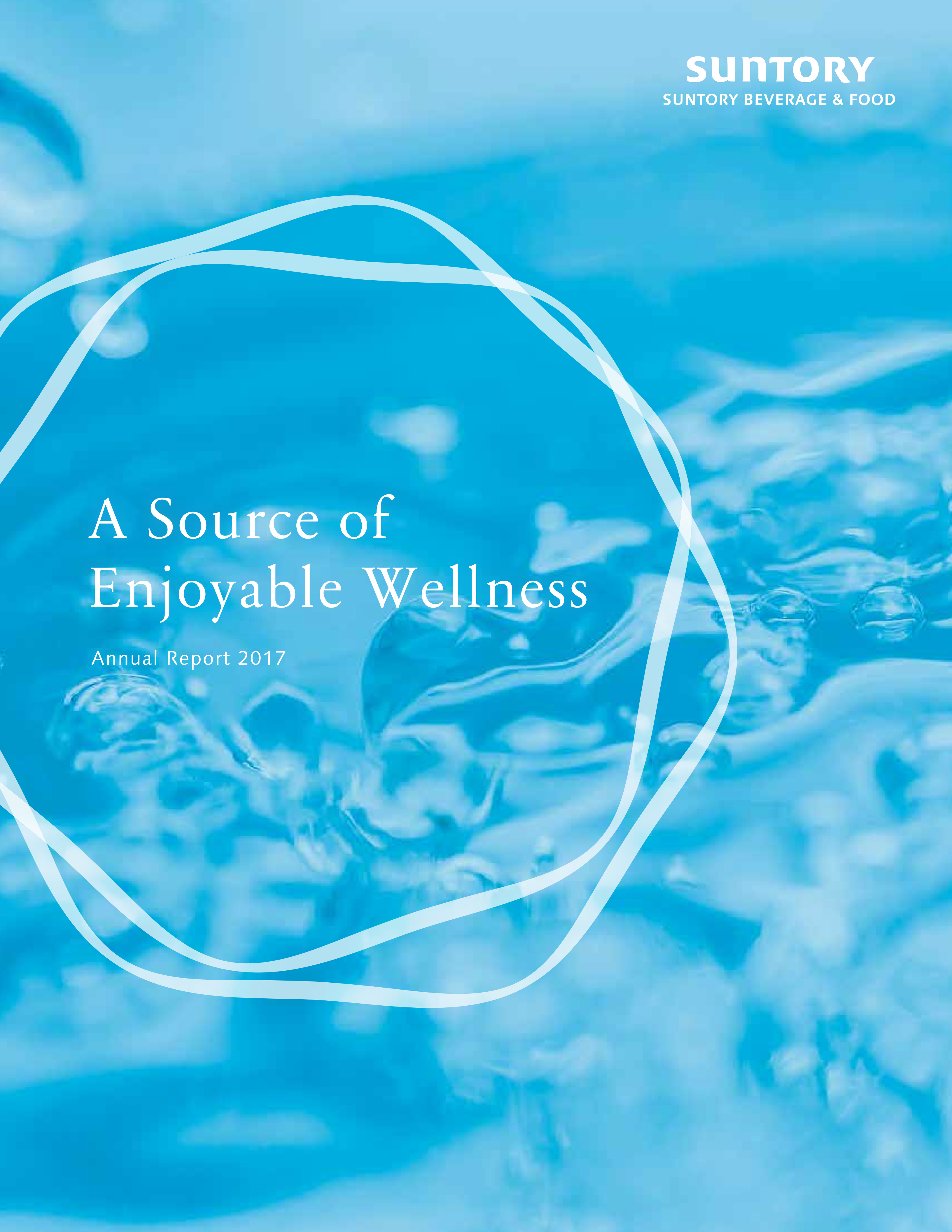


SUNTORY
SUNTORY BEVERAGE & FOOD

A Source of Enjoyable Wellness

Annual Report 2017

Mizu To Ikiru

PROMISE

Water is the source of all the lives on the planet.
We promise and declare to society that we make our living with water.
We embrace nature, enrich our society
and encourage our people to take on new challenges.

Brightening Everyday Living with the Best from Nature

SUNTORY BEVERAGE & FOOD

Suntory Beverage & Food (SBF), established in 2009 as a member of the Suntory Group, is a global company overseeing mainstay businesses in the non-alcoholic beverages and food product categories.

We have over 23,000 SBF employees supporting and developing familiar and locally loved brands in Japan, Europe, Africa, Asia, Oceania, and the Americas. To raise our international standing and scope, we aim to create innovative products along the themes of "natural & healthy" as well as "unique & premium."

As a beverage business, SBF is ultimately reliant on water. The quality of water resources and the state of the global environment are of utmost concern to us. This is expressed in our promise to incorporate water sustainably in our lives, or *Mizu To Ikiru* in Japanese.

Enriching the Everyday Drinking Experience

Because hydration is an essential part of people's lives, we want to provide the product variety necessary to satisfy many individual needs. While ensuring our beverages remain accessible and easy to consume, we are adding new types of value to our product line-up as modern consumer attitudes change. We also set ourselves apart by creating enjoyable products that specifically support healthy lifestyles. Our vision expresses how we will become an integral part of people's lives through the beverages they choose.

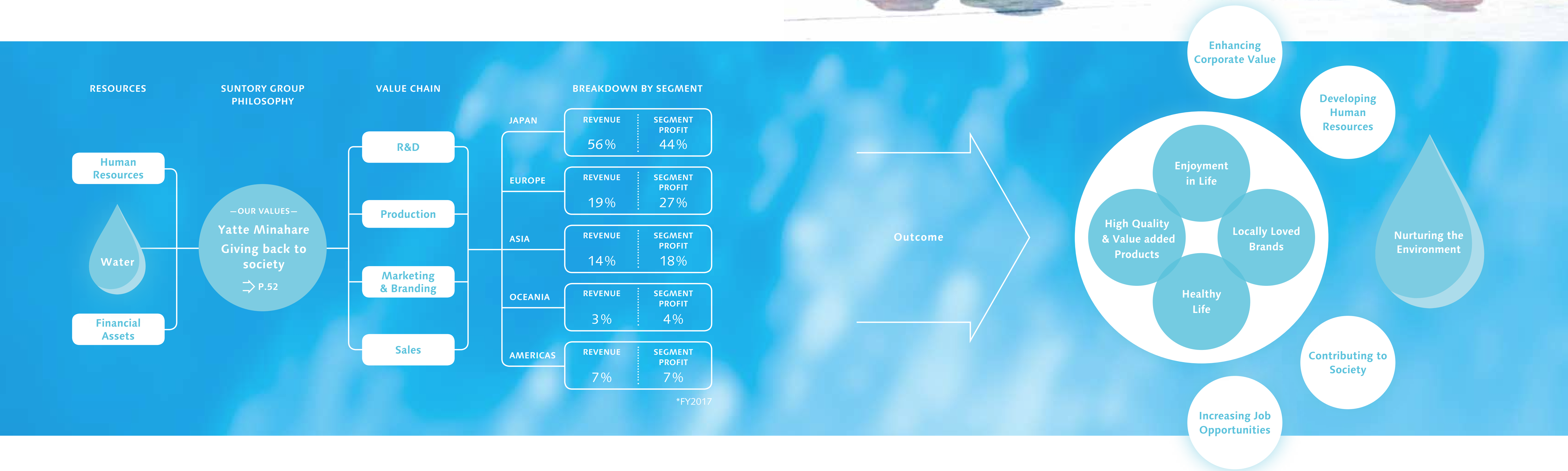
VISION

Enrich our drinking-experiences to be more natural, healthy, convenient, and fulfilling, by leading the next drinks revolution.

Making Innovative Contributions to Enjoyable Wellness

We anticipate consumers' needs and supply a variety of refreshing and healthy products that harmonize with the rhythm of their daily lives. We achieve this with knowledge and technology accumulated over many years, together with our uncompromising commitment to quality.

Our goal is to deliver high shareholder returns while also contributing to job creation and community development in regions throughout the world. The unchanging mission of SBF and the Suntory Group is to share the benefits of our business activities with all stakeholders, while building our reputation in each region as a trustworthy global enterprise. This means we are dedicated to achieving strong sustainable growth, while maintaining the health of the natural ecosystems from which our products are derived.



Resources & Sustainability

Sharing the Benefits of Nature through Sustainable Management

For SBF, an extension of our *Mizu To Ikiru* promise can be seen in how we practice responsible environmental and water resource management, since these areas affect our livelihood as well as the lives of numerous stakeholders. Our initiatives rely on the dedication of our diverse employees, who all contribute to bettering their communities across the globe.

We primarily help to conserve water resources through the development of watersheds. Suntory Natural Water Sanctuaries cover approximately 9,000 hectares of forest in Japan. This area is already more than enough to replenish the groundwater equivalent of the water used by Suntory production facilities in Japan, but we aim to increase it to 12,000 hectares by 2020. We are also seeking out further water conservation projects in our overseas regions.

SBF and the Suntory Group pursue stewardship of other natural resources by increasing energy efficiency in our plants, decreasing waste, and incorporating more packaging designed to reduce environmental impact. We work to minimize our environmental footprint so that we can pass on a sustainable global environment to future generations.

CONTENTS

Financial Information

Net Sales (JGAAP) 5-year CAGR*

6.7%

*Compound Annual Growth Rate

Share of Revenue from Regions outside of Japan

44% in 2017

Share of segment profit from Regions outside of Japan

56% in 2017

Our Products are Sold in more than

50 Countries/regions

Global Position

3rd in the world

*We are the No.3 soft drink company in terms of sales based on our research

Non-Financial Information

Annual Sales Volume

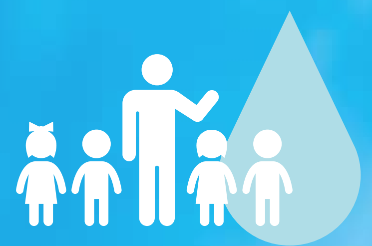
17.0 billion bottles

*Results of 2017, 500 ml bottle equivalent

Number of Participants in Water and Hygiene Education Program

(Japan, Vietnam and South Africa)

160 thousand persons



*Since 2004, cumulative total number of participants in the
- *Suntory Mizuiku*—Education Program for Nature and Water in Japan
- *Mizuiku*—I love clean water Program in Vietnam
- WESSA (the Wildlife and Environment Society of South Africa) Partnership in South Africa

Number of Brands on Sale for more than 10 Years

50

Number of Global Career Development Program Participants

100 persons in 2017

Performance Highlights

Suntory Beverage & Food Limited and Consolidated Subsidiaries

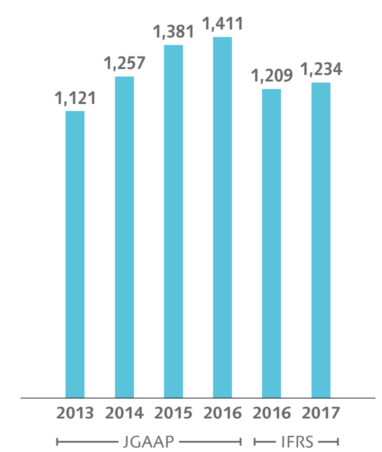
(¥ million)

	JGAAP				IFRS	
	2013	2014	2015	2016	2016	2017
FOR THE YEAR						
Revenue (Net sales)	1,121,362	1,257,280	1,381,007	1,410,765	1,209,149	1,234,008
Operating income	72,716	85,950	92,007	93,481	111,865	117,955
Profit for the year attributable to owners of the Company (Net income attributable to owners of the Company)	31,196	36,240	42,462	46,056	71,501	78,112
Depreciation and amortization	43,719	50,032	56,302	58,654	62,347	63,934
Amortization of goodwill	23,211	25,075	27,226	28,680	—	—
Net income before amortization of goodwill	54,407	61,315	69,688	74,737	—	—
EBITDA*2	139,646	161,057	175,535	180,816	182,585	188,157
Earnings per share (Yen)	—	—		—	231.40	252.79
ROE (Ratio of profit for the year to equity attributable to owners of the Company)	—	—		—	11.7%	12.0%
Before amortization of goodwill						
EPS (Yen)*3	207.17	198.43	225.53	241.87	—	—
ROE*4	14.5%	10.6%	11.8%	13.2%	—	—
After amortization of goodwill						
EPS (Yen)*3	118.79	117.28	137.42	149.05	—	—
ROE*4	8.3%	6.3%	7.2%	8.1%	—	—
Cash flows						
Cash flows from operating activities	114,082	108,639	145,741	161,860	163,083	149,513
Cash flows from investing activities	(290,613)	(67,483)	(188,847)	(57,849)	(57,461)	(52,958)
Free cash flow	(176,532)*6	41,156	(43,106)*7	104,011	105,621	96,554
Cash flows from financing activities	190,409	13,671	38,504	(115,515)	(117,126)	(63,593)
Cash and cash equivalents at end of the year	45,851	105,505	97,718	84,096	84,096	113,883
AT YEAR–END						
Total assets	1,256,702	1,389,096	1,484,434	1,366,000	1,421,398	1,522,029
Total equity	592,969	635,624	626,890	602,447	662,815	746,201
Capital expenditures	62,582	69,141	63,535	60,172	60,734	59,068
D/E ratio (Times)*5	0.4	0.4	0.5	0.4	0.3	0.2

*1. Adopted IFRSs from the year ended December 31, 2017
*2. EBITDA is operating income + depreciation and amortization + amortization of goodwill.
*3. SBF calculated EPS for the fiscal year ended December 31, 2013 based on the average number of issued shares during the year including the issuance of 93,000,000 new shares. On April 16, 2013, SBF conducted a 1:500 share split whereby 1 share was split into 500 shares, bringing the total number of issued shares to 216,000,000 shares. SBF calculated EPS for the fiscal year ended December 31, 2013, based on the assumption that the share split was conducted at the beginning of the fiscal year ended December 31, 2013.

