquiree previously held by the acquirer, over the net amount of identifiable assets and liabilities at the date of acquisition. The consideration transferred in a business combination is measured as the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The Group elects to measure non-controlling interests in the acquiree for each business combination at either fair value or at the proportionate share of the acquiree's identifiable net assets.

If the initial accounting processing has not been completed by the end of the period in which a business combination occurred, provisional amounts are used for the accounting treatment. When new information on the facts and circumstances that existed at the acquisition date is obtained during a measurement period within one year from the acquisition date, these provisional amounts are revised retroactively.

The additional acquisition of non-controlling interests after obtaining control is accounted for as an equity transaction, and no goodwill is recognized.

The Group applies book value accounting to acquisitions under common control, which are business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combinations, and that control is not transitory. A business combination involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, is accounted for based on the carrying amounts of the assets and liabilities.

(2) FOREIGN CURRENCY TRANSLATION

1) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions or the rate that approximates the actual rate at the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into the functional currency at the exchange rate at the reporting date, and non-monetary items denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate when the fair value was determined.

Exchange differences arising from the translation and settlement are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Foreign operations

The assets and liabilities in the statement of financial position of foreign operations are translated using the exchange rates at the dates of the statement of financial position. Income and expenses in the statements of profit or loss and comprehensive income of foreign operations are translated using the average exchange rates, except for cases of significant exchange rate movements.

Exchange differences arising from the translation are recognized in other comprehensive income. In cases where a foreign operation is disposed of, the cumulative amount of exchange differences related to the foreign operation is reclassified to profit or loss in the period of disposal.

(3) FINANCIAL INSTRUMENTS

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

Financial assets are classified into financial assets measured at amortized cost, at fair value through profit or loss, and at fair value through other comprehensive income. The Group determines the classification at initial recognition of the financial assets. A regular way purchase or sale of financial assets is recognized or derecognized at the transaction date.

(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) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

As to equity instruments that are financial assets measured at fair value and not held for trading, each equity instrument may be irrevocably designated to be measured at fair value through other comprehensive income. Equity instruments which are not irrevocably designated to be measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

All financial assets, except for those classified into the category as measured at fair value through profit or loss, are measured at fair value plus transaction costs that are directly attributable to the financial assets.

Accounting for derivatives is described in “4) Derivatives and hedge accounting.”

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on 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.

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Changes in their fair value are recognized in profit or loss or in other comprehensive income based on the classification of the financial assets. Dividends on equity instruments designated as measured at fair value through other comprehensive income are recognized in profit or loss. When the decline in the fair value of the financial assets is significant or when they are derecognized, the cumulative amount that has been recognized in equity through other comprehensive income is transferred to retained earnings.

(iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows expire, or when they are transferred and substantially all the risks and rewards of ownership are transferred.

2) Impairment of financial assets

Allowance for doubtful accounts is recognized for expected credit losses on financial assets measured at amortized cost.

Expected credit losses are measured as the present value of the difference between contractual cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Changes in allowance for doubtful accounts are recorded in profit or loss.

After initial recognition, at the reporting date, expected credit losses are measured based on the following classification into three stages of financial assets:

	Explanation	Measurement method of expected credit losses
Stage 1	Financial instruments for which credit risk has not increased significantly since initial recognition	12-month expected credit loss
Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition	Lifetime expected credit loss
Stage 3	Financial instruments for which there is evidence of credit impairment	Lifetime expected credit loss

The Group, in principle, determines that the credit risk on a financial asset has increased significantly since initial recognition if it is more than 30 days past due on the contract, and that a financial asset is in default if it is more than 90 days past due. When a financial asset is in default or when there is evidence of impairment including significant financial difficulty of the issuer or borrower, the Group determines that the financial asset is credit-impaired.
However, regardless of the above, for certain financial assets such as trade receivables without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected losses (the simplified approach).
Expected credit losses are measured using reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.
If the Group reasonably considers that there are no prospects of the full or partial recovery of financial assets, the carrying amount of the financial assets is written off.

3) Financial liabilities (excluding derivatives)
(i) Initial recognition and measurement
Financial liabilities are classified into financial liabilities measured at amortized cost, measured at fair value through profit or loss, and under financial guarantee contracts. The Group determines the classification at initial recognition of the financial liabilities.
All financial liabilities are initially measured at fair value; provided, however, that financial liabilities measured at amortized cost are measured at fair value less transaction costs that are directly attributable to the financial liabilities.
Accounting for derivatives is described in “4) Derivatives and hedge accounting.”

(ii) Subsequent measurement
After initial recognition, financial liabilities are measured based on 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 after initial recognition. Interest cost using the effective interest method as well as any gain or loss on derecognition is recognized in the consolidated statement of 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 after initial recognition, and changes in their fair value are recognized in profit or loss for the year.
(c) Financial guarantee contracts
After initial recognition, financial guarantee contracts are measured at the higher of:

- the amount of allowance for doubtful accounts determined in accordance with 2) Impairment of financial assets above; and
- the amount initially measured less the cumulative amount of income recognized in accordance with the principles of IFRS 15 “Revenue from Contracts with Customers”.

(iii) Derecognition
Financial liabilities are derecognized when the obligations are discharged or cancelled, or expire.

4) Derivatives and hedge accounting
The Group utilizes derivatives, including forward foreign exchange contracts, currency swaps, interest rate swaps and commodity swaps, to hedge foreign exchange risk, interest rate risk and commodity price risk. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value.
Changes in the fair value of derivatives are recognized in the consolidated statement of profit or loss. However, the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized in the consolidated statement of comprehensive income.
At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes specific hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the effectiveness of changes in the fair value of hedging instruments is assessed in offsetting the exposure to changes in the hedged item’s cash flows attributable to the hedged risks. Even though these hedges are expected to be effective in offsetting changes in cash flows, they are assessed on an ongoing basis to determine whether they have actually been effective throughout the financial reporting periods for which they were designated.
Hedges that meet the requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9:
(i) Cash flow hedge
The effective portion of gains or losses on hedging instruments is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately in the consolidated statement of profit or loss.
The amounts of hedging instruments recorded in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items are forecast transactions that result in the recognition of non-financial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

When forecast transactions are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, the amounts that have been recognized in equity through other comprehensive income continue to be recorded in equity until the forecast transactions occur.
(ii) Hedge of net investment in foreign operations
Exchange differences resulting from net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of gains or losses on hedging instruments is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of profit or loss. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss.

5) Fair value of financial instruments
The fair value of financial instruments that are traded in active financial markets at the reporting date refers to quoted market prices.
If there is no active market, the fair value of financial instruments is determined using appropriate valuation techniques.

(4) PROPERTY, PLANT AND EQUIPMENT
Items of property, plant, and equipment are measured using the cost model after initial recognition and are stated at cost less accumulated depreciation and accumulated impairment losses.
The cost includes any costs directly attributable to the acquisition of the asset and the initial estimate of the costs of dismantling, removal and restoration.
The depreciation of assets other than land and construction in progress is recorded using the straight-line method over their estimated useful lives. The estimated useful lives of major assets by category are as follows:

Buildings and structures	2-65 years
Machinery, equipment and vehicles	2-30 years
Tools, fixtures and fittings	2-20 years

Depreciation methods, useful lives and residual values are reviewed at least at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

(5) GOODWILL
Goodwill arising from a business combination is stated at cost less accumulated impairment losses.
Goodwill is not amortized. It is allocated to cash-generating units or groups of cash-generating units and is tested for impairment annually and whenever there is any indication of impairment. Impairment losses on goodwill are recognized in profit or loss and no subsequent reversal is made.
When the internal monitoring unit for goodwill is changed, goodwill is reallocated to each cash-generating unit or group of cash-generating units based on the internal monitoring unit after the change.
The measurement of goodwill at initial recognition is provided in (1) Basis of consolidation 4) Business combinations.

(6) INTANGIBLE ASSETS
Intangible assets are measured using the cost model after initial recognition and are stated at cost less any accumulated amortization and accumulated impairment losses. The cost includes costs directly attributable to the acquisition of the asset for intangible assets acquired separately and, employee benefit expenses incurred arising from the generation of the asset and costs related to services consumed for internally generated intangible assets.
1) Intangible assets acquired separately
Intangible assets acquired separately are measured at cost at initial recognition.
2) Intangible assets acquired through business combinations
Intangible assets acquired through business combinations are measured at fair value at the date of acquisition.
3) Internally generated intangible assets (development costs)
Research and development expenses generated in the Group are expensed when incurred, except for expenditures on development activities for which the Group can demonstrate all of the following requirements for capitalization:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Major intangible assets of the Group are as follows:
(i) Brands
Brands are initially recognized at cost. In principle, as intangible assets with indefinite useful lives, they are not amortized because it is not possible to foresee the period over which their net cash inflows are expected to continue, and are tested for impairment annually and whenever there is any indication of impairment.
(ii) Marketing rights
Marketing rights are initially recognized at cost. They are amortized using the straight-line method over their estimated useful lives (5-20 years), and are tested for impairment whenever there is any indication of impairment

(iii) Software
Software is initially recognized at cost. It is amortized using the straight-line method over its estimated useful lives (2-10 years), and are tested for impairment whenever there is an indication of impairment.
(iv) Software in progress
Software in progress, which is software under development, is recognized at cost. It is transferred to software at the completion of software and is amortized using the straight-line method over its estimated useful life. It is tested for impairment annually and whenever there is any indication of impairment.
(v) Other
Other intangible assets are initially recognized at cost. Those with finite useful lives are amortized using the straight-line method over their estimated useful lives, and are tested for impairment whenever there is any indication of impairment. Those with indefinite useful lives are not amortized and are tested for impairment annually and whenever there is any indication of impairment.

Amortization methods, useful lives and residual values are reviewed at least at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

(7) LEASES
Leases are recognized as right-of-use assets and lease liabilities at the lease commencement date.
1) Right-of-use assets
Right-of-use assets are initially measured at cost, which mainly comprises the amount of the initial measurement of the lease liability, initial direct costs and the initial estimate of the costs of dismantling, removing and restoring the underlying asset.
Right-of-use assets are measured using the cost model after initial recognition and are stated at cost less accumulated depreciation and accumulated impairment losses, and are included in a line item in the consolidated statement of financial position corresponding to when the underlying assets are owned by the Company.
After initial recognition, the right-of-use assets are depreciated using the straight-line method over the estimated useful lives of the underlying assets when ownership of the underlying assets is transferred by the end of the lease term or when the cost of the right-of-use assets reflect that a purchase option is reasonably certain to be exercised; the right-of-use assets are otherwise depreciated based on the straight-line method over the shorter of the lease term or the estimated useful lives of the right-of-use assets.
2) Lease liabilities
Lease liabilities are initially recognized at the present value of the lease payments that are not paid as of the lease commencement date which is calculated by discounting such present value using the interest rate implicit in the lease.
If that rate cannot be readily determined, the Group's incremental borrowing rate is used. In general, the Group uses the incremental borrowing rate as the discount rate.
Lease liabilities are subsequently measured by increasing the carrying amounts to reflect interest on the lease liabilities and by reducing the carrying amounts to reflect lease payments made, and are included in the line item “other financial liabilities” in the consolidated statement of financial position.

For short-term leases and leases for low value items, the Group records lease payments as expenses using the straight-line method over the lease terms unless another systematic method is more representative of the pattern of the benefits.

(8) INCOME TAXES
Income taxes are the sum of current taxes and deferred taxes.
Current taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. In determining the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.
Deferred taxes are determined based on the temporary differences between the tax base for assets and liabilities and their carrying amount for accounting purposes at the reporting date. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences. However, deferred tax assets or liabilities are not recorded for:

- temporary differences arising from the initial recognition of goodwill;
- temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of transaction, affects neither accounting profit nor taxable profit (tax loss);
- deductible temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that future taxable profits will be available against which the temporary differences can be utilized; and
- taxable temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The deferred taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.
Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

The Group recognizes an asset or liability for the effect of uncertainty in income taxes which is measured at the amount of the reasonable estimate for uncertain tax positions when it is probable, based on the Group's interpretation of tax laws, that the tax positions will be sustained.

(9) IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group tests goodwill (see (5) Goodwill) and intangible assets with indefinite useful lives (see (6) Intangible assets) for impairment at least annually, as well as whenever there is any indication of impairment.

At the reporting date, the Group determines whether there is any indication of impairment for non-financial assets other than inventories (see (10) Inventories), deferred tax assets (see (8) Income taxes), defined benefit asset (see (14) Employee benefits). Since goodwill that forms part of the carrying amount of equity-accounted investees is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of equity-accounted investees is assessed for any indication of impairment and is tested for impairment as a single asset.

If there is any indication that an asset may be impaired, or in cases where an impairment test is required to be performed annually, the recoverable amount of the asset is determined. In cases where the recoverable amount cannot be estimated for an individual asset, it is estimated for the cash-generating unit to which the asset belongs.

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

Only if the recoverable amount of an asset or cash-generating unit falls below its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

The Group assesses at the reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount, the impairment loss is reversed up to the lower of the recoverable amount determined and the carrying amount (net of accumulated depreciation or accumulated amortization) that would have been determined if no impairment loss had been recognized in prior years. The reversal of the impairment loss is immediately recognized in profit or loss.

(10) INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is determined primarily based on the periodic average method and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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.

(11) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash on hand, readily available deposits and short-term highly liquid investments with negligible risk of changes in value and maturities not exceeding three months at the time of purchase.

(12) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

1) Assets held for sale

Assets or asset groups whose value is expected to be recovered through sale rather than through continuing use are classified as assets or disposal groups held for sale if it is highly probable that the assets or asset groups will be sold within one year, the assets or asset groups are available for immediate sale in their present condition, and the Group’s management has made a commitment to sell the assets or asset groups. In such cases, the assets stop to be depreciated or amortized or equity-accounted investees stop to be applied for the equity method and are measured at the lower of their carrying amount and fair value less costs to sell.

2) Discontinued operations

The Group recognizes as a discontinued operation a component of the Group’s business which has already been disposed of or classified as held for sale and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

The post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the disposal of the disposal groups constituting the discontinued operations are presented as profit from discontinued operations, separately from continuing operations, in the consolidated statement of profit or loss, and the disclosures for prior periods are re-presented on a consistent basis.

(13) EQUITY

1) Ordinary shares

For ordinary shares, their issue prices are recorded in share capital and share premium. Costs (net of tax) associated with the issue of ordinary shares are deducted from share capital and share premium.

2) Treasury shares

When treasury shares are acquired, the amount of the consideration paid, which includes associated costs (net of tax), is recognized as a deduction from equity.

When treasury shares are sold, any difference between the carrying amount and the consideration received at the time of sale is recognized as share premium.

3) Dividends
Dividend distributions to the shareholders of the Company are recognized as liabilities for the period in which, for year-end dividends, the Annual General Meeting of Shareholders approves the distribution and, for interim dividends, the Board of Directors approves the distribution.

(14) EMPLOYEE BENEFITS

1) Post-employment benefits
The Group has defined benefit-type and defined contribution-type pension plans and provides lump-sum severance payment plans, defined benefit corporate pension plans and employees' pension fund plans as defined benefit-type plans.
For each defined benefit plan, the Group determines the present value of its defined benefit obligations and the related current service cost and past service cost using the projected unit credit method. The discount rate applied is determined by reference to market yields on high-quality corporate bonds at the year-end. The net defined benefit liability (asset) is determined by deducting the fair value of any plan assets from the present value of the defined benefit obligations. Remeasurements of the net defined benefit asset or liability are recognized collectively in other comprehensive income and reclassified to retained earnings for the period during which they have occurred.
Retirement benefit costs for defined contribution-type plans are expensed for the period during which employees render services.

2) Termination benefits
The Group provides termination benefits when the Group terminates an employee's employment before the normal retirement date or an employee voluntarily retires in exchange for the benefits. Termination benefits are expensed when the Group commits to terminating the employment; provided that the Group has detailed official plans related to the termination of the employee's employment and can no longer withdraw the offer of the benefits.

3) Short-term employee benefits
Short-term employee benefits are expensed on an undiscounted basis when the related service is provided. Bonuses are recorded as liabilities for the amount estimated to be paid in accordance with the applicable plans when the Group has present legal or constructive obligations to pay as a result of past labor rendered by employees, and the obligations can be reliably estimated.

(15) PROVISIONS

Provisions are recognized when present legal or constructive obligations exist as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligations. Matters related to income taxes are set out in (8) Income taxes.
Explanation of the major provisions is as follows:
・Allowance for loss on plants reorganization
In connection with plants reorganization aimed at the efficiency of manufacturing sites in Japan and overseas, as plans including the removal of property, plant and equipment at some of the sites are determined and announced, a reasonably estimated amount of the removal costs is recorded as a provision.
The timing of the payment is subject to circumstances such as future business plans.
・Asset retirement obligations
For property, plant and equipment held by the Company, asset retirement obligations are recognized if the retirement of such property, plant and equipment is required by laws, regulations, contracts or anything equivalent thereto. Asset retirement obligations are measured by discounting the reasonably estimated amount of cash flows required for the retirement of the asset using a risk-free rate before tax that reflects the time value of money corresponding to the period up to the occurrence of the future cash flows.

(16) SHARE-BASED PAYMENTS

The Group has implemented the trust-type stock compensation called Board Incentive Plan Trust, the restricted stock compensation system, and the phantom stock plan mainly for officers. The Group adopted the share option plan and the restricted stock compensation system for the fiscal year ended December 31, 2019.
For the Board Incentive Plan Trust and the restricted stock compensation system which are both as equity-settled share-based performance-related payment plans the consideration for services received is measured at the fair value of the Company's shares at the grant date and is recognized as an expense over the vesting period (from the grant date to the vesting date) in the consolidated statement of profit or loss. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.
For the phantom stock plan which is as a cash-settled share-based payment plan, the fair value of future cash payments is recognized as a liability and changes in fair value of the liability are recognized in the consolidated statement of profit or loss until the liability is settled.
For the share option plan which is as an equity-settled share-based payment plan, the fair value of the share options is estimated at the grant date and recognized as an expense over the vesting period in the consolidated statement of profit or loss, considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

(17) REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized based on the following five-step approach:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

If the Group executes sales transactions as an agent of the tax authority, consumption taxes, value added taxes, liquor taxes and others are excluded from consideration, taking into account laws and regulations of each country and the actual conditions of the transactions.

1) Japan Beer and Spirits Businesses, Japan Non-alcoholic Beverages Business, and Oceania Integrated Beverages Business
The Group conducts sales of beer, whiskey, spirits, soft drinks and others in Japan Beer and Spirits Businesses, Japan Non-alcoholic Beverages Businesses, and Oceania Integrated Beverages Business.
Revenue from such sales is recognized when merchandise and finished goods are delivered to customers since control over the merchandise and finished goods is transferred to the customers and performance obligations are satisfied at that point in time.
Revenue generated from sale of merchandise and finished goods is measured by deducting rebates and discounts based on sales volumes and amounts from consideration under sales contracts, and consideration which is expected to be refunded to customers is stated as refund liabilities. The refund liabilities are estimated by using the most likely amount method based on terms and conditions, past transactions and other factors.
Consideration under sales contracts of merchandise and finished goods is recovered mainly within one year from the delivery of the merchandise and finished goods to customers and includes no significant financing components.

2) Pharmaceuticals Business
The Group conducts sale of merchandise and finished goods and technology licensing to customers in relation to pharmaceuticals in the Pharmaceuticals Business.
If the consideration from contracts with customers includes a variable amount, the variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal of the cumulative amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(i) Revenue from sale of merchandise and finished goods
Revenue under sales contracts for merchandise and finished goods with customers is recognized when the merchandise and finished goods are delivered to the customers since control over the merchandise and finished goods is transferred to the customers and performance obligations are satisfied at that point in time.
Revenue generated from sale of merchandise and finished goods is measured by deducting rebates and discounts based on sales volumes or amounts from consideration under sales contracts, and consideration which is expected to be refunded to customers is stated as refund liabilities. The refund liabilities are estimated by using the most likely amount method based on terms and conditions, past transactions and other factors.
Consideration under sales contracts for merchandise and finished goods is received mainly within one year from the delivery of the merchandise and finished goods to customers and includes no significant financing components.

(ii) Licensing revenue
The Group obtains up-front income, milestone revenue and running royalty revenue as licensing revenue based on license agreements, such as granting third parties the right to develop, produce and sell developed products.
Up-front income is recognized as revenue at the time of granting the license when the performance obligation is satisfied at a point in time. Milestone revenue is recognized as revenue when it is highly probable that the milestones agreed between the relevant parties will be achieved, taking into account the probability of a significant subsequent reversal of revenue.
Consideration received as up-front income and milestone revenue for which the performance obligation is not satisfied at a point in time is recorded as contract liabilities, and is recognized as revenue over a period of time according to the satisfaction of performance obligations, such as for development cooperation related to license agreements.
Running royalty revenue is measured and recognized based on sales of the contract counterparty.
Consideration under license agreements is received mainly within one year from the time of granting the license based on the agreed contractual payment schedule, such as when achieving milestones, and includes no significant financing components.

(18) FINANCE INCOME AND FINANCE COSTS
Finance income mainly comprises interest received, dividends received, foreign currency gain and changes in the fair value of financial assets measured at fair value through profit or loss. Interest received is recognized when it occurs using the effective interest method. Dividends received are recognized when the Group’s right to receive payment is established.
Finance costs mainly comprise interest paid, foreign currency loss and changes in the fair value of financial assets measured at fair value through profit or loss. Interest paid is recognized when it occurs using the effective interest method.
Foreign currency gain or loss is recorded on a net basis in finance income or finance costs.

(19) GOVERNMENT GRANTS
Government grants are recognized at fair value if there is reasonable assurance that the Group will comply with the conditions associated with the grants and they will be received.
When government grants are related to expense items, they are recognized as profit on a systematic basis over the periods in which the Group recognizes as an expense the related costs for which the grants are intended to compensate. Government grants related to assets are deducted from the cost of the assets.

(20) BORROWING COSTS
For assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the cost of those assets (see (4) Property, plant and equipment and (6) Intangible assets). Other borrowing costs are recognized as an expense in the period in which they are incurred.

(21) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares (after adjusting for treasury shares) outstanding during the period. Diluted earnings per share is calculated by adjusting the effects of all dilutive potential ordinary shares.

4. ACCOUNTING STANDARDS AND GUIDELINES NOT YET ADOPTED

None of the new accounting standards and guidelines that have been issued or amended by the date of approval of the consolidated financial statements have a material impact on the consolidated financial statements of the Group.

5. OPERATING SEGMENTS

(1) SUMMARY OF REPORTABLE SEGMENTS

The reportable segments of the Group are determined based on the operating segments which are constituent units of the Group whose separate financial information is readily available, and which are periodically examined by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating the business results. The Group has identified four reportable segments, namely, “Japan Beer and Spirits Businesses,” “Japan Non-alcoholic Beverages Business,” “Oceania Integrated Beverages Business” and “Pharmaceuticals Business.”

“Japan Beer and Spirits Businesses,” for which Kirin Brewery Company, Limited oversees the operations, conducts production and sale of alcoholic beverages, such as beer, *happo-shu*, new genre, whiskey and spirits, in Japan.

“Japan Non-alcoholic Beverages Business,” for which Kirin Beverage Company, Limited oversees the operations, conducts production and sale of soft drinks in Japan.

“Oceania Integrated Beverages Business,” for which Lion Pty Limited oversees the operations, conducts production and sale of beer, whiskey, spirits, dairy products, fruit juice and other products in the Oceania region.

“Pharmaceuticals Business,” for which Kyowa Kirin Co., Ltd. oversees the operations, conducts production and sale of pharmaceutical products.

Accounting policies for segment information are generally the same as those in the Company’s consolidated financial statements.

Inter-segment revenue is based on actual market prices.

(2) INFORMATION ON REPORTABLE SEGMENTS

Information related to each reportable segment is set out below.

(¥ millions)

At and for the year ended December 31, 2019	Reportable segment						
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals	Others (Note 1)	Adjustment (Note 2)	Consolidated
Revenue from unaffiliated customers	¥681,900	¥286,806	¥299,733	¥304,852	¥368,013	¥ -	¥1,941,305
Inter-segment revenue	2,738	2,033	40	968	76,008	(81,788)	-
Total revenue	684,639	288,839	299,773	305,820	444,022	(81,788)	1,941,305
Segment income (Note 3)	85,167	26,356	41,358	55,381	27,049	(44,558)	190,754
Other operating income							6,626
Other operating expenses							109,654
Finance income							4,822
Finance costs							9,448
Share of profit of equity-accounted investees							33,722
Profit before tax							116,823

(¥ millions)

	Reportable segment						
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals	Others (Note 1)	Adjustment (Note 2)	Consolidated
Segment assets	¥437,463	¥174,516	¥490,966	¥725,099	¥844,533	¥(259,702)	¥2,412,874
Other items							
Depreciation and amortization	13,297	7,235	13,819	18,798	19,477	8,116	80,742
Impairment losses (excluding financial assets)	-	-	57,118	6,394	806	-	64,318
Equity-accounted investees	12,968	-	12,476	13,525	345,787	-	384,756
Capital expenditures	16,938	8,027	17,036	24,081	27,395	18,798	112,274

Notes:

1. "Others" includes the Wine business in Japan, the Alcoholic Beverages business in Myanmar, the Non-alcoholic Beverages business in North America, and the Bio-chemicals business, etc.
2. Adjustments are as follows:
   (1) Adjustment in segment income mainly includes inter-segment eliminations and corporate expenses not attributable to any reportable segment. The expenses are mainly group administrative expenses incurred in the Company, a holding company, and administrative expenses relating to some reportable segments incurred in shared services companies.
   (2) Adjustment in segment assets includes inter-segment asset and liability eliminations and corporate assets not attributable to any reportable segment. The assets mainly consist of surplus funds (cash), long-term investments (equity instruments) and assets of the administrative department of the Company, a holding company, and shared services companies.
3. Segment income represents normalized operating profit which is calculated by deducting the total of cost of sales and selling, general and administrative expenses from revenue.

(¥ millions)

At and for the year ended December 31, 2020	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Consolidated
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals			
Revenue from unaffiliated customers	**¥651,424**	**¥252,173**	**¥292,120**	**¥317,797**	**¥336,030**	**¥ -**	**¥1,849,545**
Inter-segment revenue	**2,022**	**2,046**	**46**	**554**	**72,519**	**(77,187)**	**-**
Total revenue	**653,446**	**254,219**	**292,167**	**318,352**	**408,550**	**(77,187)**	**1,849,545**
Segment income (Note 3)	**75,491**	**21,758**	**22,130**	**59,015**	**29,291**	**(45,569)**	**162,115**
Other operating income							**6,376**
Other operating expenses							**65,572**
Finance income							**5,400**
Finance costs							**8,521**
Share of profit of equity-accounted investees							**24,752**
Profit before tax							**124,550**

(¥ millions)

	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Consolidated
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals			
Segment assets	**¥424,416**	**¥149,864**	**¥471,312**	**¥741,697**	**¥871,649**	**¥(199,574)**	**¥2,459,363**
Other items							
Depreciation and amortization	**14,187**	**7,170**	**14,021**	**19,112**	**20,462**	**7,156**	**82,109**
Impairment losses (excluding financial assets)	**-**	**1,277**	**20,258**	**2,857**	**5,228**	**-**	**29,619**
Equity-accounted investees	**12,342**	**-**	**8,632**	**9,463**	**357,030**	**-**	**387,467**
Capital expenditures	**12,701**	**8,207**	**14,475**	**35,888**	**28,440**	**19,124**	**118,835**

Notes:

1. "Others" includes the Wine business in Japan, the Alcoholic Beverages business in Myanmar, the Non-alcoholic Beverages business in North America, and the Bio-chemicals business, etc.
2. Adjustments are as follows:
   (1) Adjustment in segment income mainly includes inter-segment eliminations and corporate expenses not attributable to any reportable segment. The expenses are mainly group administrative expenses incurred in the Company, a holding company, and administrative expenses relating to some reportable segments incurred in shared services companies.
   (2) Adjustment in segment assets includes inter-segment asset and liability eliminations and corporate assets not attributable to any reportable segment. The assets mainly consist of surplus funds (cash), long-term investments (equity instruments) and assets of the administrative department of the Company, a holding company, and shared services companies.
3. Segment income represents normalized operating profit which is calculated by deducting the total of cost of sales and selling, general and administrative expenses from revenue.

(3) GEOGRAPHIC INFORMATION

1) Revenue

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Japan	¥1,276,943	**¥1,180,205**
Oceania	294,350	**257,469**
America	200,799	**249,313**
Others	169,213	**162,560**
Total	1,941,305	**1,849,545**

Note: Revenue is classified by country or area based on customer location.

2) Non-current assets

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Japan	¥464,438	**¥489,489**
Oceania	269,932	**219,214**
America	68,527	**107,271**
Others	163,946	**162,625**
Total	966,843	**978,599**

Notes:

1. Non-current assets exclude financial instruments, deferred tax assets and defined benefit assets.
2. From the year ended December 31, 2020, America is presented separately because the amount became material, and Southeast Asia, which was presented separately at the year ended December 31, 2019, is included in "Others." In order to reflect these changes in presentation, items at the year ended December 31, 2019 have been reclassified.

(4) MAJOR CUSTOMER

The unaffiliated customer which accounted for 10% or more of revenue on the consolidated statement of profit or loss was as follows:

(¥ millions)

	Related segment	Year ended December 31, 2019	**Year ended December 31, 2020**
Mitsubishi Shokuhin Co., Ltd.	Japan Beer and Spirits, Japan Non-alcoholic Beverages, and other	¥225,059	**¥223,675**

6. PROPERTY, PLANT AND EQUIPMENT

(1) RECONCILIATION OF CARRYING AMOUNT

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

1) Carrying amount

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2019	¥156,839	¥197,948	¥47,165	¥82,256	¥42,831	¥527,039
Effect of changes in accounting policies	55,415	1,807	-	5,621	-	62,843
Restated balance at January 1, 2019	212,253	199,755	47,165	87,877	42,831	589,881
Acquisitions	11,188	6,929	9,854	551	49,813	78,335
Transfer from construction in progress	11,072	31,993	6,188	25	(49,277)	-
Depreciation	(22,287)	(29,317)	(12,975)	(218)	-	(64,797)
Impairment losses	(4,386)	(15,117)	(132)	(8)	(100)	(19,744)
Disposals	(1,070)	(918)	(628)	(451)	(35)	(3,101)
Sale of subsidiaries	(5,096)	(9,748)	(223)	(715)	(343)	(16,125)
Foreign currency translation differences	(1,184)	(1,266)	(32)	(270)	(489)	(3,243)
Other	52	380	23	(350)	(58)	46
Balance at December 31, 2019	**200,541**	**182,689**	**49,240**	**86,441**	**42,342**	**561,253**
Acquisitions	**19,546**	**13,278**	**6,504**	**114**	**31,854**	**71,295**
Acquisitions through business combinations	**8,570**	**6,108**	**-**	**1,714**	**351**	**16,743**
Transfer from construction in progress	**9,267**	**25,172**	**6,557**	**172**	**(41,169)**	**-**
Depreciation	**(22,847)**	**(29,781)**	**(14,631)**	**(259)**	**-**	**(67,518)**
Impairment losses	**(7,229)**	**(12,703)**	**(606)**	**(416)**	**(1,259)**	**(22,213)**
Disposals	**(932)**	**(1,049)**	**(557)**	**(251)**	**(0)**	**(2,790)**
Transfer to assets held for sale	**(11,298)**	**(17,154)**	**-**	**(7,635)**	**(1,525)**	**(37,611)**
Foreign currency translation differences	**(544)**	**1,327**	**(275)**	**(379)**	**(166)**	**(37)**
Other	**688**	**862**	**1,294**	**(64)**	**17**	**2,797**
Balance at December 31, 2020	**¥195,763**	**¥168,749**	**¥47,526**	**¥79,437**	**¥30,445**	**¥521,919**

Depreciation of property, plant and equipment is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss, and gain or loss on disposals is included in other operating income and other operating expenses in the consolidated statement of profit or loss.