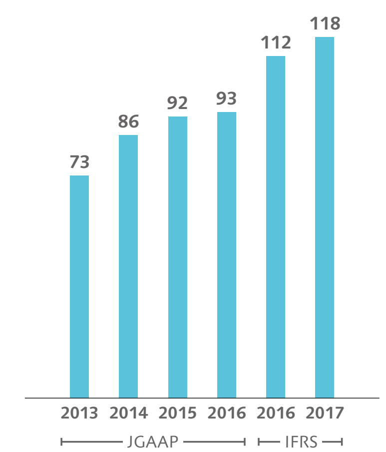
Revenue

(¥ billion)



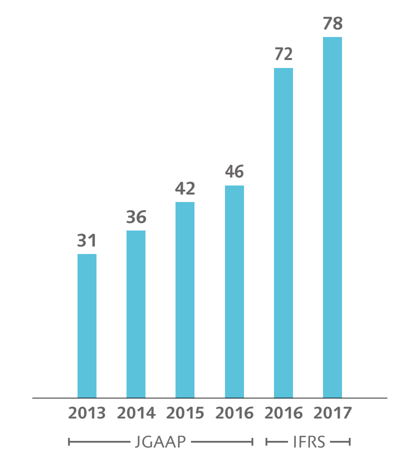
Operating Income

(¥ billion)



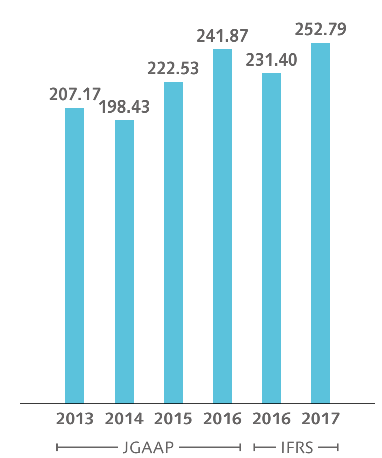
Profit for the year attributable to owners of the Company

(¥ billion)



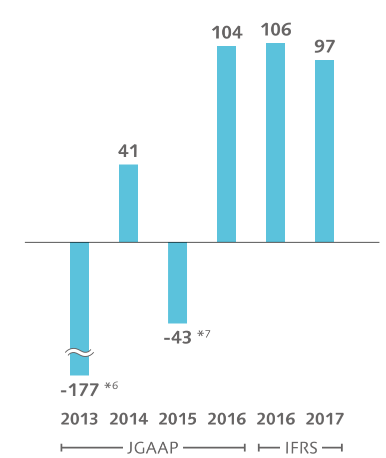
Earnings per share

(Yen)



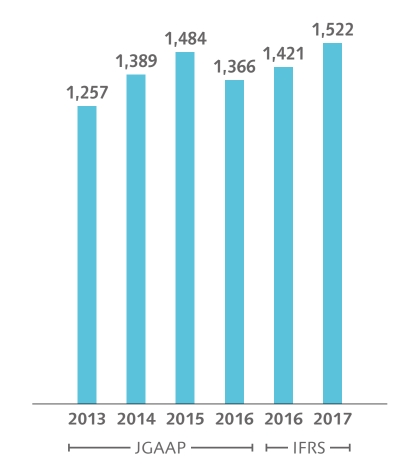
Free cash flow

(¥ billion)



Total assets

(¥ billion)



*4. SBF calculated ROE for the fiscal year ended December 31, 2013 based on the average shareholders' equity at the beginning and end of the fiscal year including the equity increase during the fiscal year.
*5. D/E ratio is (interest-bearing debt – cash and cash equivalents) / total equity.
*6. In 2013, the Company has recorded the acquisition of the Lucozade Ribena brand and its business base (approx. ¥220 billion).
*7. In 2015, the Company acquired shares of Japan Beverage Holdings Inc. (approx. ¥150 billion).

To Be the Third Force

To realize the dreams of becoming a world-leading next-generation global beverage company by pioneering a fulfilling beverage culture.

Water is essential to all life. Neither mankind nor creatures on this planet can survive without water. *Mizu To Ikiru*—Living with Water: These words embody our new pledge to society. Our business activities all begin with water, and these words signify our determination to reach new frontiers in value by enriching people, nature, and society.

Consumer preferences are continually changing, and there is also a spectrum of needs among regions and cultures. Our advantage is our ability to meet the needs of consumers around the world by ensuring the availability of a full line-up of products with different content, pack types, and sizes, and by providing easy access to high-quality products that are reliable whenever and wherever consumers have a thirst. We excel in innovation through product development based on the themes of "natural and healthy" and "unique and premium," and in our ability to provide totally new and exciting drinking experiences that are more natural, healthy, and convenient.

We will continue to take up the challenge of creating new value based on our "empowering GENBA" philosophy of empowering frontline operations in our continually changing markets, and by always basing our ideas and research on consumer perspectives. SBF will remain an open-minded, energetic, and vibrant enterprise dedicated to the continual provision of new value to society through the efforts of strong individuals with diverse career backgrounds to apply our founding spirit, *Yatte Minahare*.

Each day, we boldly move forward together as a Group to realize the dreams of becoming a world-leading next-generation global beverage company by pioneering a fulfilling beverage culture.

We look forward to the continuing support and guidance of our stakeholders.

Saburo Kogo

Saburo Kogo
President and CEO

Five Consecutive Years of Revenue and Profit Growth

I will briefly report on our consolidated financial results for fiscal 2017 (the year ended December 2017), and our future vision and strategic direction for Suntory Beverage & Food Limited (SBF).

Our consolidated financial results for fiscal 2017 reflect our efforts to strengthen our core brands, create new demand, and further enhance our business foundation. We achieved revenue and profit growth for the fifth straight year. Consolidated revenue increased by 2.1% year on year to ¥1,234.0 billion, while consolidated operating income was 5.4% higher at ¥118.0 billion. Profit for the year attributable to owners of the Company reached ¥78.1 billion, an increase of 9.2%.

We have continually achieved growth by offering unique, high-quality products that match the preferences and needs of consumers around the world while enriching their lives. Our results for fiscal 2017 also show that the SBF Group is steadily becoming more global. Regions outside of Japan accounted for 44% of our consolidated revenue and 56% of segment profit.

> "We are strengthening unity in the global SBF Group."

Toward the Next Growth Stage

I believe that the strengths of the SBF Group lie in its ability to create and nurture brand value, in our portfolio of "natural & healthy" products, in our manufacturing technology, which is backed by our ongoing commitment to research and development, production technology, and quality assurance. Another source of strength is our track record of environmental and community contribution and ongoing social contributions in the field of culture. Above all, we are strengthened by our *Yatte Minahare* spirit, which encourages people to take up the challenge of innovation without fear of failure.

We apply these strengths in every region worldwide by maintaining local autonomy in our frontline operations in each region, while sharing our common Group philosophy and mission. As the basis for this approach, we have adopted a long-term strategy for our entire Group by formulating a new philosophy that we call "Promise and Vision," together with seven growth strategies designed to realize that vision.

PROMISE:
Mizu To Ikiru

Mizu To Ikiru represents our pledge to society. The mission of SBF is to bring enjoyment to consumers and contribute to society by creating products by adding value to water. We promise to treat water with care and respect while ensuring sustainability, to embrace nature, to enrich our society, and to encourage our people to take on new challenges.

VISION:
Enrich our drinking-experiences to be more natural, healthy, convenient, and fulfilling, by leading the next drinks revolution.

Traditionally the values that people have sought in beverages have focused on basic characteristics, such as delicious flavors, safety and reliability, quality, convenience, and affordability. In the future, there will be an increasing emphasis on more evolved values, such as health, the environment, a more enriching experience, and more convenience. We will respond to this change by providing consumers worldwide with drinking experiences that exceed their expectations.

The Challenge of Continuous Long-term Growth

Our long-term growth aspiration is to double our revenue to ¥2.5 trillion by fiscal 2030. Our medium-term business plan for fiscal 2018 through 2020 calls for organic growth ahead of market and incremental growth through new investments. We also aim to achieve growth of operating income at a CAGR (Compound Annual Growth Rate) mid single-digits or above.

Long-term Strategy for the Realization of Our Vision

When we consider our strategic direction from a long-term perspective, we also need to anticipate future changes in the world. We believe that the future will bring an accelerating increase in people's focus on health, as well as the emergence of consumers with diverse values, such as millennials. The expansion of the middle class in emerging countries will result in expanding demand for ready-to-drink (RTD) beverages, while a global trend toward urbanization will drive significant and accelerating changes in the situations in which consumers buy and consume beverages. Technological innovation brings about changes in lifestyle. There will be far-reaching changes in the world, including a rise in environmental awareness, and the depletion of natural resources. In recent years there has been an increase in awareness of the SDGs*. This is reflected in the following growth strategies, which reflect our commitment to business and social sustainability.

*Sustainable Development Goals (SDGs) are targets that should be reached globally by 2030 that were adopted at the UN Sustainable Development Summit held in September 2015.

Seven Growth Strategies to Realize our Vision

Portfolio	Evolve portfolio by satisfying the needs of local consumers
Availability	Enhance availability by exploiting changing trade channels and technologies
MONOZUKURI	Innovate MONOZUKURI to generate competitiveness
Area expansion	Expand areas by focusing on growth markets
Next-generation business model	Develop Beyond RTD Next-generation business model
Sustainability	Accelerate sustainability management and contribution to local societies
Organization, Talent, Culture	Strengthen unique global management system of Genba Heroes

> "Our perception of change in the business environment is based on long-term perspectives and the global focus on health."

We will evolve portfolios that match the preferences and health needs of consumers in each country and region, by expanding our line-up of natural and healthy products based on the "enjoyable wellness" concept, and by developing unique and premium brands with the potential to become favorites in each market. We will also create new drinking opportunities by maximizing our technology and ideas to reflect changes in consumer lifestyles, including the effects of demographic aging, a falling birth rate, the increasing use of digital technology, and workstyle changes.

A key strength for SBF is our manufacturing technology. We will further utilize group synergies and accelerate innovation by integrating research and development, quality assurance, and production supply chain management (SCM). Consumer-centric ideas in each country and region will be our primary focus in all product development activities.

Our area expansion strategy in the global market is targeted toward business expansion in key markets, including Asia, Africa, and the United States. In Asia, we have launched a new joint venture in Thailand with PepsiCo, Inc. in March 2018, and will work toward continuing growth across the entire region.

In addition the reinforcement of our premium businesses, such as health supplements and fresh coffee, we are also using new technologies to create new business models that go beyond BtoC and RTD.

> "SBF aims to achieve sustainable growth in partnership with people, society, and nature in every country and region."