Impairment losses are explained in Note 9. Impairment of non-financial assets.

The above figures include the carrying amounts of right-of-use assets. Changes in the carrying amounts of right-of-use assets are explained in Note 18. Leases.

2) Cost

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2019	¥489,807	¥929,388	¥174,529	¥83,620	¥43,407	¥1,720,752
Balance at December 31, 2019	540,670	922,112	176,895	87,838	43,068	1,770,583
Balance at December 31, 2020	**543,492**	**894,743**	**179,473**	**81,606**	**31,502**	**1,730,815**

3) Accumulated depreciation and accumulated impairment losses

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2019	¥332,968	¥731,440	¥127,364	¥1,365	¥576	¥1,193,713
Balance at December 31, 2019	340,129	739,423	127,655	1,397	726	1,209,330
Balance at December 31, 2020	**347,729**	**725,994**	**131,947**	**2,168**	**1,057**	**1,208,895**

7. GOODWILL

(1) RECONCILIATION OF CARRYING AMOUNT

Changes in carrying amount, costs and accumulated impairment losses of goodwill were as follows:

1) Carrying amount

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Balance at January 1	¥ 244,222	**¥ 233,899**
Acquisitions through business combinations	5,328	**8,014**
Impairment losses	(15,237)	**-**
Foreign currency translation differences	(413)	**3,796**
Balance at December 31	233,899	**245,709**

Impairment losses are explained in Note 9. Impairment of non-financial assets.

2) Cost and accumulated impairment losses

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Cost	¥ 248,442	**¥ 245,709**
Accumulated impairment losses	14,543	**-**

8. INTANGIBLE ASSETS

(1) RECONCILIATION OF CARRYING AMOUNT

Changes in carrying amount, costs, accumulated amortization and accumulated impairment losses of intangible assets were as follows:

1) Carrying amount

(¥ millions)

	Brands	Marketing rights	Software	Software in progress	Other	Total
Balance at January 1, 2019	¥59,065	¥46,202	¥14,342	¥22,260	¥38,023	¥179,892
Acquisitions	112	6,684	1,689	18,038	7,416	33,939
Amortization	(20)	(7,491)	(6,260)	-	(2,173)	(15,945)
Impairment losses	(22,789)	(4,641)	(1,695)	-	-	(29,125)
Disposals	-	-	(157)	(37)	(8)	(202)
Transfer to other account	-	2,000	6,831	(6,831)	(2,000)	-
Foreign currency translation differences	841	(360)	(337)	(215)	417	346
Balance at December 31, 2019	**37,208**	**42,394**	**14,413**	**33,216**	**41,674**	**168,905**
Acquisitions	**17**	**8,586**	**1,203**	**22,978**	**14,755**	**47,539**
Acquisitions through business combinations	**12,138**	**-**	**41**	**-**	**2,090**	**14,269**
Amortization	**(20)**	**(6,412)**	**(5,967)**	**-**	**(2,192)**	**(14,591)**
Impairment losses	**(2,207)**	**(54)**	**(1,066)**	**-**	**(4,080)**	**(7,407)**
Disposals	**-**	**-**	**(341)**	**(13)**	**(11)**	**(365)**
Transfer to assets held for sale	**-**	**-**	**(679)**	**-**	**-**	**(679)**
Transfer to other account	**-**	**1,587**	**14,343**	**(14,343)**	**(1,587)**	**-**
Foreign currency translation differences	**1,211**	**(645)**	**392**	**(46)**	**814**	**1,726**
Other	**672**	**(478)**	**(298)**	**(4)**	**1**	**(106)**
Balance at December 31, 2020	**49,020**	**44,977**	**22,042**	**41,788**	**51,465**	**209,291**

Note: From the year ended December 31, 2020, software, which was included in "Other" at the year ended December 31, 2019, is presented separately. In order to reflect this change in presentation, items at the year ended December 31, 2019 have been reclassified. This change applies to 2) Cost and 3) Accumulated amortization and accumulated impairment losses as well.

Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss, and gain or loss on disposals is included in other operating income and other operating expenses in the consolidated statement of profit or loss.

Impairment losses are explained in Note 9. Impairment of non-financial assets.

2) Cost

(¥ millions)

	Brands	Marketing rights	Software	Software in progress	Other	Total
Balance at January 1, 2019	¥113,474	¥110,453	¥71,155	¥22,260	¥66,349	¥383,691
Balance at December 31, 2019	105,394	119,222	76,402	33,216	71,564	405,797
Balance at December 31, 2020	**120,640**	**120,971**	**82,127**	**41,788**	**79,500**	**445,025**

3) Accumulated amortization and accumulated impairment losses

(¥ millions)

	Brands	Marketing rights	Software	Software in progress	Other	Total
Balance at January 1, 2019	¥54,409	¥64,251	¥56,813	¥-	¥28,326	¥203,799
Balance at December 31, 2019	68,185	76,828	61,989	-	29,890	236,892
Balance at December 31, 2020	**71,620**	**75,994**	**60,086**	**-**	**28,034**	**235,734**

(2) RESEARCH AND DEVELOPMENT EXPENSES AND SOFTWARE DEVELOPMENT EXPENSES

Research and development expenses of ¥66,189 million for the year ended December 31, 2019 and ¥64,517 million for the year ended December 31, 2020 were recorded in selling, general and administrative expenses in the consolidated statement of profit or loss. Software development expenses of ¥11,392 million for the year ended December 31, 2019 and ¥14,424 million for the year ended December 31, 2020 were recorded in other operating expenses in the consolidated statement of profit or loss.

9. IMPAIRMENT OF NON-FINANCIAL ASSETS

(1) CASH-GENERATING UNITS

The Group considers each Group company's business, or the unit for making investment decisions, as a cash-generating unit. Goodwill is allocated to cash-generating units or groups of cash-generating units based on the monitoring units for internal management purposes. For idle properties, each property is considered to constitute a cash-generating unit. Headquarters and welfare facilities are classified as corporate assets because they do not generate cash inflows independent from other assets or group of assets but contribute to cash flow generation of other cash-generating units.

(2) IMPAIRMENT LOSSES

Year ended December 31, 2019

Impairment losses by segment consisted of the following:

(¥ millions)

Segments	Impairment losses	Types of major assets
Japan Beer and Spirits	¥ -	
Japan Non-alcoholic Beverages	-	
Oceania Integrated Beverages	57,118	Buildings and structures, Machinery, equipment and vehicles, Goodwill, Brands
Pharmaceuticals	6,394	Machinery, equipment and vehicles, Marketing rights
Other	806	Buildings and structures, Machinery, equipment and vehicles
Total	64,318	

For certain assets used for business related to the Oceania Non-alcoholic Beverages Business in the Oceania Integrated Beverages Business, an impairment test was performed in April 2019 due to a decline in the profitability of the Non-alcoholic Beverages Business resulting from the prolonged impact of abnormal weather on the price and stable supply of milk, and the carrying amounts were reduced to their recoverable amounts (¥70,292 million). The decreases were recognized as impairment losses in other operating expenses in the consolidated statement of profit or loss, as they were losses incurred in the process of selling the Oceania Non-alcoholic Beverages Business as well as expenses covering overall business activities. The decreases primarily consisted of buildings and structures (¥4,194 million), machinery, equipment and vehicles (¥12,999 million), goodwill (¥15,237 million) and brands (¥22,789 million).

The recoverable amount was measured at fair value less costs of disposal and determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.

Of certain assets used for business in the Pharmaceuticals Business, carrying amounts of marketing rights were reduced to their recoverable amounts mainly due to a decline in the profitability of certain products overseas. The recoverable amount was measured at value in use, and the decreases were recognized as impairment losses in other operating expenses in the consolidated statement of profit or loss.

Year ended December 31, 2020

Impairment losses by segment consisted of the following:

(¥ millions)

Segments	Impairment losses	Types of major assets
Japan Beer and Spirits	**¥ -**	
Japan Non-alcoholic Beverages	**1,277**	Leasehold interests in land
Oceania Integrated Beverages	**20,258**	Buildings and structures, Machinery, equipment and vehicles, Brands
Pharmaceuticals	**2,857**	Marketing rights, Development expenses
Other	**5,228**	Buildings and structures, Machinery, equipment and vehicles
Total	**29,619**	

For certain assets used for business related to the Oceania Non-alcoholic Beverages Business in the Oceania Integrated Beverages Business, an impairment test was performed, because a situation suggesting that the recoverable amounts of ¥41,544 million fell below their carrying amounts was confirmed in the process of selling the Oceania Non-alcoholic Beverages Business, and the carrying amounts were reduced to their recoverable amounts. The decreases of ¥6,039 million primarily consisted of ¥2,875 million in buildings and structures and ¥1,755 million in machinery, equipment and vehicles.

The recoverable amounts, which were measured at fair value less costs of disposal and calculated based on the values provided in the selling process (the market approach), are determined to be reasonable because they are approximately equal to the amounts calculated based on the market values related to businesses of peer companies. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.

In addition, the Oceania Integrated Beverages Business recorded impairment losses of ¥8,636 million as a result of a decision to close the West End Brewery, as well as impairment losses of ¥5,019 million due to a decline in profitability in the areas where the business operates.

For the Pharmaceuticals Business, the carrying amounts of assets were reduced by ¥2,857 million as a result of a review of the recoverable amounts mainly due to changes in the status of research and development in progress. The recoverable amounts are based on value in use, and the value is zero.

For certain assets used for business related to the Other Businesses, the carrying amounts were reduced by ¥4,117 million due to a decision to suspend operations of amino acid manufacturing facilities of the Yamaguchi Production Center (Hofu Plant) as part of the business restructuring of Kyowa Hakko Bio Co., Ltd. The recoverable amounts are based on value in use, and the value is zero.

These impairment losses were recorded in other operating expenses in the consolidated statement of profit or loss, since they are not considered to be linked to any functions, such as expenses covering overall business activities.

(3) IMPAIRMENT TEST FOR CASH-GENERATING UNITS (GROUPS OF UNITS) CONTAINING GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Major goodwill and intangible assets with indefinite useful lives that were allocated to the Group's cash-generating units or groups of cash-generating units for impairment testing were as follows (after recognition of impairment losses):

(¥ millions)

	At December 31, 2019		**At December 31, 2020**	
	Goodwill	Brands	Goodwill	Brands
Oceania Alcoholic Beverages Business	¥102,286	¥ 9,024	**¥113,760**	**¥ 19,233**
Alcoholic Beverages business in Myanmar	24,094	23,339	**25,341**	**24,546**
Pharmaceuticals Business	90,951	-	**90,092**	**-**
Bio-chemicals Business	13,935	-	**13,935**	**-**

The Group records as assets the brands that are held by Group companies including Lion Pty Limited in the Oceania Alcoholic Beverages Business and Myanmar Brewery Limited in the Alcoholic Beverages business in Myanmar.
The brands that Lion Pty Limited and Myanmar Brewery Limited hold are classified as intangible assets with indefinite useful lives as they are expected to bring economic benefits to the Group over the longer term in the Oceania area and Myanmar, respectively.
Impairment tests for major goodwill and intangible assets with indefinite useful lives are performed as follows:

1) Oceania Alcoholic Beverages Business
The recoverable amount is measured at fair value less costs of disposal.
Fair value less costs of disposal is determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.
As the recoverable amount sufficiently exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions for calculating recoverable amounts such as the market values related to businesses of peer companies change within a reasonable range.

2) Alcoholic Beverages business in Myanmar
The recoverable amount is measured at fair value less costs of disposal.
Fair value less costs of disposal is determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.
As the recoverable amount sufficiently exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions for calculating recoverable amounts such as the market values related to businesses of peer companies change within a reasonable range.
Since the end of the year ended December 31, 2020, the environment surrounding this business has been highly uncertain due to a coup d'état which occurred in February 2021. However, this event was not reflected in impairment tests conducted in the year ended December 31, 2020. Depending on future situations, the recoverable amount of this business may decline due to reasons such as a significant change to the premises for calculation including the business plan.

3) Pharmaceuticals Business
The recoverable amount is measured at value in use.
Value in use is calculated reflecting past experience and external information, and three-year cash flows that are estimated based on the business plan approved by management are discounted to present value. Pre-tax discount rate is determined at 7.7% based on weighted-average capital cost of cash-generating units.
As the recoverable amount sufficiently exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions such as future cash flows and discount rates change within a reasonable range.

4) Bio-chemicals Business
The recoverable amount is measured at value in use.
Value in use is calculated reflecting past experience and external information, and five-year cash flows that are estimated based on the business plan approved by management are discounted to present value. The business plan is based on a restructuring plan, which includes decreasing the number of products and transitioning to highly profitable products using fermentation technology. Continuous growth rate is determined at 0.5% and pre-tax discount rate is determined at 5.9% based on weighted-average capital cost of cash-generating units.
The recoverable amount exceeded the carrying amount of cash-generating units by ¥54,120 million at December 31, 2020, but if the discount rate increases by 2.3%, the recoverable amount will be equal to the carrying amount.

10. OTHER FINANCIAL ASSETS

(1) OTHER FINANCIAL ASSETS CONSISTED OF THE FOLLOWING:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Shares	¥ 115,156	**¥ 81,682**
Derivative assets	291	**863**
Other	36,087	**33,079**
Allowance for doubtful accounts	(5,075)	**(1,937)**
Total	146,459	**113,688**
Non-current assets	139,018	**105,740**
Current assets	7,441	**7,948**

Notes:
1. The amounts less allowance for doubtful accounts are presented in the consolidated statement of financial position.
2. Shares are classified as equity instruments measured at fair value through other comprehensive income, derivative assets are classified as financial assets measured at fair value through profit or loss, and “Other” is classified mainly as financial assets measured at amortized cost.

(2) THE FAIR VALUES OF MARKETABLE AND NON-MARKETABLE EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WERE AS SET OUT IN THE TABLE BELOW. THESE EQUITY INSTRUMENTS ARE MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AS THE GROUP HOLDS THEM FOR THE PURPOSE OF BUILDING, MAINTAINING AND STRENGTHENING TRANSACTIONAL AND COLLABORATIVE RELATIONSHIPS.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Marketable	¥ 90,076	**¥ 58,475**
Non-marketable	25,080	**23,207**
Total	115,156	**81,682**

Of the above, fair values of major marketable shares were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
SKYLARK HOLDINGS CO., LTD.	¥ 7,117	**¥ 5,323**
Oriental Land Co., Ltd.	4,166	**4,771**
Mitsubishi Logistics Corporation	6,333	**4,582**
Central Japan Railway Company	6,021	**3,993**
Seven & i Holdings Co., Ltd.	4,111	**3,759**
Mitsubishi Estate Co., Ltd.	5,555	**3,525**
SUZUKEN CO., LTD.	2,939	**2,455**
Mitsubishi Shokuhin Co., Ltd.	2,126	**1,966**
Alfresa Holdings Corporation	2,306	**1,956**
Ardelyx, Inc.	2,364	**1,925**

Non-marketable shares mainly consisted of investments in customers and counterparties in the Japan Beer and Spirits Businesses, the Japan Non-alcoholic Beverages Business and the Wine business in Japan. The total fair value of the investments in the Japan Beer and Spirits Businesses, the Japan Non-alcoholic Beverages Business and the Wine business in Japan at December 31, 2019 and 2020 was ¥15,724 million and ¥12,893 million, respectively.

(3) THE GROUP SELLS AND DERECOGNIZES EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME TO MAKE EFFICIENT AND EFFECTIVE USE OF THE ASSETS IT HOLDS. FAIR VALUES AT THE TIME OF SALES IN EACH YEAR AND ACCUMULATED PROFIT OR LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN EQUITY WERE AS FOLLOWS:

(¥ millions)

Year ended December 31, 2019		**Year ended December 31, 2020**	
Fair value	Accumulated profit or loss recognized in other comprehensive income in equity (Note)	Fair value	Accumulated profit or loss recognized in other comprehensive income in equity (Note)
¥36,626	¥14,300	**¥18,847**	**¥7,044**

Note: Accumulated profit or loss recognized in other comprehensive income in equity was transferred to retained earnings when the equity instruments were derecognized.

(4) PLEDGED ASSETS

Some of the equity instruments measured at fair value through other comprehensive income were pledged as collateral, and the balance of pledged assets was as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Shares (Note)	¥ 771	**¥ 644**
Total	771	**644**

Note: Shares were pledged as collateral in order to utilize the deferred payment system under the Japanese Customs Act and Consumption Tax Act.

11. INCOME TAX

(1) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Deferred tax assets	¥94,656	**¥101,533**
Deferred tax liabilities	20,786	**17,243**
Net	73,870	**84,290**

(2) CHANGES IN THE BALANCE OF DEFERRED TAX

Changes in the balance of deferred tax were as follows:

Year ended December 31, 2019

(¥ millions)

	Balance at January 1 (net)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Other (Note)	Balance at December 31 (net)
Defined benefit asset or liability	¥25,347	¥(245)	¥(2,950)	¥26	¥22,179
Accrued expenses	13,690	(209)	-	0	13,481
Inventories	5,312	4,973	-	105	10,390
Unused tax losses	33,053	(9,832)	-	239	23,460
Property, plant and equipment and intangible assets	(18,136)	4,829	95	511	(12,701)
Fair value reserve on equity instruments measured at fair value through other comprehensive income	(26,117)	-	1,936	5,810	(18,372)
Other	29,491	6,200	(293)	35	35,433
Total	62,640	5,716	(1,213)	6,727	73,870

Note: “Other” includes foreign currency translation differences on foreign operations.

Year ended December 31, 2020

(¥ millions)

	Balance at January 1 (net)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Other (Note)	Balance at December 31 (net)
Defined benefit asset or liability	**¥22,179**	**¥(623)**	**¥(769)**	**¥(121)**	**¥20,666**
Accrued expenses	**13,481**	**(793)**	**-**	**89**	**12,778**
Inventories	**10,390**	**11,942**	**-**	**(166)**	**22,166**
Unused tax losses	**23,460**	**(2,757)**	**-**	**(26)**	**20,676**
Property, plant and equipment and intangible assets	**(12,701)**	**1,333**	**-**	**(591)**	**(11,960)**
Fair value reserve on equity instruments measured at fair value through other comprehensive income	**(18,372)**	**-**	**4,765**	**2,489**	**(11,117)**
Other	**35,433**	**(3,478)**	**(171)**	**(704)**	**31,081**
Total	**73,870**	**5,623**	**3,826**	**971**	**84,290**

Note: "Other" includes foreign currency translation differences on foreign operations.

In recognizing deferred tax assets, the Group takes into account the possibility that future taxable profits will be available against which part or all of deductible temporary differences and tax losses can be utilized. In assessing the recoverability of deferred tax assets, the Group takes into account the planned reversal of deferred tax liabilities, estimated future taxable profits and tax planning. The Group considers that recognized deferred tax assets are likely to be recovered based on the past taxable profit level and estimated future taxable profits for the period when deferred tax assets are deductible. As provided in Note 2. Basis of preparation, future taxable profits have been estimated based on the impact of the spread of COVID-19. Although management determines that these assumptions and estimates are appropriate, they may be affected by future changes in uncertain economic conditions, amendments to tax laws or other factors. If the results of future taxable profits are different from the estimates, the assessment of the recoverability of deferred tax assets may be different.

(3) UNRECOGNIZED DEFERRED TAX LIABILITIES

Deferred tax liabilities related to investments in subsidiaries and associates and interests in joint arrangements are not recognized when the Group can control the timing of reversal of the related taxable temporary differences and it is not probable that they will reverse in the foreseeable future. The total amount of temporary differences related to investments in subsidiaries and associates and interests in joint arrangements at December 31, 2019 and 2020 was ¥303,030 million and ¥349,715 million, respectively.

(4) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets are not recognized in respect of the following items as it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Deductible temporary differences	¥111,917	**¥161,376**
Unused tax losses	20,591	**23,712**

Unused tax losses for which deferred tax assets were not recognized expire as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
1st year	¥ 447	**¥ 210**
2nd year	215	**251**
3rd year	333	**52**
4th year	120	**133**
5th year onwards	14,136	**17,853**
With no expiration	5,340	**5,213**
Total	20,591	**23,712**

(5) INCOME TAX EXPENSE

Income tax expense was as follows:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Current tax expense	¥ 41,101	**¥ 30,332**
Deferred tax expense	(5,716)	**(5,623)**
Income tax expense	35,385	**24,709**

(6) RECONCILIATION OF EFFECTIVE TAX RATE

The Group is mainly subject to a national corporate tax, an inhabitant tax and enterprise tax, based on which the statutory tax rate is calculated at 30.6% for the years ended December 31, 2019 and 2020. For foreign subsidiaries, local corporate and other tax rates have been applied.

Reconciliation of the statutory tax rate and the average effective tax rate was as follows:

(In percent)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Statutory tax rate	30.6%	**30.6%**
(Adjustments)		
Tax effect of income and expenses not taxable and deductible for tax purposes	0.5	**0.4**
Equity in earnings of associates	(8.8)	**(6.1)**
Changes in unrecognized deferred tax assets	14.8	**3.0**
Difference in applicable tax rates between the Company and its subsidiaries	(1.6)	**(6.1)**
Tax credits	(5.5)	**(5.1)**
Retained earnings of subsidiaries for which tax effect was recognized (Note)	(0.2)	**1.7**
Other (Note)	0.5	**1.4**
Average effective tax rate	30.3	**19.8**

Note: Retained earnings of subsidiaries for which tax effects were recognized, which was included in “Other” for the year ended December 31, 2019, is separately presented for the year ended December 31, 2020, because the amount became material. In order to reflect this change in presentation, items for the year ended December 31, 2019 have been reclassified.

(7) UNCERTAINTY OVER INCOME TAX TREATMENTS

Lion Pty Limited is subject to periodic reviews and audits by the Australian Taxation Office. The Australian Taxation Office is currently undertaking an audit of Lion Pty Limited for the 2013 to 2016 income years. Lion is satisfied that it has complied with its tax obligations in respect of the matters, consistent with the Group’s approach to tax governance as outlined in Lion’s Tax Transparency Report. However, Lion Pty Limited received from the Australian Taxation Office a written opinion different from that of Lion Pty Limited as well as an amendment notice about tax treatments concerning two transactions for prior years.

For one of the two transactions, pursuant to the administrative practice of the Australian Taxation Office, Lion Pty Limited provisionally paid 20,200 thousand Australian dollars (¥1,475 million) which is 50% of the amended tax amount stated in the amendment notice. Nevertheless, the Group has solid grounds for its assertion and believes that the provisional payment is recoverable. Accordingly, the Group has recorded the provisional payment in other current assets.

In the event that the tax treatments of Lion Pty Limited for the two transactions during the applicable periods are not permitted, Lion Pty Limited may have an additional tax obligation up to 84,700 thousand Australian dollars (¥6,678 million).

12. INVENTORIES

Inventories consisted of the following:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Merchandise and finished goods	¥ 149,066	**¥ 148,067**
Work in process	24,022	**24,320**
Raw materials and supplies	46,112	**44,788**
Total	219,200	**217,176**
Of which, inventories held for sale over 12 months	24,896	**23,900**

Loss on devaluation of inventories which was recognized as an expense was ¥4,734 million for the year ended December 31, 2019 and ¥7,114 million for the year ended December 31, 2020.

These write-downs are included in cost of sales in the consolidated statement of profit or loss.

13. TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Notes and accounts receivable, trade (trade receivables)	¥ 382,250	**¥ 358,868**
Accrued accounts receivable	14,841	**14,812**
Allowance for doubtful accounts	(1,435)	**(1,534)**
Total	395,656	**372,146**

Notes:
1. The amounts less allowance for doubtful accounts are presented in the consolidated statement of financial position.
2. Trade and other receivables are classified as financial assets measured at amortized cost.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2019 and 2020 consisted of cash and time deposits (except for fixed term deposits over three months), and the amount of cash and cash equivalents in the consolidated statement of financial position was the same as the amount of cash and cash equivalents in the consolidated statement of cash flows. Cash and cash equivalents are classified as financial assets measured at amortized cost.

15. ASSETS HELD FOR SALE AND THEIR DIRECTLY ASSOCIATED LIABILITIES

Lion Pty Limited, the Company's Australian subsidiary, concluded an agreement on November 26, 2020 to transfer its Oceania Non-alcoholic Beverages Business to Bega Cheese Limited. As a result, the assets and liabilities of the Oceania Non-alcoholic Beverages Business are classified as assets held for sale and liabilities directly associated with assets held for sale, respectively.
Moreover, Kyowa Kirin Co., Ltd., a subsidiary of the Company, has decided to transfer all shares held in Hitachi Chemical Diagnostics Systems Co., Ltd., an equity-accounted investee of Kyowa Kirin Co., Ltd., to Showa Denko Materials Co., Ltd. (the company name was changed from Hitachi Chemical Co., Ltd. on October 1, 2020). As a result, the equity-accounted investees (shares of associates) of ¥5,097 million are classified as assets held for sale.
Assets held for sale and liabilities directly associated with assets held for sale consisted of the following:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Assets held for sale		
Property, plant and equipment	¥ -	**¥ 37,611**
Intangible assets	-	**679**
Equity-accounted investees	-	**8,416**
Inventories	-	**7,022**
Trade and other receivables	-	**19,731**
Other	-	**205**
Total	-	**73,664**
Liabilities directly associated with assets held for sale		
Other financial liabilities (non-current)	-	**5,246**
Other non-current liabilities	-	**602**
Trade and other payables	-	**11,152**
Other financial liabilities (current)	-	**3,502**
Other current liabilities	-	**5,856**
Other	-	**666**
Total	-	**27,024**

Of the transactions above, the transfer of the Oceania Non-alcoholic Beverages Business was completed on January 25, 2021. As a result, "Oceania Integrated Beverages" segment will be renamed "Oceania Adult Beverages" segment from the year ending December 31, 2021. The transfer of the business will have a negligible impact on the Group's performance for the year ending December 31, 2021.

16. CAPITAL AND RESERVES

(1) SHARE CAPITAL AND SHARE PREMIUM

Changes in the number of shares issued and the number of shares authorized were as follows:

(Thousands of shares)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Issued shares at January 1	914,000	**914,000**
Changes	-	**-**
Issued shares at December 31 —fully paid	914,000	**914,000**
Authorized shares at December 31	1,732,026	**1,732,026**

All of the shares issued by the Company are no-par ordinary shares without any limitation on the rights of the shares.

Regarding share premium and retained earnings, the Japanese Companies Act prescribes that until the total amount of capital reserve in share premium and legal earnings reserve included in retained earnings reaches 25% of share capital, 10% of any appropriation of surplus to shareholders from retained earnings is required to be set aside as additional paid-in capital or legal earnings reserve in each year.

The distributable amount under the Japanese Companies Act is calculated based on share premium and retained earnings as presented in the Company's accounting books in accordance with generally accepted accounting principles in Japan. Paid-in capital and legal earnings reserve are deducted from the distributable amount.

(2) TREASURY SHARES

Changes in the number of treasury shares were as follows:

(Thousands of shares)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Treasury shares at January 1	36,001	**45,271**
Changes	9,270	**35,114**
Treasury shares at December 31	45,271	**80,385**

Treasury shares of the Company comprise the cost of shares in the Company that the Group holds.

Changes in treasury shares for the year ended December 31, 2019 consisted of the following:

・Acquisition of treasury shares: 9,359 thousand shares
・Acquisition of less-than-one unit shares (including gratis acquisition based on performance evaluation for restricted stock compensation): 18 thousand shares
・Sale of less-than-one unit shares: (1) thousand shares
・Disposal of shares as restricted stock compensation: (107) thousand shares

Changes in treasury shares for the year ended December 31, 2020 consisted of the following:

・Acquisition of treasury shares: 35,105 thousand shares
・Acquisition of less-than-one unit shares: 10 thousand shares
・Sale of less-than-one unit shares: (1) thousand shares

Treasury shares at December 31, 2020 include 388 thousand shares held in the Board Incentive Plan Trust.

(3) DETAILS AND PURPOSE OF RESERVES

1) Foreign currency translation differences on foreign operations

Foreign currency translation differences on foreign operations comprise foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

2) Cash flow hedges

Cash flow hedges comprise the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

3) Net change in equity instruments measured at fair value through other comprehensive income

Net change in equity instruments measured at fair value through other comprehensive income comprises net unrealized gains or losses on the fair value of equity instruments measured at fair value through other comprehensive income.

4) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans comprise net change of actuarial gains and losses, the return on plan assets (excluding the amount included in interest income) and the effect of asset ceiling (excluding the amount included in interest income). Actuarial gains and losses result from adjustments based on performance related to defined benefit obligations (the difference between actuarial assumptions at the beginning of the year and the result of performance) and the effect of changes in actuarial assumptions. They are recognized in other comprehensive income as incurred and immediately transferred from reserves to retained earnings.

(4) DIVIDENDS

Dividend payments were as follows:

Resolution	Type of shares	Total amount of dividend (¥ millions)	Dividend per share (Yen)	Record date	Effective date
March 28, 2019 Annual General Meeting of Shareholders	Ordinary shares	¥23,706	¥27.00	December 31, 2018	March 29, 2019
August 6, 2019 Board of Directors' Meeting	Ordinary shares	27,660	31.50	June 30, 2019	September 5, 2019
March 27, 2020 Annual General Meeting of Shareholders	Ordinary shares	28,234	32.50	December 31, 2019	March 30, 2020
August 7, 2020 Board of Directors' Meeting (Note)	Ordinary shares	27,105	32.50	June 30, 2020	September 4, 2020

Note: The total amount of dividend includes dividends of ¥13 million on shares held in the Board Incentive Plan Trust.

Dividends for which the record date is attributable to, but to be effective after, the year are as follows:

Resolution	Type of shares	Total amount of dividend (¥ millions)	Dividend per share (Yen)	Record date	Effective date
March 30, 2021 Annual General Meeting of Shareholders (Note)	Ordinary shares	¥27,105	¥32.50	December 31, 2020	March 31, 2021

Note: The total amount of dividend includes dividends of ¥13 million on shares held in the Board Incentive Plan Trust.