Sustainability Management and the Improvement of Corporate Value

In Japan we have worked with local communities to protect and nurture water resources through our Natural Water Sanctuary project and our *Mizuiku* environmental education program for young people. We have been implementing the *Suntory Mizuiku* environmental education program in Vietnam since 2015. In 2017, we commenced water source conservation activities in France.

The global SBF Group will continue to work on water-focused initiatives such as these. We will also contribute to the sustainability of the global environment through our business operations by working to reduce environmental loads across our entire value chain, including CO_2 emissions, water use, and the use of containers and packaging materials.

A key feature of SBF's corporate culture is our commitment to "empowering GENBA" or empowering our people locally. This means that people engaged in local frontline operations are able to act independently in response to market changes, because they are best able to perceive changes in markets and consumers. We are determined to maintain a corporate culture in which diverse individuals can create value for society by practicing the *Yatte Minahare* spirit, a tradition that goes back to the founding of the Suntory Group.

I hope that this report will help stakeholders to understand our corporate stance and the value that SBF provides to society. We look forward to your continuing support.

March 2018

Saburo Kogo

President and CEO

"SBF Group will continuously work to strengthen business foundations in each region, and aim for sales and profit growth."

Yuji Yamazaki

Senior Managing Executive Officer, Member of the Board

An Operational Review of Fiscal 2017

Suntory Beverage & Food Group (SBF Group) put efforts into brand reinforcement and new demand creation, as well as strengthening earning capacity through cost reductions, quality improvement of products and strengthening its business foundation and redeveloping its business portfolio with the aim of achieving sustainable future growth. As a result, SBF Group reported consolidated revenue of ¥1,234.0 billion, up 2.1% year on year and consolidated operating income of ¥118.0 billion, up 5.4%. SBF has applied the International Financial Reporting Standards (IFRS) beginning from fiscal 2017.

In Japan, the Group worked on creating new demand by proposing products that bring new value, strengthening core brands, as well as continuing to focus on efforts to improve profitability.

As a result, segment profit grew by a larger margin than sales, with a year-on-year increase of ¥57.3 billion (5.1%), and revenue of ¥689.2 billion, up 0.2%. In Europe, aggressive marketing activities were conducted with a focus on core brands, and in Africa, the Group strove to reinforce the business foundation. Despite a temporary rise in supply chain costs, the Europe business reported revenue of ¥238.9 billion, up 4.2% year on year and segment profit of ¥34.6 billion, up 2.9%. In Asia, besides reinforcing core brands, the Group worked on strengthening the sales and distribution structures in each country. As a result, the Asia business reported revenue of ¥177.1 billion, up 7.6% year on year. With the strong sales in Vietnam and in the health supplement business overall, the Group has achieved high segment profit growth of 34.5% reaching ¥23.2 billion. In Oceania, the Group worked to expand sales by conducting aggressive marketing activities surrounding its core brands. The region reported revenue of ¥42.8 billion, up 3.8% year on year. However, segment profit declined by 13.8%, due to an increase in sales promotion costs in response to intensified competition. In the Americas, the Group strove to further support PepsiCo brand products while focusing on the growing non-carbonated beverage category. On the other hand, earnings were affected by a decrease in sales in the carbonated beverage category and higher raw material costs. The Group reported revenue down 0.2% year on year and a 17.9% fall in segment profit.

Performance Forecasts for Fiscal 2018

In fiscal 2018, SBF Group aims to achieve increases in revenue and profit, forecasting consolidated revenue of ¥1,293.0 billion, up 4.8% year on year, and consolidated operating income of ¥127.0 billion, up 7.7%. SBF Group will work continuously to strengthen business foundations in each region, as it aims for sales and profit growth.

In Japan the Group aims to grow sales at a rate higher than that of the market by capturing needs of consumers through strengthening core brands and developing future core categories, and through offering new value. In Europe, the Group will broaden the product portfolio by reinforcing low-sugar products, and promote the expansion of consumer contact points through bolstering storefront activities, as well as improving supply chain management. And in Asia, the Group will focus on the core brands in key regions and build up Suntory PepsiCo Beverage (Thailand) Co., Ltd., with the aim of achieving further growth and expanding the business in a rapidly growing market. In Oceania, as well as working to reinforce core brands, the Group will introduce new health-focused products to broaden the portfolio and also expand route-to-market. The Group will pursue its growth strategy by shifting the fresh coffee business unit to Oceania region from 2018, which was originally positioned within the Asia region. In the Americas, the Group will strive to restore growth in the carbonated beverage category, while also focusing on the expanding non-carbonated beverage category. In addition, in view of the rising health focus among consumers, the Group will pursue initiatives related to investing in new business.

Medium-term Plan (2018–2020)

SBF is working under its new long-term strategy to improve its profitability. In its medium-term plan to 2020, SBF targets sales characterized largely by organic growth ahead of the market coupled with incremental growth through new investments, and operating income at a CAGR (Compound Annual Growth Rate) of mid single-digits or above. Under our basic policy on profit distribution, we consistently allocate 30% or more of the parent company's net income to shareholder dividends, while building a robust financial base that assures flexible response in various situations.

Revenue and Segment Profit by Region (IFRS)

(¥ billion)

	FY2016		FY2017	
	Revenue	Segment profit	Revenue (Change)	Segment profit (Change)
Japan	687.8	54.5	689.2 (0.2%)	57.3 (5.1%)
Europe	229.4	33.6	238.9 (4.2%)	34.6 (2.9%)
Asia	164.5	17.2	177.1 (7.6%)	23.2 (34.5%)
Oceania	41.2	5.8	42.8 (3.8%)	5.0 (-13.8%)
Americas	86.2	11.3	86.0 (-0.2%)	9.3 (-17.9%)
Total	1,209.1	111.9	1,234.0 (2.1%)	118.0 (5.4%)

Notes 1: The SBF Group has applied the IFRS since fiscal 2017. The figures for fiscal 2016 are stated on an IFRS basis.
2: Adjustments have been deducted from the sum of segment profits.

OCEANIA

Jonathan Moss

Chief Executive Officer
Frucor Suntory Group

ASIA

Kazuhiro Saito

Chief Executive Officer
Suntory Beverage & Food Asia

Saburo Kogo

President and CEO
Suntory Beverage & Food Limited

EUROPE

Stanislas De Gramont

Chief Executive Officer
Suntory Beverage & Food Europe

JAPAN

Josuke Kimura

Division Chief Executive Officer
Japan Business Division
Suntory Beverage & Food Limited

AMERICAS

Paul Finney

President and Chief Executive Officer
Pepsi Bottling Ventures

We Are a Soft Drink Company with a Globally Integrated Platform in Five Key Regions

2017 Financial Digest

Revenue

¥1,234.0 billion

+2.1% YoY

Operating income

¥118.0 billion

+5.4% YoY

Profit for the year attributable to owners of the Company

¥78.1 billion

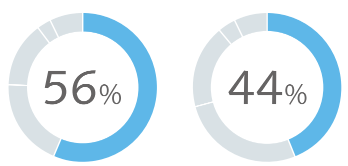
+9.2% YoY

JAPAN

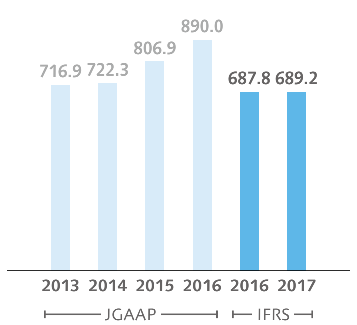
Revenue

¥689.2 billion

Revenue Segment profit



Revenue
(¥ billion)



MAJOR BRANDS
- Suntory Tennensui
- Boss
- Suntory Green Tea Iyemon
- Suntory Iyemon Tokucha (FOSHU*)
- Suntory Oolong Tea
- Green DAKARA
- Pepsi
- Orangina
- C.C. Lemon
- Natchan!
- Suntory Black Oolong Tea (FOSHU*)

MAJOR COUNTRY FOR SALES
- Japan

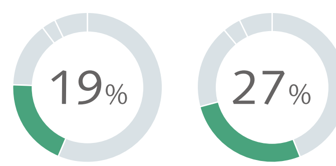
* certified as a Food for Specified Health Uses

EUROPE

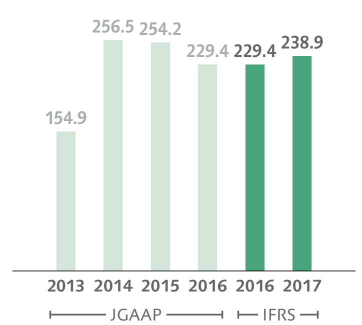
Revenue

¥238.9 billion

Revenue Segment profit



Revenue
(¥ billion)



MAJOR BRANDS
- Orangina
- Oasis
- Lucozade
- Ribena
- Schweppes

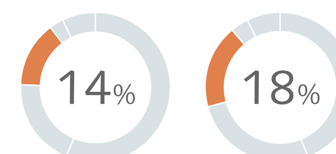
MAJOR COUNTRIES FOR SALES
- France
- U.K.
- Spain
- Africa

ASIA

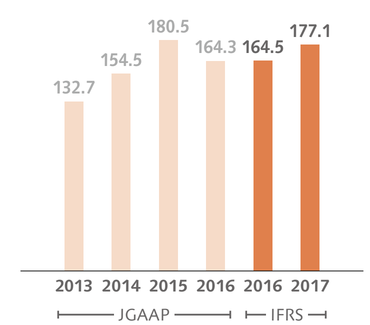
Revenue

¥177.1 billion

Revenue Segment profit



Revenue
(¥ billion)



MAJOR BRANDS
- BRAND'S Essence of Chicken
- Sting
- TEA+
- Okky
- MYTEA

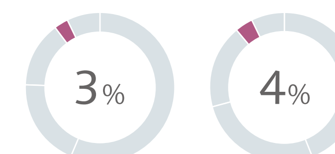
MAJOR COUNTRIES FOR SALES
- Thailand
- Vietnam
- Indonesia

OCEANIA

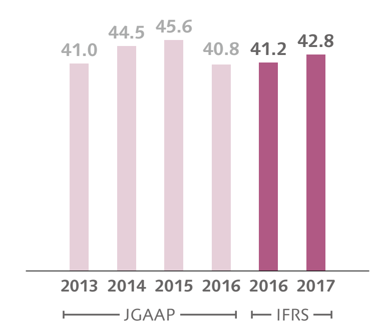
Revenue

¥42.8 billion

Revenue Segment profit



Revenue
(¥ billion)



MAJOR BRANDS
- V Energy
- Just Juice
- Maximus
- Mizone
- OVI

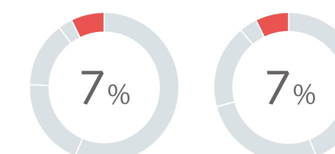
MAJOR COUNTRIES FOR SALES
- New Zealand
- Australia

AMERICAS

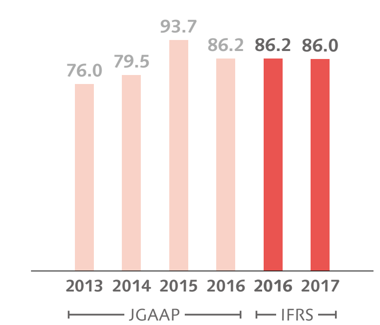
Revenue

¥86.0 billion

Revenue Segment profit



Revenue
(¥ billion)



MAJOR BRANDS
- Mountain Dew
- Pepsi
- Aquafina
- Nature's Twist

MAJOR COUNTRY FOR SALES
- U.S.

JAPAN

Josuke Kimura
Division CEO
Japan Business Division

“Strengthening growth category brands and aiming to deliver new value proposals unbounded by existing categories will become driving forces for the growth of the SBF Group.

(¥ billion)	FY2016	FY2017 (Change)
Revenue	687.8	689.2 (0.2%)
Segment Profit	54.5	57.3 (5.1%)

REVIEW OF PERFORMANCE

In addition to the reinforcement of key brands, our priority in Japan was to generate new demand by offering products with new value.

Sales of the *Suntory Tennensui* line-up, which offers the unique brand value of “clear & tasty” and “natural & healthy,” were higher year on year in volume terms thanks to strong demand for the core product *Suntory Tennensui* mineral water. New products also contributed to growth.

Our marketing efforts for the *BOSS* range of RTD (Ready to Drink) coffee beverages focused on core products. We also worked to revitalize the 185g canned coffee market by launching a 25th anniversary commemorative product, *Pride of BOSS*. *Craft BOSS*, a new PET bottle product launched to offer new ways to enjoy coffee, was very successful. In contrast with the slowdown of the overall RTD coffee beverage market, there was a substantial volume increase in overall sales of *BOSS* brand products.

In March 2017, we renewed the flavor and packaging of the *Suntory Green Tea Iyemon* in order to provide a PET bottle green tea product with the color, scent and taste of “freshly-brewed high-quality tea” that consumers desire. Aggressive marketing helped to lift sales above the previous year’s level.

We also revamped the flavor and packaging of *Suntory Oolong Tea*. Launched in May 2017, the updated version of this product was marketed as a product offering the unique flavor of oolong tea. This resulted in year-on-year growth in sales volumes.

Sales of foods for specified health uses (FOSHU) were lower year on year in volume terms. We continued to market these products actively, while also taking steps to capture new demand, including the launch of *Suntory Tokucha Jasmine* in June 2017.

In the vending machine business, we implemented initiatives to enhance the attractiveness of this channel, including the launch of products sold exclusively through vending machines, and original campaigns targeting each region. We also worked to capture demand in office buildings through corporate marketing.

These activities resulted in a year-on-year increase in overall sales volumes. Sales revenues were 0.2% higher at ¥689.2 billion, while segment profit increased by 5.1% to ¥57.3 billion. These results reflect our efforts to improve the efficiency of expenditure on marketing and advertising.

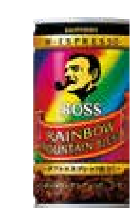
TOPICS & DEVELOPMENT

- A new canned coffee product, *Pride of BOSS*, was launched to commemorate the 25th anniversary of the *BOSS* brand. The new product symbolizes our determination to maintain the position of our coffee as the “coffee of the working people” by supporting working people who have long been core customers for *BOSS* canned coffees.

  We will continue our efforts to expand sales of the *BOSS* range by expanding and enhancing the product line-up, and by running TV commercials and campaigns.
- Our core brand in Japan is *Suntory Tennensui*. This range of mineral water has been the top seller in the Japanese mineral water market for 22 straight years*1, with annual sales exceeding 100 million cases in the last two consecutive years. This success reflects aggressive marketing activities and other initiatives across category lines.
- Suntory Products Limited, the soft drink manufacturing company in the SBF Group, will begin expanding capacity at its Ujigawa Plant in Kyoto Prefecture in the summer of 2018. This work will ensure stability of supply over the medium-term future. The company plans to expand its production

Our Brands

Suntory Tennensui



Boss

Suntory Green Tea Iyemon

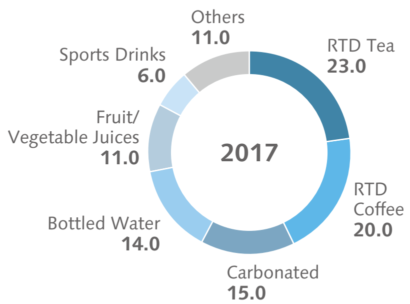
Suntory Oolong Tea

Green DAKARA

Orangina

Pepsi

Soft Drink Market Share in Japan by Category*2 (%)



*2 Source: Inryou Souken

operations after its new lines become operational in August 2019.

*1 Intage SRI Research: Mineral water sales volume, January 1996 through December 2017 (monetary amount)
[Retail outlets]
1996 – 2001 total for SM/CVS/general liquor shops/beverage & food shops/bakeries
2002 – 2006 total for SM/CVS/drug stores/general liquor shops/beverage & food shops/bakeries
2007 - 2017 total for SM/CVS/drug stores

STRATEGIES AND FORECASTS

A key factor influencing recent trends in the Japanese market over the past few years has been growth in the total volume of beverages consumed. Reasons for this include a growing focus on health, a trend toward RTD products, increased awareness of the importance of heatstroke prevention, and growth in the number of aged people, who require more fluid intake.

SBF is responding to these trends through continued efforts to strengthen its brands, especially growth categories such as water, coffee, and sugar free tea. Brands targeted include *Suntory Tennensui*, *BOSS*, and *Iyemon*. We will also continue with initiatives to create new value.

Despite a challenging environment, including rising market prices for raw materials and increased labor costs, we are determined to keep our profit growth rate above the sales growth rate through cost reduction activities and improvements in efficiency of sales promotion expenditure.

Our performance forecasts for the Japanese market in fiscal 2018 include revenue growth of 0.6% to ¥693.0 billion, and segment profit of ¥58.5 billion, a year-on-year increase of 2.1%.

Note: Forecast as of February 15, 2018

Sustainability Topics:

Green DAKARA "Supporting a Healthy Future for Children"

Since April 2018, a portion of revenues from sales of *Green DAKARA* brand products has been donated to the Children's Future Support Fund. The money is used for initiatives to promote a healthy future for children under the Children's Future Support National Movement. The Children's Future Support National Movement is a project to provide assistance to children who have grown up in poverty and whose future potential has been limited by a lack of educational opportunities, or whose basic needs are not being adequately met.

Note:
The project is administered by the Prime Minister's Office, the Ministry of Education, Culture, Sports, Science and Technology, the Ministry of Health, Labour and Welfare, and the Welfare and Medical Service Agency (WAM).

Suntory Oolong Tea "Reconstruction Support for the Great East Japan Earthquake"

SBF launched the "*Suntory Oolong Tea* Sandwichman Love Tohoku Bottle" in January 2018. Quantities of the product were limited, and it was available only in the Tohoku region. For every bottle sold, SBF donated ¥2 to the Tohoku Spirit Charity*, which is supported by the Sandwichman comedy duo. The Sandwichman duo, who have been fans of *Suntory Oolong Tea* for many years, recently agreed to become *Suntory Oolong Tea* Ambassadors.

* The Sandwichman duo established this charity in 2011 to support victims of the devastation caused by Great East Japan Earthquake. The money is donated to government agencies to assist children orphaned by the disaster in Miyagi, Fukushima, and Iwate Prefectures.

A PIONEER OF RTD COFFEE FOR THE NEXT GENERATION

In 2017, we launched the *Craft Boss* series of coffee drinks sold in PET bottles. The new products have been very popular, with first-year sales reaching 10 million cases, or 240 million bottles. Reasons for this success include a consistent focus on the way people work, through our concept of *BOSS* as the "coffee of the working people."

Canned products (185g size) still account for around 70% of the Japanese market for RTD coffee. These products are consumed mainly as quick drinks during short breaks from work. The *BOSS* development team carried out numerous interviews with young people such as IT desk workers to explore their workstyles. This process led to the discovery of new needs. The interviews revealed that desk workers drink coffee slowly while working, that they want containers that can be resealed, and that they prefer a taste that is refreshing and clears the mind. Although they are surrounded by digital equipment, IT workers like products that remind of them of the warmth of a human hand and find comfort in "analog" things. These discoveries influenced the naming and design of the products. SBF used its decades of experience in coffee manufacturing to eliminate bitter aftertastes and odd flavors, leaving a clean and flavorful drink that can be sipped continuously.

Craft BOSS is a new RTD coffee for contemporary society. It was perfected by combining the SBF's manufacturing expertise with a focus on customer needs. We will continue to take up the challenge of developing the *BOSS* range as the "coffee of the working people."

VENDING MACHINE INITIATIVES

The vending machine channel is very highly developed in Japan. SBF has gained an important advantage by building an extensive and varied product line-up and positioning vending machines in excellent locations, especially offices. We are constantly working to provide a fine-tuned response to consumer needs.

In 2017, we launched the products in a variety of categories designed specifically for vending machines, including coffee and vegetable drinks. The consumer reaction has been very positive. In 2016, we introduced the Suntory Green+ point service to support health management initiatives by employers. We have continued to enhance this service, including the introduction of a prepayment system, in step with growing awareness in society and the business sector about the importance of employee health management.

Through other initiatives like our water service business, which supplies *Suntory Tennensui* mineral water to offices and homes, we work to provide beverage options matched to any location and occasion.

EUROPE

REVIEW OF PERFORMANCE

In Europe, aggressive marketing activities were conducted with a focus on core brands.

In France, we are focusing on products in small-size formats. Sales volumes for the carbonated fruit drink *Orangina* and *Oasis* fruit juice exceeded the previous year's levels. There was also a dramatic increase in sales of the *MayTea*, a premium low-sugar infused ice tea product launched in May 2016.

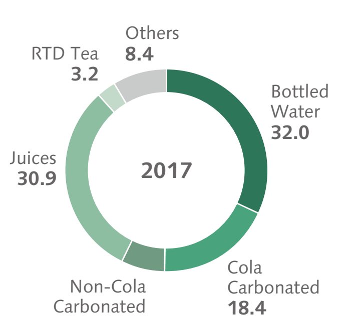
In the United Kingdom, aggressive marketing activities resulted in strong sales of the sports drink *Lucozade Sport*. However, sales of the energy drink *Lucozade Energy*, which was renewed as a low-sugar product in April 2017, were lower year on year, and there was a struggle in total sales volumes for the *Lucozade* brand. Sales volumes for the fruit juice beverage *Ribena* also decreased year on year.

Stanislas De Gramont
CEO
Suntory Beverage & Food Europe

“We will strive for long-term growth by strengthening our existing brands, and continue to make progress on portfolio reform to address the “natural and healthy” consumption trend.

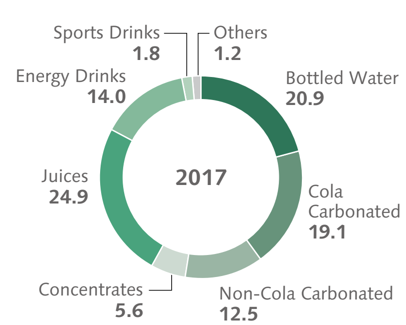
(¥ billion)	FY2016	FY2017 (Change)
Revenue	229.4	238.9 (4.2%)
Segment Profit	33.6	34.6 (2.9%)

Soft Drink Market Share in France by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

Soft Drink Market Share in the United Kingdom by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

Our Brands

In Spain, we continued to reinforce on-premise channels (restaurants and bars, etc.). This resulted in steady sales of *Schweppes*, especially tonic water.

Our focus in Africa was the development of business foundation, especially in Nigeria.

Sales revenues in Europe were 4.2% up year on year at ¥238.9 billion, while segment profit increased by 2.9% to ¥34.6 billion.

TOPICS & DEVELOPMENT

MayTea is the result of collaborative development efforts by R&D teams in France and Japan. The perfect match of real infused tea leaves with the delicious pleasure of fruit and herbal notes appeals to health-conscious consumers. *MayTea* has been very popular and has attracted a high percentage of repeat buyers. After just 18 months on the market, it has risen to second place in terms of its share of the RTD tea market in France. We plan to raise the presence of *MayTea* in Europe by taking the product into other markets.

STRATEGIES & FORECAST

Demand for natural and healthy beverages is expanding in Europe, and the introduction of sugar taxes in various countries is likely to accelerate this trend. We are adapting to this change by transforming our product portfolio.

First, we are enhancing our range of low-sugar, low-calorie products sold under our flagship brands, such as *Lucozade*, *Ribena* and *Orangina*, and *Schweppes*. In addition to our investment in the *MayTea* brand in France, we also launched the product in Spain this year, and are planning for expansion into new markets going forward.

In France, we will continue to strengthen key brands that are selling well, such as *Orangina*. We will also reinforce supply chain management for our products. In the United Kingdom, we strongly work toward low-sugar products including *Lucozade Energy* and increase market penetration for new *Ribena* through expanded marketing activities. In Spain, we aim to expand our on-premise channels for *Schweppes*.

Our performance forecasts for Europe in fiscal 2018 are 6.7% year-on-year growth in revenue. We expect operating income to decline by 1.7% because of forward investment in growth strategies.

Note: Forecast as of February 15, 2018

Sustainability Topics:

Initiatives in the United Kingdom

We collaborated with the Hubbub Foundation and other environmental groups on the “Love Your Forest” campaign for two consecutive years in 2016 and 2017. This campaign took the form of educational activities to help reduce roadside litter. It has been designed to engage different sections of the local community in a collaborative effort to help fight this ever-increasing environmental issue.