17. BONDS AND BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

Details of financial liabilities

Bonds and borrowings and other financial liabilities consisted of the following:

	At December 31, 2019 (¥ millions)	**At December 31, 2020 (¥ millions)**	Average interest rate (%) (Note 3)	Maturity
Bonds (maturities of over one year) (Note 4)	¥ 149,497	**¥ 169,376**	0.26%	June 2, 2023 to September 5, 2039
Bonds (maturities of one year or less) (Note 4)	19,998	**39,986**	1.29	September 24, 2021
Long-term borrowings (maturities of over one year)	141,710	**224,234**	0.16	March 18, 2022 to March 12, 2027
Long-term borrowings (maturities of one year or less)	88,787	**49,775**	0.70	February 26, 2021 to December 31, 2021
Short-term borrowings	3,860	**4,270**	0.60	-
Commercial paper	127,000	**155,003**	0.027	January 27, February 25, and March 26, 2021
Deposits received (Note 2)	51,793	**50,983**	1.01	-
Accrued expenses	34,579	**36,574**	-	-
Derivative liabilities (Note 1)	10,777	**10,106**	-	-
Lease liabilities	76,442	**78,135**	-	January 31, 2021 to December 31, 2056
Other	32,126	**28,324**	-	-
Total	736,568	**846,767**	-	-
Non-current liabilities	432,265	**533,953**	-	-
Current liabilities	304,302	**312,814**	-	-

Notes:

1. Derivative liabilities are classified as financial liabilities measured at fair value, and financial liabilities other than derivative liabilities and lease liabilities are classified as financial liabilities measured at amortized cost.
2. A maturity has not been set for these deposits received as they have been pledged as cash collateral.
3. Average interest rates are determined based on average balances for the year.
4. The terms and conditions of bond issuance are summarized as follows:

Company name	Series	Issue date	At December 31, 2019 (¥ millions)	**At December 31, 2020 (¥ millions)**	Interest rate (%)	Maturity
The Company	The Company 4th series of unsecured bonds	March 19, 2008	¥ 19,998	**¥ -**	-%	March 19, 2020
The Company	The Company 9th series of unsecured bonds	September 26, 2011	39,961	**39,986**	1.239	September 24, 2021
The Company	The Company 10th series of unsecured bonds	March 2, 2015	14,955	**14,965**	0.603	February 28, 2025
The Company	The Company 11th series of unsecured bonds	December 6, 2018	24,909	**24,932**	0.120	December 6, 2023
The Company	The Company 12th series of unsecured bonds	September 5, 2019	29,878	**29,904**	0.080	September 5, 2024
The Company	The Company 13th series of unsecured bonds	September 5, 2019	29,861	**29,875**	0.230	September 5, 2029
The Company	The Company 14th series of unsecured bonds	September 5, 2019	9,933	**9,936**	0.510	September 5, 2039
The Company	The Company 15th series of unsecured bonds	June 4, 2020	-	**29,910**	0.020	June 2, 2023
The Company	The Company 16th series of unsecured bonds	June 4, 2020	-	**9,958**	0.180	June 4, 2025
The Company	The Company 17th series of unsecured bonds	June 4, 2020	-	**9,949**	0.370	June 4, 2030
The Company	The Company 18th series of unsecured bonds	November 27, 2020	-	**9,948**	0.110	November 27, 2025
Total			169,495	**209,362**	-	-

18. LEASES

(1) LEASING ACTIVITIES

The Group has entered into leases mainly for real estate of business offices and warehouses.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are mainly included in real estate leases for business offices and warehouses, many of which are options to extend the lease over one year or the same period as the original contract or options to terminate early the lease upon a six-month written notice to the counterparty. These options are used by the lessee as necessary to utilize real estate for business.

Some of the leases within the Group contain variable payment terms for warehouse fees that are linked to the volume of inventories or real estate rents that are linked to sales generated from the store. Variable payment terms are used in order to link rental payments to real estate cash flows and minimize fixed costs.

(2) RIGHT-OF-USE ASSETS

Carrying amounts and depreciation and amortization of right-of-use assets consisted of the following:

(¥ millions)

	Property, plant and equipment				Intangible assets	
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Software	Total
Balance at January 1, 2019	¥55,422	¥6,772	¥1,920	¥5,621	¥3,916	¥73,652
Acquisitions	9,058	2,514	2,154	184	1,452	15,361
Depreciation and amortization	(12,934)	(1,748)	(777)	(218)	(1,339)	(17,015)
Impairment losses	-	(1,631)	-	-	-	(1,631)
Other	(162)	52	(15)	84	(58)	(98)
Balance at December 31, 2019	**51,384**	**5,959**	**3,283**	**5,671**	**3,971**	**70,268**
Acquisitions	**17,484**	**6,811**	**1,821**	**98**	**299**	**26,512**
Depreciation and amortization	**(13,079)**	**(2,080)**	**(1,067)**	**(259)**	**(1,195)**	**(17,680)**
Impairment losses	**(233)**	**(236)**	**-**	**-**	**-**	**(469)**
Transfer to assets held for sale	**(4,032)**	**(1,083)**	**-**	**-**	**-**	**(5,115)**
Other	**288**	**203**	**(39)**	**(115)**	**(2)**	**335**
Balance at December 31, 2020	**51,811**	**9,574**	**3,998**	**5,395**	**3,074**	**73,851**

(3) LEASE LIABILITIES

Lease liabilities by maturity were as follows:

At December 31, 2019

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Lease liabilities	¥76,442	¥86,466	¥16,702	¥14,305	¥11,677	¥8,952	¥7,707	¥27,123

At December 31, 2020

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Lease liabilities	**¥78,135**	**¥87,156**	**¥17,989**	**¥15,114**	**¥11,483**	**¥9,208**	**¥7,433**	**¥25,930**

(4) AMOUNTS RECORDED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Interest paid for leases	¥1,474	**¥1,462**
Variable leases	980	**855**
Short-term leases	2,674	**2,267**
Leases for low value items	1,296	**1,360**

(5) AMOUNT RECORDED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Total cash outflow for leases	¥22,861	**¥22,497**

19. EMPLOYEE BENEFITS

(1) DEFINED BENEFIT PLANS

As defined benefit plans, the Group has lump-sum severance payment plans, defined benefit corporate pension plans and employees' pension fund plans.

Benefits under the defined benefit plans are determined based on the points earned during the service period, benefit rates upon retirement, number of years of service, last average salary before retirement and other conditions.

In some cases, additional retirement benefits are paid for early retirement of employees before the ordinary retirement dates.

The defined benefit plans are managed by the Group or pension funds that are separate from the Group in accordance with relevant laws and regulations.

The Group or the administrative board of the pension funds and the pension management entrusted organizations are required by laws and regulations to faithfully conduct their work in relation to the funds of plan participants, bearing the responsibility to manage plan assets in accordance with given policies.

In managing plan assets, the optimum asset mix is formulated by external institutions that conduct pension ALM (asset liability management). Under the optimum asset mix, risks, expected rates of return and asset composition ratios by investment asset are determined, and plan assets are managed by maintaining the composition ratios.

The Group and pension funds periodically examine the pension financing pursuant to laws and regulations in order to keep the balance of pension finance in preparation for the appropriation for and shortages in future payments of benefits, and recalculate the amount of pension contributions.

Major plans of the Group are exposed to risks such as investment risk, interest rate risk, inflation risk and life span risk.

1) Reconciliation of defined benefit obligations

Reconciliation between the beginning balance and ending balance of the present value of defined benefit obligations was as follows:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Balance at January 1	¥ 303,256	**¥ 301,143**
Current service cost	11,541	**10,817**
Interest cost	2,163	**1,542**
Remeasurement loss (gain)		
Changes in demographic assumptions	(966)	**7,676**
Changes in financial assumptions	937	**(1,151)**
Changes in experience adjustment	5,579	**2,466**
Past service cost	7	**31**
Foreign currency translation differences	(141)	**(979)**
Payments from plans	(20,803)	**(22,676)**
Plan transfer (Note)	13	**(3,228)**
Other changes (Note)	(444)	**(89)**
Balance at December 31	301,143	**295,551**

Note: The decrease in "Plan transfer" is mainly attributable to transfers from defined benefit plans to defined contribution plans caused by transfers of employees from Kirin Brewery Company, Limited, Kirin Beverage Company, Limited and Mercian Co., Ltd. to the Company. "Plan transfer," which was included in "Other changes" for the year ended December 31, 2019, is presented separately for the year ended December 31, 2020, because the amount became material. In order to reflect this change in presentation, items for the year ended December 31, 2019 have been reclassified.

Weighted-average duration of defined benefit obligations was 12.2 years at December 31, 2019 and 10.1 years at December 31, 2020.

2) Reconciliation of plan assets

Reconciliation between the beginning balance and ending balance of the fair value of plan assets was as follows:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Balance at January 1	¥ 244,562	**¥ 251,331**
Interest income	1,795	**1,279**
Remeasurement loss (gain)		
Gain on plan assets (excluding interest income)	15,051	**10,272**
Foreign currency translation differences	(128)	**(754)**
Contributions paid by the employer	5,103	**4,622**
Payments from plans	(14,706)	**(15,569)**
Plan transfer (Note)	(4)	**(2,928)**
Other changes (Note)	(343)	**(109)**
Balance at December 31	251,331	**248,145**

Note: The decrease in “Plan transfer” is mainly attributable to transfers from defined benefit plans to defined contribution plans caused by transfers of employees from Kirin Brewery Company, Limited, Kirin Beverage Company, Limited and Mercian Co., Ltd. to the Company. “Plan transfer,” which was included in “Other changes” for the year ended December 31, 2019, is presented separately for the year ended December 31, 2020, because the amount became material. In order to reflect this change in presentation, items for the year ended December 31, 2019 have been reclassified.

The Group plans to contribute ¥4,780 million to the defined benefit plans for the year ending December 31, 2021.

3) Defined benefit obligations and plan assets

The following table shows the relationship between the present value of defined benefit obligations, fair value of plan assets and defined benefit liability (asset) in the consolidated statement of financial position:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Present value of defined benefit obligations	¥ 301,143	**¥ 295,551**
Fair value of plan assets	(251,331)	**(248,145)**
Total	49,812	**47,406**
Defined benefit liability	65,274	**66,890**
Defined benefit asset	(15,462)	**(19,484)**

Note: Defined benefit asset is included in other non-current assets in the consolidated statement of financial position.

4) Details of plan assets

Total plan assets consisted of the following:

(¥ millions)

	At December 31, 2019		**At December 31, 2020**	
	With quoted prices in active markets	Without quoted prices in active markets	With quoted prices in active markets	Without quoted prices in active markets
Equity instruments	¥ 54,874	¥ -	**¥ 57,692**	**¥ -**
Debt instruments	102,357	-	**99,675**	**-**
General accounts	-	73,492	**-**	**70,145**
Other	-	20,608	**-**	**20,633**
Total	157,232	94,100	**157,367**	**90,778**

5) Actuarial assumptions

Major actuarial assumptions were as follows:

	At December 31, 2019	**At December 31, 2020**
Discount rate (weighted-average)	0.6%	**0.6%**

The effect of 0.5% change in the material actuarial assumptions on the defined benefit obligations was as follows, assuming that the other variables are constant:

(¥ millions)

		At December 31, 2019	**At December 31, 2020**
Discount rate	Increase by 0.5%	¥ (15,063)	**¥ (14,202)**
	Decrease by 0.5%	16,637	**15,871**

(2) DEFINED CONTRIBUTION PLANS

The Company and some of its consolidated subsidiaries have defined contribution plans as well as defined benefit plans.

Expenses recorded for the defined contribution plans (including expenses recognized in relation to public pension systems) were ¥14,199 million for the year ended December 31, 2019 and ¥14,738 million for the year ended December 31, 2020.

(3) EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses included in the consolidated statement of profit or loss were ¥292,210 million for the year ended December 31, 2019 and ¥275,958 million for the year ended December 31, 2020. Employee benefit expenses mainly include wages and salaries, employee bonuses, statutory welfare expenses and expenses for post-retirement benefits. Interest costs and interest income on post-retirement benefits are included in finance costs on a net basis, and past service costs are included in other operating expenses and other operating income. Other expenses relating to employee benefits are included in cost of sales, selling, general and administrative expenses and other operating expenses.

20. PROVISIONS

Details of and changes in provisions were as follows:

Year ended December 31, 2020

(¥ millions)

	Allowance for loss on plants reorganization	Asset retirement obligations	Other (Note)	Total
Balance at January 1, 2020	¥ 2,181	¥ 4,385	¥ 3,940	¥ 10,506
Increase	1,363	114	2,366	3,843
Decrease resulting from settlement	(763)	(35)	(4,099)	(4,896)
Decrease due to reversal	(857)	(4)	(193)	(1,054)
Foreign currency translation differences	52	18	(52)	18
Balance at December 31, 2020	**1,976**	**4,478**	**1,963**	**8,417**
Non-current liabilities	-	4,335	121	4,456
Current liabilities	1,976	143	1,842	3,961

Note: Explanations of provisions are provided in Note 3. Significant accounting policies.

21. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Notes and accounts payable, trade	¥ 105,904	**¥ 96,122**
Accounts payable	67,028	**63,049**
Refund liabilities	58,119	**61,106**
Total	231,051	**220,277**

Note: Trade and other payables are classified as financial liabilities measured at amortized cost.

22. OTHER LIABILITIES

Other non-current liabilities and other current liabilities consisted of the following:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Liquor taxes payable	¥ 74,966	**¥ 74,619**
Contract liabilities (Note)	3,573	**2,048**
Other	99,829	**91,433**
Total	178,369	**168,100**
Non-current liabilities	5,538	**3,408**
Current liabilities	172,831	**164,692**

Note: The beginning balance of contract liabilities recognized as revenue was ¥3,379 million and ¥2,095 million for the years ended December 31, 2019 and 2020, respectively. Revenue recognized from the performance obligations satisfied in prior years was ¥14,939 million and ¥17,184 million for the years ended December 31, 2019 and 2020, respectively. These amounts mainly consist of milestone revenue and running royalty revenue. Due to changes in periods to satisfy performance obligations, such as for development cooperation, and change in estimates of transaction prices, cumulative catch-up adjustments to revenue were made. As a result, the balance of contract liabilities decreased by ¥1,982 million at December 31, 2019 and increased by ¥422 million at December 31, 2020.

23. REVENUE

(1) ANALYSIS OF REVENUE AND RECONCILIATION TO REVENUE FROM UNAFFILIATED CUSTOMERS BY SEGMENT

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Japan Beer and Spirits	¥ 681,900	**¥ 651,424**
Japan Non-alcoholic Beverages	286,806	**252,173**
Oceania Integrated Beverages		
Alcoholic beverages	171,497	**177,406**
Non-alcoholic beverages	128,237	**114,715**
Total	299,733	**292,120**
Pharmaceuticals	304,852	**317,797**
Others		
Wine in Japan	59,988	**58,130**
Alcoholic beverages in Myanmar	32,726	**31,959**
Non-alcoholic beverages in North America	132,560	**129,399**
Bio-chemicals	65,395	**49,990**
Other	77,344	**66,552**
Total	368,013	**336,030**
Consolidated	1,941,305	**1,849,545**

(2) TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS

Consideration for licensing revenue for which the performance obligation is not satisfied at a point in time is recorded as contract liabilities and is recognized as revenue over a period of time according to the satisfaction of related performance obligations, such as development cooperation. The following table shows the total transaction price which is allocated to residual performance obligations and periods when the revenue is expected to be recognized:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Due within one year	¥ 2,176	**¥ 1,202**
Between one and two years	352	**189**
Between two and three years	259	**166**
More than three years	786	**491**
Total	3,573	**2,048**

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consisted of the following:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Sales promotion and advertising	¥ 159,262	**¥ 150,287**
Employee benefit expenses	183,012	**181,312**
Freight	72,637	**73,938**
Research and development	66,174	**64,500**
Depreciation and amortization	38,822	**38,453**
Other	136,899	**133,278**
Total	656,807	**641,768**

25. OTHER OPERATING INCOME

Other operating income consisted of the following:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Gain on sale of property, plant and equipment and intangible assets	¥ 3,218	**¥ 1,629**
Gain on sale of shares of subsidiaries	-	**42**
Other	3,408	**4,706**
Total	6,626	**6,376**

26. OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Impairment losses	¥ 63,992	**¥ 29,619**
Business restructuring expenses	16,914	**7,091**
Software development expenses	11,392	**14,424**
Loss on disposal and sale of property, plant and equipment and intangible assets	2,268	**1,942**
Other	15,088	**12,496**
Total	109,654	**65,572**

Note: Business restructuring expenses for the year ended December 31, 2019 include additional employees' retirement benefits of ¥9,419 million at the Company and consolidated subsidiaries and expense for plants reorganization of ¥934 million at consolidated subsidiaries. Business restructuring expenses for the year ended December 31, 2020 include additional employees' retirement benefits of ¥3,769 million at consolidated subsidiaries and expense for plants reorganization of ¥668 million at consolidated subsidiaries.

27. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs consisted of the following:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Interest income (Note 1)	¥ 2,141	**¥ 1,623**
Dividend income (Note 2)	2,370	**1,129**
Other	311	**2,648**
Total finance income	4,822	**5,400**
Interest paid (Note 1)	6,700	**4,890**
Foreign exchange losses (net)	1,707	**1,199**
Other	1,041	**2,431**
Total finance costs	9,448	**8,521**

Notes:
1. Interest income and interest paid were generated mainly from financial assets and financial liabilities measured at amortized cost.
2. Dividend income was generated from equity instruments measured at fair value through other comprehensive income.

28. CASH FLOWS

(1) RECONCILIATION OF LIABILITIES FOR FINANCING ACTIVITIES

Changes in major assets and liabilities for financing activities were as follows:

Year ended December 31, 2019

(¥ millions)

	Balance at January 1, 2019	Effect of changes in accounting policies	Restated balance at January 1, 2019	Total changes arising from cash flows from financing activities
Short-term borrowings	¥ 3,989	¥ -	¥ 3,989	¥ 393
Commercial paper	-	-	-	127,000
Long-term borrowings (Note)	261,257	-	261,257	(28,987)
Bonds (Note)	149,747	-	149,747	19,660
Lease liabilities (Note)	-	77,706	77,706	(16,437)
Derivatives used for hedging - liabilities	7,247	-	7,247	-

	Non-cash transactions and other changes				Balance at December 31, 2019
	Acquisitions	Foreign currency translation differences	Changes in fair value	Other	
Short-term borrowings	¥ -	¥ (523)	¥ -	¥ -	¥ 3,860
Commercial paper	-	-	-	-	127,000
Long-term borrowings (Note)	-	(1,857)	-	83	230,496
Bonds (Note)	-	-	-	88	169,495
Lease liabilities (Note)	15,714	(588)	-	47	76,442
Derivatives used for hedging - liabilities	-	-	1,316	-	8,563

Note: The balance with maturities of one year or less is included.

Year ended December 31, 2020

(¥ millions)

	Balance at January 1, 2020	Total changes arising from cash flows from financing activities	Non-cash transactions and other changes				Balance at December 31, 2020
			Acquisitions	Foreign currency translation differences	Changes in fair value	Other (Note 2)	
Short-term borrowings	**¥ 3,860**	**¥ 356**	**¥ -**	**¥ 54**	**¥ -**	**¥ -**	**¥ 4,270**
Commercial paper	**127,000**	**28,003**	**-**	**-**	**-**	**-**	**155,003**
Long-term borrowings (Note 1)	**230,496**	**48,185**	**-**	**(4,773)**	**-**	**101**	**274,009**
Bonds (Note 1)	**169,495**	**39,732**	**-**	**7**	**-**	**127**	**209,362**
Lease liabilities (Notes 1 and 2)	**76,442**	**(16,554)**	**25,446**	**(410)**	**-**	**(6,789)**	**78,135**
Derivatives used for hedging - liabilities	**8,563**	**(5,091)**	**-**	**-**	**4,735**	**-**	**8,208**

Notes:
1. The balance with maturities of one year or less is included.
2. Lease liabilities of ¥6,306 million are classified as liabilities directly associated with assets held for sale.

(2) PROCEEDS FROM SALE OF SHARES OF SUBSIDIARIES

Year ended December 31, 2019

On October 28, 2019, Lion Pty Limited, an Australian subsidiary of the Company, transferred the Specialty Cheese business included in the Oceania Non-alcoholic Beverages Business to Saputo Dairy Australia and lost control of the business.

The details of assets and liabilities at loss of control and the relationship between proceeds from sale and loss on sale were as follows. Loss on sale is recorded in other operating expenses.

(¥ millions)

Consideration received	¥ 21,090
Components of assets and liabilities at loss of control	
Non-current assets	15,982
Current assets	8,150
Non-current liabilities	(469)
Current liabilities	(2,453)
Costs associated with sale	136
Loss on sale of shares of subsidiaries	(256)
Consideration received	21,090
Cash and cash equivalents held at loss of control	3
Proceeds from sale of shares of subsidiaries, net of cash disposed of	21,087

Year ended December 31, 2020

Descriptions have been omitted because they are immaterial.

29. OTHER COMPREHENSIVE INCOME

The following table shows amounts arising during the year, amounts reclassified to profit or loss and tax effects for each component of comprehensive income included in other comprehensive income:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Net change in equity instruments measured at fair value through other comprehensive income		
Amount arising during the year	¥ (4,109)	**¥ (15,278)**
Before taxes	(4,109)	**(15,278)**
Tax effects	1,936	**4,765**
After taxes	(2,174)	**(10,513)**
Remeasurements of defined benefit plans		
Amount arising during the year	9,501	**1,281**
Before taxes	9,501	**1,281**
Tax effects	(2,950)	**(769)**
After taxes	6,551	**512**
Foreign currency translation differences on foreign operations		
Amount arising during the year	(1,007)	**(1,028)**
Before taxes	(1,007)	**(1,028)**
Tax effects	(34)	**-**
After taxes	(1,041)	**(1,028)**
Cash flow hedges		
Amount arising during the year	548	**729**
Reclassification adjustments	(100)	**(152)**
Before taxes	448	**577**
Tax effects	(164)	**(171)**
After taxes	283	**407**
Share of other comprehensive income of equity-accounted investees		
Amount arising during the year	(6,152)	**2,614**
Before taxes	(6,152)	**2,614**
Tax effects	-	**-**
After taxes	(6,152)	**2,614**
Total other comprehensive income		
Amount arising during the year	(1,219)	**(11,681)**
Reclassification adjustments	(100)	**(152)**
Before taxes	(1,319)	**(11,833)**
Tax effects	(1,213)	**3,826**
After taxes	(2,532)	**(8,008)**

30. EARNINGS PER SHARE

(1) BASIS OF CALCULATION OF BASIC EARNINGS PER SHARE

The basis of calculation of basic earnings per share was as follows:

1) Profit attributable to ordinary shareholders of the Company (basic)

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Profit attributable to owners of the Company	¥ 59,642	**¥ 71,935**
Profit not attributable to ordinary shareholders of the Company	-	**-**
Profit attributable to ordinary shareholders of the Company	59,642	**71,935**

2) Weighted-average number of ordinary shares (basic)

(Thousands of shares)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Weighted-average number of ordinary shares	877,038	**840,689**

(2) BASIS OF CALCULATION OF DILUTED EARNINGS PER SHARE

Diluted earnings per share were calculated as follows based on profit attributable to ordinary shareholders of the Company and weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares:

1) Profit attributable to ordinary shareholders of the Company (diluted)

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Profit attributable to ordinary shareholders of the Company	¥ 59,642	**¥ 71,935**
Adjustments for potential ordinary shares issued by subsidiary and associates	(23)	**(22)**
Profit attributable to ordinary shareholders of the Company (diluted)	59,620	**71,913**

2) Weighted-average number of ordinary shares (diluted)

(Thousands of shares)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Weighted-average number of ordinary shares (basic)	877,038	**840,689**
Effect of dilution	-	**-**
Weighted-average number of ordinary shares (diluted)	877,038	**840,689**

31. SHARE-BASED PAYMENTS

(1) DETAILS OF SHARE-BASED PAYMENT PLANS

Effective from the year ended December 31, 2020, the Company has adopted a Board Incentive Plan Trust as a performance-linked remuneration system for Directors, excluding Outside Directors, and Executive Officers of the Company who are residents in Japan (“the Directors and Officers”), for the sake of stable and efficient operation of the remuneration system as well as providing the Directors and Officers of the Company with incentives for improving medium- to long-term performance and increasing corporate value. As a result of the adoption of the Board Incentive Plan Trust, the Company abolished the restricted stock compensation system. Accordingly, restricted stock was not delivered in the year ended December 31, 2020.

In the year ended December 31, 2020, Kyowa Kirin Co., Ltd., a subsidiary of the Company, introduced the restricted stock compensation system for directors (excluding outside directors) of the company with a view to promoting further value sharing with shareholders, in addition to providing incentives to achieve the mid-term business plan as well as continuous improvement of medium- to long-term performance and corporate value. As a result of the introduction of the restricted stock compensation system in the year ended December 31, 2020, the company abolished the share option plan. Accordingly, the company discontinued the granting of share options in the year ended December 31, 2020. The last day of the exercise period for the share options granted is March 24, 2036. Additionally, the company has adopted the phantom stock plan as a cash-settled share-based payment plan for officers and employees of the company and some of its subsidiaries. In a three-year cycle, the company grants rights and makes cash payments to those who are in the position of an officer or an employee at the time of grant, taking into account the share price at the end of the period.

(2) BOARD INCENTIVE PLAN TRUST

1) Details of the program

The Board Incentive Plan Trust is a scheme whereby a trust funded and created by the Company acquires shares in the Company by using such funds and delivers, in principle, the Company’s shares along with the payment of cash equivalent to the proceeds from the realization of the Company’s shares that are realizable (the “Company’s Shares, etc.” collectively) to the Directors and Officers who have been granted points in accordance with the Share Delivery Rules of the Company when the Directors and Officers follow the prescribed beneficiary-determining procedure at a certain point in time after three years have passed since the start of each performance evaluation period. When the Company’s Shares, etc. are delivered or paid to the Directors and Officers, one point is converted to one share. Of the Company’s Shares, etc., shares that are realizable under the Share Delivery Rules are delivered in cash in an amount equivalent to the value that those shares can be converted to.

2) Number of points granted during the year and fair values

	Year ended December 31, 2020
Grant date	**May 12, 2020**
Number of points granted	**54,675**
Fair value at grant date (Yen)	**¥ 2,070**

Note: Since fair value at grant date was considered to be approximately equal to the Company’s share price at grant date, the fair value was determined using the share price at grant date.

(3) RESTRICTED STOCK COMPENSATION SYSTEM

Year ended December 31, 2019

1) Details of the program

The system grants Directors, excluding Outside Directors, and Executive Officers of the Company (“the Directors and Officers”) monetary compensation claims each year in principle for the allotment of restricted stock. These monetary compensation claims will be the source of contribution in kind to be converted to ordinary shares of the Company to be issued or sold to the Directors and Officers, enabling them to hold the shares. Under the share allotment agreement entered into between the Company and the Directors and Officers, the Directors and Officers are not allowed to transfer, securitize or dispose of the shares granted under said agreement (“Transfer Restriction”) during a certain period defined in said agreement (“Transfer Restriction Period”). The Transfer Restriction will be removed for all or part of the shares allotted when the Transfer Restriction Period expires according to the degree of achievement of the goals in the first year of the Transfer Restriction Period based on the key management indicators set out in the Medium-Term Business Plan and other indicators decided at the Board of Directors’ Meetings. On the other hand, shares for which the Transfer Restriction has not been removed will be acquired by the Company without compensation.

2) Number of shares granted during the year and fair values

	Year ended December 31, 2019
Grant date	May 15, 2019
Number of shares granted (Shares)	106,536
Fair value at grant date (Yen)	¥ 2,588

Year ended December 31, 2020

1) Details of the program

Under the system, directors and officers of the Company's subsidiary Kyowa Kirin Co., Ltd. are issued with ordinary shares of Kyowa Kirin Co., Ltd. upon the payment of all monetary compensation claims provided in the form of contribution in kind, on condition that they remain in the position of director or officer of the company for a certain period.

The ordinary shares of Kyowa Kirin Co., Ltd. are issued under restricted stock compensation on condition that the company and the directors and officers conclude an agreement which contains the following provisions: (i) the shares shall not be transferred to a third party, securitized or disposed of during a certain period, and (ii) when certain grounds arise, the shares will be acquired by the company without compensation.

2) Number of shares granted during the year and fair values

	Year ended December 31, 2020
Grant date	**April 6, 2020**
Number of shares granted (Shares)	**97,269**
Fair value at grant date (Yen)	**¥ 1,992**

(4) SHARE OPTION PLAN

1) Details of the plan

Until the year ended December 31, 2019, the Company's subsidiary, Kyowa Kirin Co., Ltd. had the share option plan, all of which are equity-settled share-based payments. Based on the details approved at the shareholders meetings and by the Board of Directors' Meetings of Kyowa Kirin Co., Ltd., subscription rights to shares issued as share options are granted to directors and managing officers of Kyowa Kirin Co., Ltd. and some directors of the subsidiaries of Kyowa Kirin Co., Ltd. If grantees are dismissed from the position of director or managing officer, the subscription rights to shares will be extinguished. When the retirement date of the grantee comes before the expiration of his or her term of office, the number of subscription rights to shares is adjusted according to the number of months of his or her tenure. The exercise period is defined in the allotment agreement, ranging from three to twenty years. If the grantee loses his or her position or does not exercise the subscription rights to shares during the exercise period, said rights will be extinguished.

2) Number of share options and weighted-average exercise prices

The number of share options and weighted-average exercise prices were as follows:

	Year ended December 31, 2019		**Year ended December 31, 2020**	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Outstanding at January 1	557,500	¥ 1	**437,700**	**¥ 1**
Grants	100,500	1	**-**	**-**
Exercise	(212,000)	1	**(137,100)**	**1**
Extinguishment	(8,300)	1	**-**	**-**
Outstanding at December 31	437,700	1	**217,500**	**1**
Exercisable outstanding at December 31	-	-	**83,100**	**1**

Notes:

1. The weighted-average share price at the exercise dates for the share options exercised during the year ended December 31, 2020 was ¥2,274.
2. The weighted-average remaining period of the outstanding share options was 4.9 years and 3.2 years for the years ended December 31, 2019 and 2020, respectively.

3) Fair value of share options granted during the year and measurement assumptions

The weighted-average fair value of the share options granted during the year has been measured using the Black-Scholes model based on the following assumptions:

	2019 share options
Weighted-average fair value at grant date	¥2,234
Share price at grant date	¥2,352
Exercise price	¥1
Expected volatility (Note)	7.0%
Expected remaining period	3 years
Expected dividends	¥40/share
Risk-free interest rate	(0.08)%

Note: Expected volatility has been calculated based on an evaluation of the historical volatility of the Company's share price over the most recent period corresponding to the expected remaining period.

(5) PHANTOM STOCK PLAN

Kyowa Kirin Co., Ltd., a subsidiary of the Company, and some of its subsidiaries have adopted the phantom stock plan, which settles amounts based on the share price of Kyowa Kirin Co., Ltd. at the vesting of rights in cash when granting compensation.

Some of the employees and others of Kyowa Kirin Co., Ltd.'s group are subject to the plan. The vesting condition for the rights is three-year continuous service on and after the grant date, in principle. The plan does not have an exercise price as it determines and pays compensation amounts based on the share price of Kyowa Kirin Co., Ltd.

The carrying amount of liabilities related to the plan was ¥155 million as of December 31, 2020, which was fully classified as non-current liabilities.

(6) AMOUNTS RECORDED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Expenses related to the aforementioned share-based payment plans were as below. They were recorded in selling, general and administrative expenses in the consolidated statement of profit or loss.

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Equity-settled	¥342	**¥207**
Cash-settled	-	**154**
Total	342	**361**

32. FINANCIAL INSTRUMENTS

(1) CAPITAL MANAGEMENT

The Group's basic policy for capital management is to maintain optimum capital structure with a focus on providing shareholders with returns and securing a sound, flexible financial footing towards the objective of maximizing corporate value. Aiming to improve profitability and efficiency, the Group utilizes cash flows which are provided by activities such as generating Group synergies, promoting CSV management and reducing assets, in order to conduct business investments and capital investments, provide shareholder returns, and repay interest-bearing liabilities.

(2) MATTERS RELATED TO RISK MANAGEMENT

The Group is exposed to financial risks, including credit risk, liquidity risk and market risk, in its business activities. To reduce such risks, the Group practices risk management based on established policies and procedures.

The Group limits the use of derivatives to that for the purpose of hedging financial risks, and does not use derivatives for speculative purposes.

(3) CREDIT RISK

1) Credit risk management

The Group is exposed to credit risk associated with trade receivables (notes and accounts receivable, trade), other receivables (accrued accounts receivable) and other financial assets (such as guarantee deposits).

In accordance with the internal policies for managing credit risk arising from these financial assets, in each sales division, the Company and relevant subsidiaries monitor credit worthiness of their main customers and counterparties on a periodical basis and manage due dates and outstanding balances by individual customer. In addition, efforts are made to quickly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group believes that the credit risk of derivatives is insignificant as it enters into derivatives only with financial institutions which have a high credit rating.

The Group is not exposed to credit risk that is significantly concentrated on any particular customer or group which it belongs to.

2) Credit risk

Carrying amounts (before allowance for doubtful accounts) of financial assets by stage at December 31, 2019 and December 31, 2020 were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Trade and other receivables	¥ 397,091	**¥ 373,680**
Other financial assets measured at amortized cost		
Financial assets in stage 1	28,418	**28,753**
Financial assets in stage 2	822	**808**
Financial assets in stage 3	3,679	**548**

The maximum amount of credit risk at the reporting date without considering the valuation of collateral held by the Group is represented by the carrying amount of financial assets exposed to the credit risk. The collateral held as guarantee mainly consists of security deposits.

The Group collectively assesses expected credit losses on trade and other receivables and financial assets in stage 1 by multiplying the rate of credit losses in prior years by a provision rate that reflects forecasts of future economic conditions and other factors, and individually assesses expected credit losses on financial assets in stage 2 and stage 3 based on considering credit losses in prior years and forecasts of future economic conditions and other factors.

The table of changes in allowance for doubtful accounts related to the above financial assets was as follows:

(¥ millions)

	Trade and other receivables	Other financial assets measured at amortized cost		
	Allowance for doubtful accounts related to financial assets under the simplified approach	Allowance for doubtful accounts related to financial assets in stage 1	Allowance for doubtful accounts related to financial assets in stage 2	Allowance for doubtful accounts related to financial assets in stage 3
Balance at January 1, 2019	¥1,371	¥611	¥842	¥3,686
Net provision	623	8	16	19
Release due to settlement	(535)	(11)	(47)	(50)
Other	(24)	-	-	1
Balance at December 31, 2019	1,435	608	811	3,656
Net provision	**1,002**	**12**	**4**	**39**
Release due to settlement	**(519)**	**(16)**	**(6)**	**(3,171)**
Other	**(384)**	**(23)**	**-**	**24**
Balance at December 31, 2020	**1,534**	**580**	**809**	**548**

The balance of guarantee obligations presented below represents the Group's maximum credit exposure relating to those obligations.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Loan obligations of associates and other companies	¥ 314	**¥ 1,297**
Loan obligations of employees	329	**235**
Total	643	**1,532**

The Group has not recorded any provision for losses on guarantees which may be incurred due to performance under the guarantee obligation contracts because the amount is not expected to be material.

(4) LIQUIDITY RISK

1) Liquidity risk management

In accordance with the internal policies for managing financial risks, the Group formulates fund procurement plans based on the business plan for each year to counter liquidity risk. The Group also manages the liquidity risk which arises mainly due to deterioration in the fund procurement environment by, for example, entering into commitment lines with several financial institutions and achieving an appropriate balance between direct and indirect fund procurement as well as short-term and long-term fund procurement.

2) Financial liabilities by maturity
Financial liabilities by maturity were as follows:

At December 31, 2019

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Trade and other payables	¥ 231,051	¥ 231,051	¥ 231,051	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds and borrowings	530,851	537,250	239,644	90,748	20,106	43,964	49,904	92,885
Derivative liabilities	10,777	10,777	3,831	1,302	1,250	-	-	4,393
Other financial liabilities (current)	60,515	60,515	60,515	-	-	-	-	-
Deposits received	51,793	54,901	518	518	518	518	518	52,311

At December 31, 2020

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Trade and other payables	**¥ 220,277**	**¥ 220,277**	**¥ 220,277**	**¥ -**	**¥ -**	**¥ -**	**¥ -**	**¥ -**
Bonds and borrowings	**642,644**	**648,001**	**250,812**	**18,714**	**94,482**	**100,432**	**87,508**	**96,054**
Derivative liabilities	**10,106**	**10,106**	**1,651**	**2,246**	**-**	**-**	**6,209**	**-**
Other financial liabilities (current)	**62,130**	**62,130**	**62,130**	**-**	**-**	**-**	**-**	**-**
Deposits received	**50,983**	**54,042**	**510**	**510**	**510**	**510**	**510**	**51,493**

(5) MARKET RISK MANAGEMENT

1) Foreign exchange risk management

The Group operates businesses globally and, therefore, is exposed to the risk that Group's equity is influenced by foreign exchange fluctuations as a result of transactions undertaken in currencies other than the functional currency and when financial statements of foreign operations are translated into Japanese yen and consolidated. To manage foreign exchange risk, the Group hedges such risk mainly using foreign exchange contracts and currency swaps.

The Group is exposed to foreign exchange risk primarily from the U.S. dollar and the euro (excluding the risk related to transactions undertaken in the functional currency of each Group company).

The main net exposure to foreign exchange risk of the Group was as follows (figures in parentheses indicate liability), excluding exposures hedged by derivative transactions:

	At December 31, 2019	**At December 31, 2020**
U.S. dollar (Thousands of U.S. dollars)	116,981	**239,964**
Euro (Thousands of euro)	8,642	**103,373**

For the foreign currency denominated financial instruments held by the Group at the reporting date, if the Japanese yen depreciates by 10% against the U.S. dollar and the euro, the impact on profit before tax is as set out below.

The impact of translating financial instruments denominated in the functional currency, assets and liabilities of foreign operations and income and expenses into Japanese yen is not included. In addition, other variable factors are assumed to remain constant.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
U.S. dollar	¥ 1,282	**¥ 2,484**
Euro	106	**1,312**

2) Interest rate risk
Interest-bearing liabilities with floating interest rates are exposed to interest rate risk. For those with long-term maturities, the Group uses interest rate swaps to avoid interest rate fluctuation risk by converting floating interest into fixed interest.
If the floating interest rate of financial instruments held by the Group at the reporting date increases by 1%, the impact on profit before tax is not material.
The Group's exposure to interest rate risk is not material.

3) Price fluctuation risk
The Group is exposed to share price fluctuation risk arising from equity instruments (shares). For the equity instruments, the Group regularly assesses the fair values, the financial conditions of the issuers and other relevant factors, and continuously reviews the holding status of such instruments by taking into account the relationship with the issuer when the issuer is a customer of the Group.
If the market price of equity instruments held by the Group at the reporting date increases by 1% with other variable factors assumed to remain constant, the impact on other comprehensive income (before tax) is ¥901 million and ¥585 million for the years ended December 31, 2019 and 2020, respectively.
The Group is exposed to price fluctuation risk of commodities, such as aluminum and oil, but such exposure is hedged using mainly commodity swaps. If the price of aluminum and oil changes by 1% at the reporting date, the impact on profit before tax is not material.
The Group's exposure to price fluctuation risk of commodities is not material.

In addition, the Group determines whether there is an economic relationship between the hedged item and hedging instrument based on the amount and timing of the associated cash flows and other factors. In the hedging relationships to which the Group currently applies hedge accounting, the important conditions of the hedged item and hedging instrument are consistent.

(6) DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING
1) Derivative transactions for which hedge accounting has not been applied
Notional amount and fair value of derivative transactions for which hedge accounting has not been applied were as follows:

(¥ millions)

	At December 31, 2019		**At December 31, 2020**	
	Notional amount	Fair value	Notional amount	Fair value
Forward foreign exchange contracts	¥ 25,330	¥ (206)	**¥ 54,318**	**¥ (44)**
Currency swaps	142,752	(8,563)	**72,530**	**(8,424)**
Share options	5,097	(421)	**-**	**-**
Total	173,179	(9,190)	**126,847**	**(8,468)**

2) Hedge accounting

Items designated as hedging instruments were as follows:

The carrying amounts of derivatives are the amounts recorded in other financial assets or other financial liabilities in the consolidated statement of financial position. The portions due later than one year are classified into non-current assets or non-current liabilities.

At December 31, 2019

(¥ millions)

	Notional amount		Carrying amount		Change in fair value of hedging instruments used as the basis for recognizing hedge ineffectiveness
	Total amount	Portion due later than one year included therein	Assets	Liabilities	
Cash flow hedges					
Foreign exchange risk					
Forward foreign exchange contracts	¥ 11,671	¥ 2,712	¥ 240	¥ 214	¥ (651)
Interest rate risk					
Interest rate swaps	154,796	93,135	-	1,210	762
Commodity price risk					
Commodity swaps (oil)	15,710 thousand liters	790 thousand liters	23	11	252
Commodity swaps (aluminum and others)	23 thousand tons	3 thousand tons	28	152	52
Hedge of net investment in foreign operations					
Foreign exchange risk					
Currency swaps	-	-	-	-	(12)

The average rates for forward foreign exchange contracts are ¥106.45 to the U.S. dollar and ¥120.71 to the euro, and the average rate for currency swaps is ¥116.31 to the U.S. dollar. The average interest rate for interest rate swaps is 1.03%.

At December 31, 2020

(¥ millions)

	Notional amount		Carrying amount		Change in fair value of hedging instruments used as the basis for recognizing hedge ineffectiveness
	Total amount	Portion due later than one year included therein	Assets	Liabilities	
Cash flow hedges					
Foreign exchange risk					
Forward foreign exchange contracts	**¥ 17,249**	**¥ 4,317**	**¥ 227**	**¥ 852**	**¥ (651)**
Interest rate risk					
Interest rate swaps	**93,135**	**53,135**	**-**	**709**	**501**
Commodity price risk					
Commodity swaps (oil)	**2,120 thousand liters**	**760 thousand liters**	**1**	**20**	**(31)**
Commodity swaps (aluminum and others)	**37 thousand tons**	**8 thousand tons**	**611**	**33**	**702**

The average rates for forward foreign exchange contracts are ¥106.02 to the U.S. dollar and ¥122.68 to the euro, and the average rate for currency swaps is ¥120.29 to the U.S. dollar. The average interest rate for interest rate swaps is 0.72%.

The impact on the consolidated statement of comprehensive income as a result of applying hedge accounting was as follows:

Year ended December 31, 2019

(¥ millions)

	Change in the value of hedging instruments recognized in other comprehensive income	Amount reclassified to profit or loss	Line item in profit or loss affected by the reclassification
Cash flow hedges			
Foreign exchange risk	¥ (518)	¥ 16	Finance costs
Interest rate risk	762	(116)	Finance costs
Commodity price risk	304	-	-
Hedge of net investment in foreign operations			
Foreign exchange risk	(12)	-	-

The amount of hedge ineffectiveness recognized in profit or loss was not material.

Year ended December 31, 2020

(¥ millions)

	Change in the value of hedging instruments recognized in other comprehensive income	Amount reclassified to profit or loss	Line item in profit or loss affected by the reclassification
Cash flow hedges			
Foreign exchange risk	**¥ (443)**	**¥ (35)**	**Finance costs**
Interest rate risk	**501**	**(117)**	**Finance costs**
Commodity price risk	**671**	**-**	**-**

The amount of hedge ineffectiveness recognized in profit or loss was not material.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value determined, either directly or indirectly, using observable prices other than Level 1

Level 3: Fair value determined using valuation techniques including inputs not based on observable market data

Transfers between the levels of the fair value hierarchy are recognized as if they have occurred at the end of the reporting period.

1) Methods of fair value measurement

The method of fair value measurement for each financial instrument is as follows:

Long-term borrowings: The fair value of long-term borrowings is determined as the present value calculated by discounting the combined total of principal and interest with an assumed interest rate for similar new borrowings.

Bonds: The fair value of bonds is determined as the present value calculated by discounting the combined total of principal and interest with an interest rate that reflects the current maturity and credit risk.

Derivatives: The fair value of derivatives is based on prices determined from market data, such as exchange rates and interest rates, by the counterparty financial institutions and other parties.

Shares: The fair value of listed shares is determined based on quoted market prices. The fair value of unlisted shares is determined using valuation techniques based on market prices of similar entities.

2) Financial instruments measured at amortized cost

The carrying amount and fair value of financial instruments measured at amortized cost by level in the fair value hierarchy were as follows:

At December 31, 2019

(¥ millions)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	¥ 230,496	¥ -	¥ -	¥ 239,869	¥ 239,869
Bonds (Note)	169,495	-	169,919	-	169,919

Note: The balance due within one year is included.

At December 31, 2020

(¥ millions)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	**¥ 274,009**	**¥ -**	**¥ -**	**¥ 275,208**	**¥ 275,208**
Bonds (Note)	**209,362**	**-**	**209,115**	**-**	**209,115**

Note: The balance due within one year is included.

The carrying amount of short-term financial assets and liabilities measured at amortized cost is approximately equal to the fair value.

3) Financial instruments measured at fair value

The level in the fair value hierarchy of financial instruments measured at fair value was as follows:

At December 31, 2019

(¥ millions)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	¥ -	¥ 291	¥ -	¥ 291
Shares	90,076	-	25,080	115,156
Other	-	157	3,012	3,168
Total	90,076	448	28,091	118,615
Liabilities:				
Derivative liabilities	-	10,356	421	10,777
Other	-	-	9,786	9,786
Total	-	10,356	10,207	20,563

At December 31, 2020

(¥ millions)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	**¥ -**	**¥ 863**	**¥ -**	**¥ 863**
Shares	**58,475**	**-**	**23,207**	**81,682**
Other	**-**	**165**	**2,806**	**2,971**
Total	**58,475**	**1,028**	**26,013**	**85,516**
Liabilities:				
Derivative liabilities	**-**	**10,106**	**-**	**10,106**
Other	**-**	**-**	**8,209**	**8,209**
Total	**-**	**10,106**	**8,209**	**18,315**

Notes:

1. There were no transfers between Level 1 and Level 2 at December 31, 2019 and December 31, 2020.
2. The measurement of fair value of shares in Level 3 is conducted in accordance with the relevant internal policy, using valuation techniques and inputs that most appropriately reflect their nature, characteristics and risks.
   The significant unobservable inputs associated with the fair value measurement of shares which are measured at fair value on a recurring basis and are categorized in Level 3 are operating margin and illiquidity discount. The fair value increases (decreases) with higher (lower) operating margin and decreases (increases) with higher (lower) illiquidity discount.
   Changes in the fair value of shares categorized in Level 3 are not material if the unobservable inputs are replaced by reasonable alternative assumptions.

Changes in financial assets categorized in Level 3 were as follows:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Balance at January 1	¥31,286	**¥28,091**
Total gains and losses	(1,733)	**(2,386)**
Profit or loss	(31)	**-**
Other comprehensive income (Note)	(1,702)	**(2,386)**
Purchases	1,358	**812**
Sales	(1,557)	**(237)**
Other	(1,263)	**(267)**
Balance at December 31	28,091	**26,013**

Note: Gains and losses included in other comprehensive income are related to equity instruments measured at fair value through other comprehensive income at the reporting date. These gains and losses are included in net change in equity instruments measured at fair value through other comprehensive income.