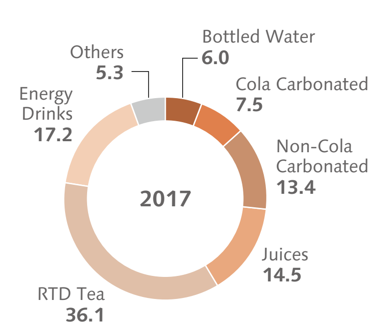
ASIA

(¥ billion)	FY2016	FY2017 (Change)
Revenue	164.5	177.1 (7.6%)
Segment profit	17.2	23.2 (34.5%)

Kazuhiro Saito
CEO
Suntory Beverage & Food Asia

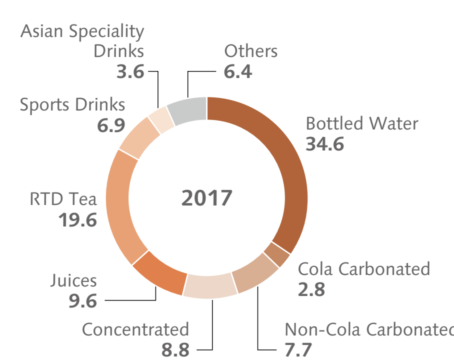
“Suntory Beverage & Food Asia (SBFA) is a growth engine of SBF. We will address the health needs of the Asian market and try to grow both sales and profits.

Soft Drink Market Share in Vietnam by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

Soft Drink Market Share in Indonesia by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

Our Brands

TEA+ *Sting* *Okky* *Good Mood* *BRAND'S Essence of Chicken*

REVIEW OF PERFORMANCE

In addition to our efforts to strengthen core brands, we also enhanced our marketing and distribution structures in Asian countries.

In Vietnam, dynamic marketing activities brought year-on-year growth in sales volumes for the energy drink *Sting* and for the RTD tea *TEA+*.

In Indonesia, we improved distribution capacity, especially in the Java area, and strengthened our sales and distribution structures. These efforts were reflected in strong sales of our mainstay cup jelly drink *Okky*.

In the health supplement business, we revised our distribution structure in Thailand, which is a key market, and improved route-to-market capabilities. These changes resulted in higher sales of *BRAND'S Essence of Chicken*.

Revenue in Asia increased by 7.6% year on year to ¥177.1 billion, while segment profit was higher with 34.5% growth.

TOPICS & DEVELOPMENT

- In Thailand, we launched a new joint venture with PepsiCo in March 2018. We will work to achieve further business growth by combining our portfolio of non-carbonated beverages and our cost reduction know-how with PepsiCo's powerful brands and distribution infrastructure. We are committed to the expansion of our new beverage business in Thailand as a growth driver for the whole of Asia.
- In May 2017 we relaunched our health supplement business as BRAND'S SUNTORY with the aim of further strengthening the *BRAND'S* brand, especially *BRAND'S Essence of Chicken*, while heightening the sense of solidarity and unity within the SBF Group.

STRATEGIES & FORECAST

In our beverage business in Asia, we will accelerate growth strategies focused on needs in individual markets.

In Vietnam, we will respond to a growing preference for health-oriented products by strengthening marketing for the popular *TEA+* brand, as well as for our flagship *Sting* brand. We also aim to achieve sales growth in excess of market growth by expanding shipments in northern and central areas.

In Indonesia, we will continue to focus on *Okky*, but we will also nurture the new *Good Mood* infused water brand, which has sold well since its launch in March 2017.

We will work to expand health supplement sales by further strengthening our flagship *BRAND'S Essence of Chicken* brand. We will also implement marketing campaigns designed to expand the range of situations in which people consume beverages. Other goals include further strengthening the sales in the e-commerce channel in addition to retail channels, and expansion into emerging markets, such as Myanmar.

We are forecasting major growth in fiscal 2018 in Asia segment, including a 22.3% year-on-year increase in sales revenues, and a 39.8% increase in segment profit.

Note: Forecast as of February 15, 2018

Sustainability Topics:

Initiatives through BRAND'S SUNTORY

BRAND'S SUNTORY contributes to youth education through various initiatives, such as the BRAND'S Summer Camp and BRAND'S Young Blood.

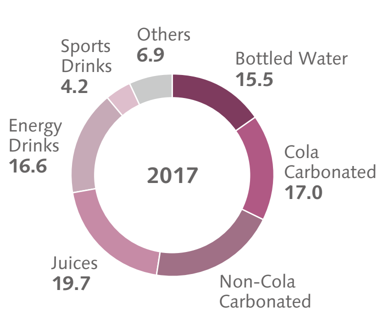
OCEANIA

Jonathan Moss
CEO
Frucor Suntory Group

“We at Frucor Suntory, are “Hungry to make drinks better”. This is our purpose, and we will continue to grow by taking on new challenges of accelerating the growth of our low- and no-sugar drinks portfolio.

(¥ billion)	FY2016	FY2017 (Change)
Revenue	41.2	42.8 (3.8%)
Segment Profit	5.8	5.0 (-13.8%)

Soft Drink Market Share in New Zealand by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

REVIEW OF PERFORMANCE

In Oceania, the Group worked to expand sales by conducting aggressive marketing activities surrounding its core brands, while business conditions remained challenging because of escalating competition. We responded by strengthening our marketing activities in New Zealand, including the introduction of new flavors and packaging. These initiatives focused in particular on *V* brand energy drinks and the *Just Juice* and *Simply Squeezed* fruit juice brands.

In Australia, we further enhanced our product line-up by rolling out new *V* flavors. We also targeted sales growth by stepping up in-store marketing for *Maximus* sports drinks.

These efforts resulted in year-on-year revenue growth of 3.8%. However segment profit was 13.8% below the previous year's level at ¥5.0 billion because of increased sales promotion expenses in response to intensified competition.

Our Brands

V Energy

Maximus

Just Juice

OVI

Toby's Estate

TOPICS & DEVELOPMENT

Kombucha, a tangy, fermented sparkling tea that contains good bacteria and yeast, is becoming increasingly popular in the United States as a health drink that contains lactic acid bacteria, enzymes, polyphenols, and other elements. The new organic *Amplify* kombucha introduced in the Oceania market by Frucor Suntory in 2018 has a smooth, clean, rounded finish with no vinegary aftertaste. We aim to develop it into a popular brand for consumers.

STRATEGIES & FORECAST

Throughout the year, we will try to achieve revenue growth by strengthening our core brand and healthier product portfolio.

Demand for carbonated beverages is shrinking in Oceania, while the need for health-oriented products is rising. We will respond to this need by focusing on the growth of our flagship *V* range of energy drinks, including the expansion of sales of the low-sugar version made from natural ingredients, *V Pure*.

Performance forecasts for the Oceania segment in FY2018 include 3.0% revenue growth and 11.4% growth in segment profit compared with FY2017.

Note: Forecast as of February 15, 2018

Fresh Coffee Business

Following the sale of our food and instant coffee business, in January 2018, we have transferred the fresh coffee business from the Asia segment to the Oceania segment, which is the main market for these products. We have established and strengthened the organizational structures and management infrastructure needed to enable the fresh coffee business to operate independently. Our fresh coffee business encompasses all stages, from the selection, purchase, and roasting of beans, to sales to cafes, fast food outlets, and convenience stores. Going forward, we will use our knowledge and brand strength to achieve further sales growth in Oceania and to expand the business globally.

TOBY'S ESTATE

L'AFFARE

Mocopan COFFEE

Sustainability Topics:

Frucor Suntory Initiatives

Frucor Suntory supports voluntary activities by employees, including the provision of annual paid leave to allow employees to contribute to sound community development through voluntary activities. Employees engage in community activities with organizations in Australia and New Zealand.

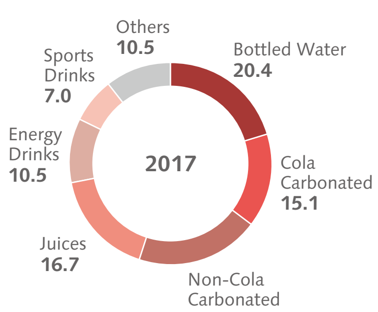
AMERICAS

Paul Finney
President and CEO
Pepsi Bottling Ventures

“Pepsi Bottling Ventures (PBV) is the largest Independent Bottler in the United States. We offer a wide variety of beverages to satisfy consumers’ daily needs while driving overall operational efficiencies.

(¥ billion)	FY2016	FY2017 (Change)
Revenue	86.2	86.0 (-0.2%)
Segment Profit	11.3	9.3 (-17.9%)

Soft Drink Market Share in the United States by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

REVIEW OF PERFORMANCE

In the Americas, the Group strove to further support PepsiCo brand products in North Carolina, while focusing on the growing non-carbonated beverage category, which included water and RTD coffee. On the other hand, earnings were affected by a decrease in sales in the carbonated beverage category as a result of intensified competition and higher raw material costs. As a result of these activities, the Americas business reported revenue of ¥86.0 billion, down 0.2% year on year and segment profit of ¥9.3 billion, down 17.9%.

STRATEGIES & FORECAST

In the Americas, the Group will strive to regain growth in the carbonated beverage category, while also focusing on the expanding non-carbonated beverage category. In addition, in view of the rising health-focus among consumers, the Group will pursue initiatives in relation to investment in new business.

Our efforts to reinvigorate the carbonated beverage category in this market environment included the launch of *Dew Ice*, a clear version of *Mountain Dew*.

Our performance forecasts for fiscal 2018 are 1.1% revenue growth. As in the previous year, we anticipate that segment profit will remain close to the fiscal 2017 level.

Note: Forecast as of February 15, 2018

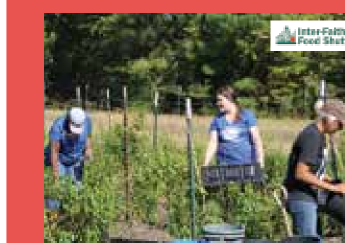
Our Brands

Pepsi *Mountain Dew* *Nature’s Twist* *Aquafina*

Sustainability Topics:

PBV Initiatives

Initiatives through PBV center on activities by employee volunteers in cooperation with the U.S. organization Inter-Faith Food Shuttle. Through these activities, we contribute to social welfare activities based on food banks in the United States.



Exploring Business Opportunities

Various changes are occurring in the North American market, including urbanization and demographic changes. Consumer needs are also diversifying due to changes in consumer behavior and an increasing focus on health. Distribution structures and beverage categories are shifting in step with these changes, and we recognize that SBF will need to adapt flexibly. We recently established a new team in the region to create a structure capable of exploring local business opportunities. Going forward, we aim to further develop new business opportunities.

Special Feature: R&D

Innovative Contributions to Enjoyable Wellness

Global Shift in Consumer Preferences toward Natural and Healthy Products

For decades, the growth of the world beverage market was driven by consumer demand for carbonated soft drinks containing sugar. In recent years, however, a growing focus on health and a shift to RTD coffee and tea products have been reflected in increasing consumption of water and non-carbonated soft drinks, which now account for around 70% of the total market. This trend has been especially pronounced in Japan, where the percentage of water and non-carbonated soft drinks has risen to around 80% of the total market. This is even higher than the levels in Europe and North America. SBF believes that this shift in beverage demand will continue, and that consumers will increasingly seek beverages that are further natural and healthy. SBF will respond to these needs by accelerating its development of products that provide enjoyable wellness by combining emotional fulfillment with delicious taste and healthiness.

Research and Development— The Lifeblood of a Manufacturer

To achieve continuing business growth, SBF needs to provide consumers with high-added-value products that explore new needs. Since its founding, the Suntory Group has recognized the importance of research and development as the lifeblood of a manufacturer. This philosophy is reflected in a record of achievement accumulated through decades of R&D activities.

Through the process of developing various products, starting with liquor & spirits manufacturing, the Suntory Group has deepened its knowledge of distillation technology and the technologies needed to utilize microorganisms and enzymes. In addition to these technologies, SBF also uses knowledge gained through other types of R&D, such as the exploration of new health-related ingredients, research into health benefits, and water science. We apply these capabilities to create new flavors and ingredients based on natural materials.

Co-creation of Global Value

Our mission is to provide consumers worldwide with satisfying, reliable, and safe products. Since the founding of SBF, our MONOZUKURI, or manufacturing, activities have been guided by the fundamental values and principles of MONOZUKURI that are today shared throughout the SBF Group as the "MONOZUKURI Way." As noted earlier in this report, the Japanese market is leading a trend toward products that are more natural and healthy. SBF has reflected this trend in its own product portfolios, which are "natural and healthy" and "unique and premium." We are confident that we can use our technology development capabilities and expertise in overseas as well as domestic markets.