33. RELATED PARTIES

(1) TRANSACTIONS WITH RELATED PARTIES

There are no material related party transactions.

(2) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation was as follows:

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Short-term employee benefits	¥713	**¥683**
Share-based payments	140	**28**
Total	853	**711**

34. LIST OF SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

At December 31, 2019

Name	Location	Ratio of voting rights (%)*1
Kirin Brewery Company, Limited	Nakano-ku, Tokyo	100.0
Eishogen Company, Limited	Nakano-ku, Tokyo	99.9 (99.9)
Kirin Distillery Company, Limited	Gotemba-shi, Shizuoka	100.0 (100.0)
Spring Valley Brewery Company	Shibuya-ku, Tokyo	100.0 (100.0)
Kirin (China) Investment Company, Limited	Shanghai, China	100.0
Kirin Brewery (Zhuhai) Company, Limited	Guangdong, China	100.0 (100.0)
Taiwan Kirin Company, Limited	Taipei, Taiwan	100.0 (100.0)
Kirin Europe GmbH	Dusseldorf, Germany	100.0 (100.0)
Kirin Beverage Company, Limited	Chiyoda-ku, Tokyo	100.0
Lion Pty Limited	New South Wales, Australia	100.0
Lion-Dairy & Drinks Pty Ltd*2	Victoria, Australia	100.0 (100.0)
Kirin Foods Australia Holdings Pty Ltd	New South Wales, Australia	100.0 (100.0)
Berri Pty Limited*2	Victoria, Australia	100.0 (100.0)
Lion-Beer, Spirits & Wine Pty Limited	New South Wales, Australia	100.0 (100.0)
Lion (NZ) Limited	Auckland, New Zealand	100.0 (100.0)
Kyowa Kirin Co., Ltd.	Chiyoda-ku, Tokyo	53.8
Mercian Corporation	Nakano-ku, Tokyo	100.0
Kirin Holdings Singapore Pte, Ltd.	Singapore	100.0
Interfood Shareholding Company	Dong Nai, Vietnam	95.7 (95.7)
Myanmar Brewery Limited	Yangon, Myanmar	51.0 (51.0)
Mandalay Brewery Limited	Mandalay, Myanmar	51.0 (51.0)
Coca-Cola Beverages Northeast, Inc.	New Hampshire, USA	100.0
Kyowa Hakko Bio Company, Limited	Chiyoda-ku, Tokyo	100.0 (5.0)
Koiwai Dairy Products Company, Limited	Nakano-ku, Tokyo	99.9
Kirin City Company, Limited	Nakano-ku, Tokyo	100.0 (100.0)
Four Roses Distillery, LLC	Kentucky, USA	100.0 (100.0)
Kirin Brewery of America, LLC	California, USA	100.0 (100.0)
AZUMA KIRIN Indústria Comércio de Bebidas e Alimenos Ltda	Sao Paulo, Brazil	100.0
Other 124 companies	-	-

At December 31, 2020

Name	Location	Ratio of voting rights (%) *1
Kirin Brewery Company, Limited	Nakano-ku, Tokyo	**100.0**
Eishogen Company, Limited	Nakano-ku, Tokyo	**99.9 (99.9)**
Kirin Distillery Company, Limited	Gotemba-shi, Shizuoka	**100.0 (100.0)**
Spring Valley Brewery Company	Shibuya-ku, Tokyo	**100.0 (100.0)**
Kirin (China) Investment Company, Limited	Shanghai, China	**100.0**
Kirin Brewery (Zhuhai) Company, Limited	Guangdong, China	**100.0 (100.0)**
Taiwan Kirin Company, Limited	Taipei, Taiwan	**100.0 (100.0)**
Kirin Europe GmbH	Dusseldorf, Germany	**100.0 (100.0)**
Kirin Beverage Company, Limited	Chiyoda-ku, Tokyo	**100.0**
Lion Pty Limited	New South Wales, Australia	**100.0**
Lion-Dairy & Drinks Pty Ltd*2	Victoria, Australia	**100.0 (100.0)**
Kirin Foods Australia Holdings Pty Ltd	New South Wales, Australia	**100.0 (100.0)**
Berri Pty Limited*2	Victoria, Australia	**100.0 (100.0)**
Lion-Beer, Spirits & Wine Pty Limited	New South Wales, Australia	**100.0 (100.0)**
Lion (NZ) Limited	Auckland, New Zealand	**100.0 (100.0)**
New Belgium Brewing Company, Inc.	Colorado, USA	**100.0 (100.0)**
Kyowa Kirin Co., Ltd.	Chiyoda-ku, Tokyo	**53.8**
Mercian Corporation	Nakano-ku, Tokyo	**100.0**
Kirin Holdings Singapore Pte, Ltd.	Singapore	**100.0**
Interfood Shareholding Company	Dong Nai, Vietnam	**95.7 (95.7)**
Myanmar Brewery Limited	Yangon, Myanmar	**51.0 (51.0)**
Mandalay Brewery Limited	Mandalay, Myanmar	**51.0 (51.0)**
Coca-Cola Beverages Northeast, Inc.	New Hampshire, USA	**100.0**
Kyowa Hakko Bio Company, Limited	Chiyoda-ku, Tokyo	**100.0 (5.0)**
Koiwai Dairy Products Company, Limited	Nakano-ku, Tokyo	**99.9**
Kirin City Company, Limited	Nakano-ku, Tokyo	**100.0 (100.0)**
Four Roses Distillery, LLC	Kentucky, USA	**100.0 (100.0)**
Kirin Brewery of America, LLC	California, USA	**100.0 (100.0)**
Other 125 companies	-	-

* 1. Figures in parentheses in ratio of voting rights represent ratio of indirect ownership.
* 2. The transfer of Lion-Dairy & Drinks Pty Ltd and Berri Pty Limited was completed on January 25, 2021.

35. NON-CONTROLLING INTERESTS

Financial information before any intra-group eliminations for the Group's subsidiary, Kyowa Kirin Co., Ltd., which has material non-controlling interests, is summarized as follows:

(1) GENERAL INFORMATION

	At December 31, 2019	**At December 31, 2020**
Non-controlling interests ratio	46.21%	**46.23%**
Accumulated amount of non-controlling interests (¥ millions)	¥ 212,408	**¥ 222,676**

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Profit or loss allocated to non-controlling interests	¥ 17,235	**¥ 22,831**
Dividends to non-controlling interests	10,135	**10,920**

(2) SUMMARIZED FINANCIAL INFORMATION

1) Summary of consolidated statement of financial position

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Total non-current assets	¥ 293,240	**¥ 316,205**
Total current assets	448,610	**442,482**
Total equity	635,646	**655,792**
Total non-current liabilities	18,673	**22,145**
Total current liabilities	87,530	**80,749**

2) Summary of consolidated statement of profit or loss

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Revenue	¥ 324,107	**¥ 318,352**
Profit	67,084	**47,027**

3) Summary of consolidated statement of comprehensive income

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Other comprehensive income	¥ 6,079	**¥ (3,416)**
Total comprehensive income	73,162	**43,611**

4) Summary of consolidated statement of cash flows

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Net cash flows from operating activities	¥ 53,655	**¥ 39,502**
Net cash flows from (used in) investing activities	(951)	**252,559**
Net cash flows from (used in) financing activities	(47,371)	**(26,003)**

36. EQUITY-ACCOUNTED INVESTEES

Carrying amounts of equity-accounted investees were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Joint ventures	¥ 15,475	**¥ 17,766**
Associates	369,281	**369,701**
Total	384,756	**387,467**

(1) MATERIAL ASSOCIATES

The Group's material associates are San Miguel Brewery Inc. ("San Miguel") (reporting date: September 30) and FANCL CORPORATION ("FANCL") (reporting date: December 31).

1) San Miguel Brewery Inc.

San Miguel conducts production and sale of beer mainly in the Philippines. The Group will continue enhancing its business base in the growing Southeast Asian beer market in order to develop the business as its growth driver.

The following table reconciles summarized financial information of San Miguel to the carrying amounts of the Group's equity interests. Items in the statement of financial position are based on financial information at September 30, and items in the statements of profit or loss and comprehensive income are based on financial information for the 12-month reporting period of San Miguel ended September 30.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Percentage ownership interest	48.55%	**48.55%**
Total non-current assets	¥ 180,688	**¥ 222,517**
Total current assets	71,327	**63,424**
Total non-current liabilities	49,262	**45,802**
Total current liabilities	40,585	**68,268**
Equity	162,169	**171,871**
Non-controlling interests	7,386	**7,198**
Equity after deduction of non-controlling interests	154,783	**164,673**
Equity attributable to the Group	75,147	**79,949**
Goodwill and consolidation adjustments	81,638	**81,678**
Carrying amount of equity	156,785	**161,626**

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Revenue	¥ 297,710	**¥ 240,590**
Profit or loss from continuing operations	55,014	**40,186**
Equity attributable to owners of the Company	54,128	**39,294**
Non-controlling interests	886	**892**
Other comprehensive income	(1,739)	**3,673**
Equity attributable to owners of the Company	(1,739)	**3,673**
Non-controlling interests	-	**-**
Total comprehensive income	53,274	**43,859**
Equity attributable to owners of the Company	52,388	**42,968**
Non-controlling interests	886	**892**
Share of:		
Profit or loss from continuing operations	26,279	**19,077**
Other comprehensive income	(844)	**1,783**
Total comprehensive income	25,434	**20,861**
Goodwill and consolidation adjustments	(8)	**39**
Total share of the Group	25,427	**20,900**
Dividends received by the Group	15,702	**16,059**

2) FANCL CORPORATION

FANCL is engaged in research, development, manufacture and sale of cosmetics and health foods mainly in Japan, and the Group and FANCL will utilize both business resources and create synergies to expand and develop its businesses.

The following table reconciles summarized financial information of FANCL to the carrying amounts of the Group's equity interests.

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Percentage ownership interest	32.93%	**32.77%**
Total non-current assets	¥ 252,812	**¥ 261,588**
Total current assets	55,186	**49,363**
Total non-current liabilities	78,135	**81,646**
Total current liabilities	16,556	**14,636**
Equity	213,307	**214,669**
Equity attributable to the Group	70,242	**70,347**
Goodwill and consolidation adjustments	58,268	**57,986**
Share acquisition rights	(310)	**(217)**
Carrying amount of equity	128,200	**128,116**
Fair value of equity (Note)	115,142	**162,709**

Note: The fair value is based on the market price of the investment and is categorized as Level 1 in the fair value hierarchy.

(¥ millions)

	Year ended December 31, 2019 (From September 6, 2019 to December 31, 2019)	**Year ended December 31, 2020**
Revenue	¥ 45,525	**¥ 114,189**
Profit or loss from continuing operations	(2,018)	**5,349**
Other comprehensive income	2	**(41)**
Total comprehensive income	(2,017)	**5,308**
Share of:		
Profit or loss from continuing operations	(665)	**1,280**
Other comprehensive income	1	**(13)**
Total comprehensive income	(664)	**1,266**
Goodwill and consolidation adjustments	-	**-**
Total share of the Group	(664)	**1,266**
Dividends received by the Group	672	**1,350**

(2) INDIVIDUALLY IMMATERIAL JOINT VENTURES AND ASSOCIATES

Carrying amounts of the Group's equity interests in individually immaterial joint ventures and associates were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Joint ventures	¥ 15,475	**¥ 17,766**
Associates	84,296	**79,958**
Total	99,771	**97,724**

Associates classified as assets held for sale are not included.

The Group's shares of profit or loss from continuing operations, other comprehensive income and total comprehensive income in individually immaterial joint ventures and associates were as follows:

1) Individually immaterial joint ventures

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Share of:		
Profit or loss from continuing operations	¥ 3,496	**¥ 747**
Other comprehensive income	(428)	**(271)**
Total comprehensive income	3,068	**476**

2) Individually immaterial associates

(¥ millions)

	Year ended December 31, 2019	**Year ended December 31, 2020**
Share of:		
Profit or loss from continuing operations	¥ 4,611	**¥ 3,648**
Other comprehensive income	(4,872)	**1,076**
Total comprehensive income	(261)	**4,724**

37. COMMITMENTS

Commitments for asset acquisitions after the reporting date were as follows:

(¥ millions)

	At December 31, 2019	**At December 31, 2020**
Acquisition of property, plant and equipment	¥ 19,268	**¥ 25,991**
Acquisition of intangible assets	215,855	**250,045**
Total	235,123	**276,036**

Note: The above amounts for acquisition of intangible assets include the maximum amount of milestone payments for the achievement of development and sales goals relating to in-licensing contracts for development of products in the Pharmaceuticals Business. The actual payments may be significantly different from the above amounts because it is highly uncertain whether a milestone will be achieved.

38. BUSINESS COMBINATIONS

Acquisition of New Belgium Brewing Company by the Group

(1) OUTLINE OF THE BUSINESS COMBINATION

On January 1, 2020, the Company acquired 100% of the voting rights in New Belgium Brewing Company through Lion Global Craft Beverages LTD, a subsidiary in Australia, and obtained control of the company. The outline of the transaction was as follows:

Name of the acquired company	New Belgium Brewing Company
Business outline	Craft beer brewing
Major reason for the business combination	Establish a platform and enhance profitability for the craft beer business in the United States
Acquisition date	January 1, 2020
Method by which the acquiring company obtained control of the acquired company	Acquisition of shares mainly for cash consideration
Ratio of voting rights acquired	100%

(2) ASSETS ACQUIRED AND LIABILITIES ASSUMED

(¥ millions)

Item	Amount
Current assets	**¥ 3,614**
Non-current assets	**31,157**
Total assets	**34,771**
Current liabilities	**2,236**
Non-current liabilities	**400**
Total liabilities	**2,636**
Net assets	**32,135**

(3) GOODWILL ARISING FROM ACQUISITION

(¥ millions)

Item	Amount
Consideration for acquisition	**¥ 40,149**
Fair value of identifiable net assets acquired by the Group	**32,135**
Goodwill arising from acquisition	**8,014**

Goodwill was incurred from expected excess earnings power in the future arising from further business development.

(4) RELATIONSHIPS BETWEEN CONSIDERATION FOR ACQUISITION AND EXPENDITURES FOR ACQUISITION OF SHARES OF SUBSIDIARIES

(¥ millions)

Item	Amount
Consideration for acquisition	**¥ 40,149**
Consideration for acquisition comprising cash and cash equivalents	**39,956**
Cash and cash equivalents held by the acquired company	**328**
Acquisition of shares of subsidiaries, net of cash acquired	**39,628**

(5) ACQUISITION-RELATED COSTS

Acquisition-related costs of ¥86 million and ¥601 million were recorded in other operating expenses for the years ended December 31, 2020 and 2019, respectively.

(6) IMPACT ON THE GROUP

Revenue and profit arising from New Belgium Brewing Company since the acquisition date were ¥25,400 million and ¥1,412 million, respectively.

39. SUBSEQUENT EVENTS

There are no significant subsequent events. For the transfer of the Oceania Non-alcoholic Beverages Business, please refer to Note 15. Assets held for sale and their directly associated liabilities.

Independent auditor's report

To the Board of Directors of Kirin Holdings Company, Limited:

Opinion

We have audited the accompanying consolidated financial statements of Kirin Holdings Company, Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The selection and application of audit procedures depends on the auditor’s judgement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Masakazu Hattori

Designated Engagement Partner

Certified Public Accountant

Masahiro Sasaki

Designated Engagement Partner

Certified Public Accountant

Yoshihiro Fujioka

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

March 30, 2021

Notes to the Reader of Independent Auditor’s Report:
This is a copy of the Independent Auditor’s Report and the original copies are kept separately by the Company and KPMG AZSA LLC.