In addition to our continuing efforts to provide new value, we also explore taste experiences that match consumer preferences in various markets. To ensure that our activities closely reflect consumer needs in every region, we apply a consumer-centric approach to all aspects of our global product development activities. The global SBF Group aims to provide consumers around the world with enjoyable wellness through synergies made possible by its many brands, its technologies, and its expertise.

> "We are strengthening mutual understanding and trust throughout the Group with an approach based on local autonomy, with the aim of enhancing global synergies in R&D."

Teruyoshi Morikawa

Senior General Manager
Research and Development Department
MONOZUKURI Division
Suntory Beverage & Food Limited

Role and Function of the Research & Development within the MONOZUKURI Division

Our key role is to support independent product development activities in each region, specifically through cross-organizational activities ranging from talent development to technology development and technical support. This role includes the provision of materials and technologies as the source of new value, technical support for development processes and mass-production, and technical advice about various issues at other stages of product development.

Creating a Unique Global Soft Drink Business Built on Local Autonomy

In April 2017, the Research & Development Department was created within the MONOZUKURI Division through the merger of the R&D Planning Division, New Product Development Division, and Research & Technology Development Division. We have been developing cooperation among the various regions over the past three years, but I sense that the evolution of trust and communication among group companies has accelerated since last year. This is the result of our newfound ability to offer more comprehensive solutions to each region.

From a product development perspective, we must provide the support necessary for applications to be adapted to local needs, while maintaining respect for local leadership and ownership. We base our activities on the concept of local autonomy, because we recognize the need to understand regional and national markets when taking products to the commercialization stage.

Recent Achievements Resulting from Global Synergies

One recent success resulting from global synergies is *MayTea*, which was launched in May 2016 in France, where sugar-related issues have become a focus of controversy. *MayTea*'s positioning as a low-sugar premium iced tea has allowed it to rise to the number-two position in the French ready-to-drink (RTD) iced tea market last year, which was only the second year since its launch. The development of *MayTea* was a fundamentally local initiative, but I believe that the Research & Development Department contributed in a number of ways, including evaluation and extraction methods for the tea itself, as well as the assessment of product benefits.

Good Mood, a mixture of fruit extract and purified water produced using a localized version of a Japanese recipe, was launched in Indonesia in March 2017. In the year since the product launch, *Good Mood* has become increasingly popular in the local market.

In Oceania, Frucor Suntory has launched a new line of kombucha beverages named "*Amplify*." These new products were developed in Oceania and are being sold on a small scale as the first step. Because these beverages are fermented using a combination of bacteria and yeast, including lactic acid bacteria, microbial control plays a key role in mass production. As Frucor Suntory executes its market expansion plans, the Research & Development Department is providing our expertise and technical support for continual improvement of quality control and the scale up of mass production.

Advantages in the Global Market

SBF's Promise, *Mizu To Ikiru*, expresses the shared commitment of the entire SBF Group to the protection of the natural environment, and the optimal use of the gifts of nature. Our beverages, which rely on ingredients from nature, offer a variety of benefits. They are delicious and refreshing, and they quench thirst. Some improve concentration, while others help people to relax.

We are aware that consumers are highly selective in their beverage decisions, and our first priority is to supply products that are safe and healthy. We want people around the world to know that SBF products are natural, healthy, reliable, and safe, and that our beverages will contribute to their well-being and their enjoyment of life. Trust is our most valuable asset, and we must never betray our customers' trust in us. I believe that such trust will help to establish SBF as a global company.

Suntory Tennensui

Suntory Tennensui mineral water is originally a blessing from nature, and by definition something that can be enjoyed safely and with peace of mind. Our aim in developing the *Suntory Tennensui* brand is maximize the wonderful benefits of this mineral water and offer high-added-value products to consumers by combining rigorously selected natural ingredients to create new products that will provide great tastes and emotional fulfillment. Natural ingredients have a variety of complex tastes and flavors. By carefully bringing out those tastes and flavors, we can create extremely enjoyable products. However, because these ingredients are natural, it is also extremely difficult to control their compositional consistency. That is the most challenging aspect of our development work. In our R&D activities in Japan, we combine development knowledge accumulated over many years, and our endless commitment to originality and innovation, with science and technology, to create unique new products for the *Suntory Tennensui* range, such as *Asa-zumi Orange & Tennensui*, *Yogurina & Tennensui*, *PREMIUM MORNING TEA Lemon*, and *PREMIUM MORNING TEA Milk*.

In addition to our efforts to create delicious tastes and flavors, our formula designs are also based on detailed research concerning the mechanisms of the human body. Our aim is to understand why human beings like certain tastes and flavors and want to drink beverages with those. I believe that what we have learned from our R&D work in these areas will increasingly be used in R&D activities throughout the entire SBF Group. Every year, the R&D staff in Japan absorbs new knowledge by exploring consumer trends in other countries. We share that knowledge with our colleagues in overseas SBF Group companies.

We will continue to respond to consumer demands worldwide for natural and healthy products by creating new beverages to be enjoyed by people.

Norihiko Yoshimoto

General Manager
Development and Design Department
Japan Business Division

MayTea

Catherine Hubert

Director, Research and Development, Regulatory Affairs and Industrialization (R&D)
Orangina Suntory France

SBF Europe's concept of *MayTea* was in part a response to the general downtrend in the sale of sweet drinks, but also an effort to provide what customers were looking for and could not find on the market. The *MayTea* infusions are authentic, refreshing and natural, with a short ingredient list and no artificial flavorings, colors, or preservatives, and are also very low in sugar.

SBF Japan's R&D helped the local team throughout the developmental process, especially in the area of tea infusion technology, by offering advice on key points like water quality. In addition to flavor adjustments to the French consumers' taste, the R&D teams faced the issue of the product's cloudiness, as particles from the infusion would settle at the bottom of the bottle. Solving that issue was one of the greatest challenges they overcame.

While SBF Europe's R&D received a productive boost from working with Japan R&D, the product remained local consumer oriented. Essentially, SBF gives local companies control of how they want to use the technological platforms that have been developed. For example, one of the first two flavors that the local team developed was a green tea and mint infusion. This was created specifically to offer an appealing flavor to a large number of French customers familiar with Moroccan and North African tea culture.

MayTea's sales results seem to be solid evidence for the effectiveness of that management style. In two years' time, *MayTea* became the second highest-selling product in the French bottled iced tea market, creating the new category of infused tea, and tripling its sales numbers in three years. After its debut in France, the brand went on sale in Belgium and Spain, with plans to expand in other European countries in the future.

Good Mood

With temperatures hovering at tropical levels all year round, it is perhaps unsurprising that the Indonesian beverage market is made up of nearly 50% bottled water. In order to offer something new to those looking to quench their thirst, Suntory Garuda developed *Good Mood*, a clear, fruit infused water. With the product's release in the spring of 2017, the company became a pioneer in the fruit infused water category in Indonesia.

Starting with the same core technology as the SBF Japan's R&D team, but adapting and recreating the recipe to fit a new market and the local Indonesian palate became a chance for unique product development. Indonesian consumers have reacted positively to the concept of infused water, which looks healthy and has an appealing natural taste.

We consulted SBF Japan's R&D department on challenges like creating natural fruit taste, while also learning about the benefits of osmotic pressure for hydration. The R&D teams faced some challenges but succeeded in capturing the right level of sweetness and acidic citrus taste that Indonesian consumers preferred. The recipe also had to be adjusted to be suitable for the Halal standards of the market. Suntory Garuda launched two flavors: honey lemon and orange. Because Indonesian consumers love sweet citrus, we added honey to the lemon, and chose a sweet orange taste profile.

Having been released only a year ago, the *Good Mood* line is gaining two additional flavors this spring. While the size of the Indonesian beverage market is still small, SBF sees it as a future growth area. Our R&D team is already considering other ways in which they can benefit from SBF's water and hydration know-how to create more innovative and attractive products for their consumers.

Yasuhiro Yamanishi

Vice President,
Research and Development,
Suntory Garuda Group

Niken Sulastri

Senior Manager,
Research and Development,
Suntory Garuda Group

Amplify

Ben Walkley

Technical Manager Australia
Frucor Suntory
(Australia) Pty Ltd

After seeing consistent decreased sales of juice drinks as many consumers cut back on their sugar intake, Frucor Suntory decided to explore a completely new product area: kombucha. The fizzy, fermented, non-alcohol tea beverage is one recently trending alternative to sugary beverages. Kombucha's wide range of potential health benefits and a reliance on natural ingredients also made it a good fit for the SBF Group portfolio.

When Frucor Suntory was looking into developing kombucha, there were already local brewers selling their own versions. The small size of these brewers, however, meant there was often a fluctuation in the flavour and quality of the finished drink. Frucor Suntory wanted to create a product that could provide both consistent quality and a less acidic taste for consumers.

The Frucor Suntory R&D team continually finessed the recipe over the course of development to get it just the way they wanted. Kombucha requires fermentation for many days, which is very different to the other products the company manufactures. Currently, the R&D team is interested in deepening their understanding of the SCOBY, the symbiotic culture of bacteria and yeast, which creates the distinctive taste of kombucha. They will call on the technical assistance of SBF Japan's R&D for the necessary scientific analysis.

The kombucha, under the brand name *Amplify*, is certainly one of the more adventurous products that an SBF Group company has released in the past couple of years. Three flavours of *Amplify* went on sale in Australia in January 2018, and in New Zealand in April 2018. Though it is too early to say whether this will be the start of a strong new segment, there does seem to be a groundswell of interest. By successfully bringing *Amplify* to market, Frucor Suntory's R&D department has also gained the insight needed to potentially assist other SBF Group R&D teams who may be interested in producing kombucha in the future.

Respecting Nature to Shape a Sustainable Society

Priorities identified in our long-term strategy for the period to 2030 are "accelerate sustainability management and contribution to local societies," and "strengthen unique global management system of Genba Heroes."

We will focus our business activities toward the creation of a sustainable society, so that SBF will continue to be seen as a company that is essential to society.

Makiko Ono

Managing Executive Officer
Deputy Division COO,
Corporate Strategy Division
Senior General Manager,
Global Corporate
Communication Department

Our promise, *Mizu To Ikiru*—Living with Water, has three meanings. First, it means "embrace water and nature." As a company that provides consumers with water, a blessing of nature, we must protect and help to maintain a global environment that nurtures water.

Second, it means that we will "enrich our society." Just as water quenches the thirst of every creature, our aim is to bring benefits to society.

Third, it expresses our determination to be as flexible as water as we continue to "take on new challenges." We want our employees to be as free and flexible as water so that we boldly take up new challenges in the spirit of *Yatte Minahare*.

Building a Sustainable Society—Focus on Water-related Activities

Water is the source of all life and a vital resource for the business operations of SBF. As a company that has made a promise to society through our *Mizu To Ikiru* (living with water) philosophy, we will further strengthen our focus on water-related initiatives and develop them on a global scale. Within Japan, we are working through our *Natural Water Sanctuary* project to conserve forests because of their important role in the maintenance of water resources. We are also helping to encourage future generations to protect and conserve water through our unique *Suntory Mizuiku* environmental education programs. We have maintained these "Protecting Water" activities for many years in cooperation with local communities. Our goal is to contribute to water sustainability by using knowledge gained through these activities within the SBF Group, by actively expanding our initiatives overseas, and by engaging in regionally focused activities.

International Initiatives to Reduce Environmental Load—SBF's Environmental Goals

As people become more affluent, they also become more concerned about the burdens imposed on nature and the environment. This trend is resulting in accelerating efforts to create a sustainable society, including the Paris Agreement and other international initiatives to reduce greenhouse gas emissions, and the adoption of Sustainable Development Goals (SDGs) at a United Nations summit meeting.

SBF has worked to fulfill its obligations as a company that relies on the blessings of nature by reducing both the amount of water it uses and also the amount of carbon dioxide emitted. We have responded to current international trends by setting new long-term environmental goals for the period to 2030. We will expand activities based on these goals across the entire SBF Group.

Emphasis on People and Frontline Operations—Our *Yatte Minahare* Heritage

Throughout its history, the growth of the Suntory Group has been driven by the spirit that embraces challenges. We have boldly taken up new challenges without fear of failure, which has resulted both in the proposal of new value and in the creation of totally new markets. Our founding spirit, as expressed in the phrase *Yatte Minahare*, has been passed down from generation to generation and remains a key element in our value system and a driving force for our activities now and in the future. As the scope of our business operations expands globally, we aim to create a corporate culture in which diverse people from different countries and regions can work together as individuals who truly embody the *Yatte Minahare* spirit.

Water

Water sustainability is an priority for SBF as a company that makes its living with water as the basis for creating value. We will continue to develop water-related activities principally in the countries where we are doing on business.

The Suntory Group's Sustainable Water Philosophy

As a global soft drink company that has made "*Mizu To Ikiru*" as our promise, we share a sustainable water philosophy and will continue our efforts to contribute to the solution of water-related issues in various parts of the world.

Understanding the natural cycle of water
We investigate watersheds around our sites to understand the local hydrological cycle, using a scientific approach.

Promoting environmentally conscious water use
We reduce the environmental impacts of water use on the natural water cycle by implementing 3R activities (Reduce/Reuse/Recycle) and returning water to nature after adequate treatment.

Conserving watersheds
We conserve our watersheds and endeavor to improve local water quality and quantity in cooperation with stakeholders for a sustainable future.

Engaging with local community
We support our community by fostering collective actions to solve water issues and enrich society.

Conserving and Regenerating Nature, which Fosters Clean Water

The Suntory Institute for Water Science works with scientists in many fields to ensure healthy water cycles in various locations. Using detailed surveys and research based on scientific evidence, it works to maintain the sustainability of clean groundwater.

Since 2003, Suntory has signed medium- to long-term agreements with local governments and forest owners in Japan. Under these agreements, which cover periods of several decades, Suntory develops and cultivates forests as Natural Water Sanctuaries. By the March of 2017, these activities were in progress in 20 forests with a combined area of approximately 9,000 hectares in 14 prefectures. The volume of groundwater from these forests is greater than the amount of water taken up by Suntory production facilities. A total of 7,133 employees have deepened their understanding of the sustainable water philosophy and learned about the importance of forests in maintaining water resources by gaining first-hand experience with forestry in the Natural Water Sanctuaries.

To ensure the long-term sustainability of our worldwide business activities we study and assess water resource and water-related risks in every overseas location in which we establish a manufacturing facility. This work is applied to environmental management.

Global Water Initiatives

Suntory Mizuiku— Education Program for Nature and Water

Suntory Mizuiku, our nature and water environmental education program, which entered its 15th year in 2018, is a unique Suntory Group initiative to help children to appreciate the wonders of nature and understand the importance of forests to the maintenance of water resources, while thinking about how water resources can be conserved for the future.

Through the Outdoor School of Forest and Water, children in the 3rd to 6th grades of elementary school and their caregivers experience the grandeur of nature and learn about the importance of water and forest watersheds at locations where *Suntory Tennensui* is produced.

In schools, working with elementary school teachers, we teach children in the 4th and 5th grade about the mechanisms and importance of nature, using videos and experiments. The children are encouraged to think about what they can do to conserve water for the future. By the end of 2017, a total of approximately 145,000 children had participated in these classes.

Since 2015, *Suntory Mizuiku*, our nature and water environmental education program has been running in Vietnam. In addition to learning about the importance of water, hygiene management, and water resource conservation in relation to local social issues, children also visit plants operated by Suntory PepsiCo Vietnam Beverage to learn about water conservation and pollution prevention. Initially provided in Hanoi, the programs have since been extended to Ho Chi Minh, Bac Ninh, and Ben Tre. In 2018, Quang Nam Province, Lang Son Province, and Ha Giang Province were also added. The programs are highly regarded by local governments and communities. Suntory is also contributing to the improvement of the children's sanitation by helping participating schools to encourage hand washing and install or improve toilets and water purification facilities.

Water Resource Conservation Activities in France

Orangina Suntory France manufactures and sells soft drinks, including *Orangina* and *Oasis*, in France. In 2017, the company entered into a new water resource conservation partnership with Grand Parc Miribel Jonage, a natural park located near the company's Meyzieu Plant. Activities under the agreement include forest conservation in the park, and educational programs for children. While establishing facilities relating to water in the park for the enjoyment of visitors from local communities, Orangina Suntory France also works with communities to protect and develop local water resources and the natural environment.

Initiatives in Africa

In South Africa, SBF is helping to introduce environmental and water-related education programs in elementary schools in cooperation with the Wildlife and Environment Society of South Africa (WESSA). We are working to expand and enhance the educational content so that schoolchildren can learn about the importance of water to all living things, including plants, and day-to-day water conservation activities and water sanitation, so that they can help to ensure a brighter future for the regional environment.

In Nairobi, Kenya, SBF is helping to supply safe and clean drinking water to schools through the Kangemi Resource Centre, a local community support organization.

Column

SBF Selected as a Member of the CDP Water A-List for Two Straight Years

SBF has been selected for inclusion in the CDP Water A-List in two successive years in recognition of our efforts to develop water resources and reduce water use. The list is compiled by CDP, an international non-profit organization, on the basis of a survey conducted with the support of 803 worldwide institutional investors with total assets under management of US$100 trillion. We see SBF's selection for the list as evidence of international recognition for our environmental conservation and restoration activities and our efforts to reduce environmental impact.

CDP A LIST 2017 WATER

Environment

SBF is promoting environmental management as part of the Suntory Group. As a company that benefits from the blessings of nature, we believe that we have a special responsibility to contribute to the creation of a sustainable society. As part of that commitment, we have adopted new environmental goals for 2030.

2030 Environmental Goals

We have set two goals for the reduction of environmental loads resulting from our business operations.

1. Water

- **15% reduction*1 in the amount of global water used in SBF plants**
  - We will reduce the amount of water used for cleaning facilities and packages and cooling systems in our plants. We will also maximize water reuse.

2. CO_2

- **25% reduction*2 in global CO_2 emissions from SBF plants**
- **20% reduction*2 in global CO_2 emissions across our entire value chains other than SBF plants**
  - We will reduce container weights and increase the use of recycled and plant-based materials.
  - We will actively introduce Japan's most energy-efficient vending machines.

*1 Reduction per unit of production based on business segments in 2015
*2 Reduction of total emissions volume based on business segments in 2015

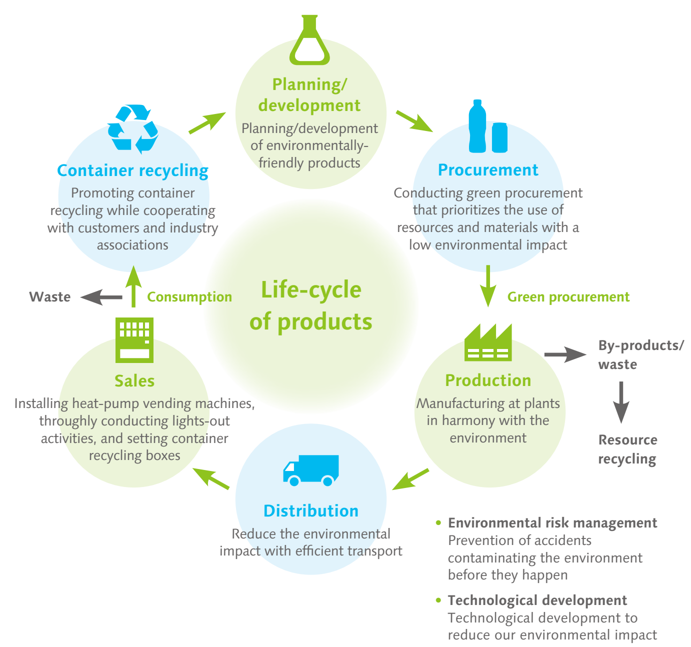
We will maximize synergy benefits within the SBF Group by regularly sharing technology and expertise accumulated at plants and in frontline business operations in each country and applying them to other areas of activity, and by implementing appropriate measures across all value chains.

We have had these CO_2 emissions goals validated by the SBT*3 initiative and have publicized our participation.

*3 Science Based Targets (SBT) initiative certifies mid- to long-term greenhouse gas emission reduction targets as scientific if they will contribute to keeping the global average temperature rise within 2°C of that prior to the Industrial Revolution.

Initiatives across Entire Value Chains Reducing Environmental Impact

The SBF Group will reduce environmental impact across entire value chains, from the procurement of raw materials to manufacturing, logistics, sales, and recycling.



Initiatives to Reduce Water Use and CO_2 Emissions in Production

We use large quantities of water to clean and cool production equipment in our plants. We ensure that this limited resource is used responsibly by applying the "3Rs"—Reduce, Reuse, Recycle—to minimize water use in every aspect of our operations. Measures to reduce energy consumption and CO_2 emissions include the reuse of heat from in-house power generation facilities, and conversion to fuels that emit less CO_2.

Water Usage Performance 2017
(at 9 production plants in Japan and 37 production plants overseas)*4

	Usage amount (1,000 m³)	Per unit production reduction rate*6
SBF Total	22,084	-1.4%

CO_2 Emission Performance*5 2017
(at 9 production plants in Japan and 37 production plants overseas)*4

	Emission (1,000 tons)	Per unit production reduction rate*6
SBF Total	431	-0.3%

Note: In 2017, expansion of manufacturing lines at some factories in Japan temporarily affected per-unit reduction rates.

*4 Data covers 9 production plants in Japan and 37 production plants in overseas owned by companies that consists 95% of the SBF Group's sales
*5 CO_2 emissions from electricity are calculated using a CO_2 emission coefficient based on the GHG Protocol.
*6 Per unit production is the amount of emission per kiloliter produced; the rate of reduction is shown as a comparison to the previous year

Water Cascade

At the Suntory Products Limited Minami-Alps Hakushu Water Plant, the amount of water used per unit of production has been reduced to the lowest level in the industry by means of advanced recirculation and reuse equipment. Another example of efficient water utilization at the plant is the storage of rainwater in tanks for use in plant irrigation and as a coolant for air conditioning equipment.

Conversion to Fuels with Low CO_2 Emissions

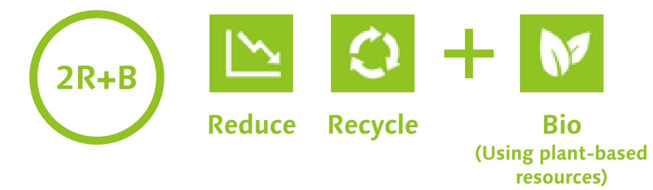
We are switching from fuel oil to fuels with low CO_2 emissions per thermal unit, such as city gas and liquefied natural gas (LNG). We are also actively using green electric power at overseas plants especially in France.

Accelerating the Shift to Renewable Energy

Various forms of renewable energy are used at SBF Group plants, including solar power, snow-ice, biomass, and micro-hydro power systems. The Suntory Products Limited Minami-Alps Hakushu Water Plant has the largest solar power generation capacity of any beverage industry plant. By using solar panels with a capacity of approximately 490kW to provide part of the electricity used in the plant, we have reduced CO_2 emissions at the plant by approximately 205 tons per year compared with electricity purchased from an electric power company.

"2R+B" Strategy for PET Bottles

Most SBF Group products are supplied to consumers in containers. We are actively working to minimize the environmental load resulting from containers and packaging. We have adopted a unique "2R+B" strategy for PET bottles as the basis for the efforts to develop containers that combine consideration for the environment with usability. By reducing the amount of plastic used and using recycled and plant-based materials, we are helping to ensure effective utilization of resources while reducing CO_2 emissions.



Energy-efficient Vending Machines

Since 2007, SBF has been installing heat pump vending machines*7. These dramatically reduce the amount of electric power consumed compared with conventional machines. By the end of 2017, 71% of our vending machines were of this type.

In April 2014, we began to install energy-efficient "eco-active" vending machines as a way of further contributing to the reduction of environmental impact. These operate on 420kWh per year, or about one-half of the amount consumed by conventional vending machines. This is the lowest power consumption of any vending machine in Japan*8.

*7 Heat pump vending machines recover heat from the refrigeration compartment and use it in the heating compartment.
*8 As of January 2018, based on research by Suntory Beverage Solution Limited using a selection of 25 vending machines produced by leading Japanese vending machine manufacturers.

Column: Acting against Marine Plastic Pollution

Marine pollution caused by plastic containers, including PET bottles, has become a serious problem and is the subject of debate as a global environmental issue. As a beverage company that uses large quantities of containers, we are working actively with governments, communities, and industry groups to find solutions to this problem. In addition to our company 2R+B strategy, we are continually encouraging consumers in Japan and overseas to recycle containers. We will continue to work on improvement initiatives with various stakeholders with the aim of raising recycling rates in countries and regions.

For instance, our Group company Lucozade Ribena Suntory, U.K. has signed the UK Plastics Pact*9.

*9 The UK Plastics Pact is a collaborative initiative with UK governments and NGOs that will create a circular economy for plastics.

People

Human resource diversity is a priority for the Suntory Group. Because the Group relies on diverse values and ideas to generate innovation, diversity management is a core management policy. SBF's approach to this policy is that regardless of nationality, gender, or other attributes, every individual employee in our Group is a full member of the Suntory Group and the SBF family. That is why we call our Group employees "Suntorians." We strive to build a corporate culture and maintain a workplace environment in which all employees can achieve continuing growth as individuals who share the same aspirations and values, by boldly taking up the challenge of creating new value in their respective workplaces.

One Suntory, One SBF

The Suntory People Way

The accelerating global expansion of Suntory Group's business operations has been paralleled by the expansion of the diversity of people in our workforce. The philosophy on the role of people as the driving force for growth across the entire Suntory Group is encapsulated in the "Suntory People Way." This philosophy reflects the originality and uniqueness of Suntory. It consists of three elements—Family, *Yatte Minahare*, and Engagement—each representing the thoughts and ideas about the people who make up the Suntory Group. This philosophy is also the starting point for all activities relating to our people.

We also adopted the Suntory Group Diversity Vision as a definition of our management priorities in relation to diversity promotion.

Suntory People Way

FAMILY
We are One Suntory family. We provide opportunities for personal and professional growth, health and well-being with long term view, while empowering our people to deliver results.

YATTE MINAHARE!
Just like our founders, we set exciting and ambitious goals and then tenaciously pursue their achievement. We demonstrate a spirit of never giving up.

ENGAGEMENT
We are bonded by the Founding Spirit and vision of "Growing for Good." Each and every day, our highly engaged and unique individuals work in harmony, bring our very best and create value that surprises and delights our customers, consumers and society.

Suntory Group Diversity Vision

We will come together as ONE by respecting our individualities and fostering trust, leveraging each Suntorian's unique traits and talents.

We will courageously embrace diverse thinking, actions and experiences to build an even better future as ONE SUNTORY.

Discovery and Promotion of People with the Potential for Success in a Global Arena

Group Talent Review

Every year Suntory Group members carry out a talent review covering each country, region, and business area in which they are involved. The purpose of this process is to discover, develop, and utilize human resources with the potential to make a group-wide contribution at the global level. Review results are shared and discussed across the entire Group. Senior managers from each group meet to look at the positioning of key talent in the Group, to draw up succession plans for key positions, and consider the relocation of personnel to different countries or business areas. This process creates a wide range of growth opportunities and plays an important role in career development. We will continue to evolve our group-wide talent development systems.

Leadership Development, Training Programs

The Suntory Group recognizes people as the source of corporate growth. This philosophy was reflected in the establishment of the *Suntory University* human resource development program in April 2015. The Suntory Group is continually developing business leaders to drive business growth, by providing opportunities for people aspiring to a higher-level business career to stretch their career goals. The diverse training curricula go beyond traditional operational categories and include opportunities to work with or in other companies and countries. They are also linked to management strategies. There are programs for people at various career levels, including the Global Leadership Development Program for team leaders, the Beyond Borders Program for organization leaders, and the Global Leadership Forum for next-generation management candidates. The Career Challenge Program is designed to strengthen the basic skills needed for global operations, while the Trainee Program allows people to develop their cultural adaptability through OJT with overseas Group companies. In addition, there are training courses designed to share and disseminate knowledge and policies relating to specific functions, such as production and R&D.

Sharing and Disseminating the Founding Spirit

We have developed activities to ensure that people in all Group companies in Japan and overseas understand and share the Suntory corporate philosophy and founding spirit—*Yatte Minahare*, and giving back to society. Under the Suntory Group's Ambassador Program, we use lectures, facility tours, and workshops to deepen understanding about Suntory's founding spirit, while building a sense of unity as members of the Suntory Group. Senior executives from SBF visit business sites in Japan and overseas and actively participate in town hall meetings to talk about the founding spirit and SBF's vision in their own words.

Reforms toward Productivity Improvement and More Flexible Workstyles

Suntory Group employees come from a wide range of backgrounds. We have implemented a variety of initiatives to help them work energetically while achieving high productivity, including the introduction of flextime, the promotion of teleworking, and the use of shared offices in Japan. Other innovations that are helping to improve individual skill levels and day-to-day productivity are intranet-based knowledge sharing, and IT skill training programs that we have developed in-house. We are progressively using robotic process automation (RPA) to improve efficiency, and we are expanding the range of processes covered by this initiative to include administrative and sales management areas.

In 2016, we established the "Terakoya" (temple school) website as a forum where employees can use time freed up through productivity improvement to achieve further personal growth by engaging in their own learning and teaching activities. Through this site, where employees can share their personal interests and skills regardless of their work or positions, we are encouraging the development of a culture in which anyone can learn or be taught.

Promoting Health Management

The Suntory Group has been promoting health management since 2016. Suntory companies have introduced various initiatives to encourage individuals to set lifestyle improvement goals and work continuously and independently to improve their health. Under the Suntory Health Challenge, for example, employees attend health camps and earn "health mileage points" according to their efforts. In 2017, approximately 38,000 employees from all Suntory Group companies worldwide were invited to the "One Suntory Walk," an event that combined global health management with environmental management.

In recognition of these initiatives, both Suntory Holdings Limited and Suntory Beverage & Food Limited (SBF) were included in the 2018 "White 500" list. This is the large corporate section of a program jointly run by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi to provide recognition for "Outstanding Health and Productivity Management Organizations."

2018
健康経営優良法人
Health and productivity
ホワイト500

Column

Suntory Holdings Limited ranked No.5 in the Beverage Industry in Fortune Magazine's "World's Most Admired Companies" List

Suntory Holdings Limited was selected for fifth place in the beverages section of the 2018 list of the World's Most Admired Companies published by the U.S. business magazine Fortune. The list ranks approximately 650 of the world's leading companies according to nine assessment items, including innovation, social responsibility, and quality of products and services. The rankings are based on a questionnaire survey of approximately 3,900 corporate managers and finance analysts. Ranked at number 5, Suntory Holdings was the top Japanese company in the beverages section. It was also the highest-ranked Japanese company in 2016. We see this ranking as high recognition for the corporate activities of the Suntory Group.

Basic Stance on Corporate Governance

As a company dedicated to the *Mizu To Ikiru* (living with water) philosophy, SBF has promised to respect nature, enrich society, and continually take up new challenges. Our new vision, which reflects social changes and a growing consumer focus on health, is to enrich our drinking-experiences to be more natural, healthy, convenient, and fulfilling, by leading the next drinks revolution. We will also strives to enhance our corporate governance so that we can fulfill our corporate social responsibilities while maintaining good relationships with all stakeholders, including shareholders and investors, consumers, local communities, suppliers, and employees.

Overview of Corporate Governance Framework

For its corporate governance framework, SBF has shifted to a Company with an Audit & Supervisory Committee and has put in place the requisite structures, the Board of Directors, the Audit & Supervisory Committee, and Independent Accounting Auditor. The purpose of this framework is to further enhance SBF's corporate governance through various means. These include improving the effectiveness of audits and supervision by having a Director who is also an Audit & Supervisory Committee member with voting rights on the Board of Directors (hereinafter referred to as an "Audit & Supervisory Committee member") conduct audits, further strengthening the supervisory functions of the Board of Directors by increasing the percentage of Outside Directors and realizing prompt decision making by the Board of Directors, by entrusting Directors with the responsibility for making all or certain important decisions regarding business execution.

State of Corporate Governance, Management Oversight Organizations Relating to Management Decision-making, Executive Actions, and Auditing

Organizational Format	Company with Audit & Supervisory Committee, etc.
Term of office of directors as defined in the Articles of Incorporation	1 year
Chairman of meetings of the Board of Directors	President
Number of Directors	9
Number of Outside Directors	3
Number of Outside Directors who have been designated as independent directors/auditors	3

Basic Policy on Establishing Internal Control Systems

Suntory Beverage & Food Limited (the "Company") hereby establishes its Basic Policy on Establishing Internal Control Systems, as follows.

(1) System for Ensuring That the Execution of Duties by Directors, Executive Officers and Employees of the Company, as Well as by Directors, Executive Officers, Others with Equivalent Duties ("Officers") and Employees of the Company's Subsidiaries Conforms with Laws and Regulations and the Articles of Incorporation

(2) System for the Preservation and Management of Information Concerning the Execution of Duties of the Company's Directors

(3) Regulations and Other Systems for Managing Risk of Losses of the Company and Its Subsidiaries

(4) System for Ensuring that Directors of the Company and Officers of the Company's Subsidiaries Execute Their Duties Efficiently

(5) System for Reporting to the Company Matters Related to the Execution of Duties by Officers of the Company's Subsidiaries

(6) Other Systems to Ensure the Appropriateness of Business of the Group Consisting of the Company, Its Parent Company and Its Subsidiaries

With respect to transactions between Group companies, including the parent company, internal procedures shall be established pertaining to matters such as performing transactions and determining transaction terms and conditions, and steps shall be taken to ensure the objectivity and rationality of such transactions. In particular, care shall be taken to ensure independence from the parent company with respect to transactions with the parent company.

(7) Matters Regarding Directors and Employees Who Assist in the Duties of the Audit & Supervisory Committee of the Company, Matters Regarding the Independence of Such Directors and Employees from Other Directors (Excluding Directors Serving on the Audit & Supervisory Committee), and Matters Related to Ensuring the Effectiveness of Instructions Given by the Audit & Supervisory Committee to Such Directors and Employees

(8) System for the Company's Directors (Excluding Directors Serving on the Audit & Supervisory Committee), Executive Officers and Employees, as Well as Directors, Executive Officers, Audit & Supervisory Board Members, Others with Equivalent Duties and Employees of the Company's Subsidiaries or Other Persons Who Receive Reports from Such Persons to Report to the Company's Audit & Supervisory Committee and Other Systems Related to Reporting to the Audit & Supervisory Committee

(9) System to Ensure That a Person Who Has Reported to the Company's Audit & Supervisory Committee Are Not Treated Adversely Based on the Fact Such a Report Has Been Made by the Person

The Directors (excluding Directors serving on the Audit & Supervisory Committee), Executive Officers, employees and others of the Group may directly report to the Audit & Supervisory Committee, and any adverse treatment based on the fact that such a report has been made by the person is prohibited under the internal regulations, etc.

(10) Policies Regarding Procedures for Advance Payment or Reimbursement of Expenses Arising in Conjunction with the Execution of Duties by Audit & Supervisory Committee Members of the Company (Limited to Those Expenses Incurred in Relation to Execution of Audit & Supervisory Committee Duties) and Other Policies for Processing Expenses and Obligations Arising with Respect to Execution of Such Duties, and Other Systems for Ensuring That the Audit & Supervisory Committee Effectively Performs Audits

Compensation for Members of the Board of Directors and Audit & Supervisory Committee

It was resolved at the Ordinary General Meeting of Shareholders held on March 27, 2015 that remuneration will be ¥1,000 million or less per year for directors and ¥100 million or less per year for outside directors (excluding Audit & Supervisory Committee members). These amounts do not include salaries earned by directors who are also employees. It was decided, based on a resolution at the same Ordinary General Meeting of Shareholders, that remuneration for Audit & Supervisory Committee members should be ¥150 million or less per year. Decisions concerning the allocation of remuneration to individual directors (excluding Audit & Supervisory Committee members) are made by the Board of Directors. Decisions about the allocation of remuneration to individual Audit & Supervisory Committee members are subject to deliberations by the Audit & Supervisory Committee. Details of remuneration amounts are as shown below.

Total Compensation Amounts for Persons Receiving Total Compensation of ¥100 Million or More

Name	Title	Millions of yen		
		Total Compensation by Type		Total Compensation, etc.
		Basic Compensation	Bonuses	
Saburo Kogo	Director	72	54	126

For detailed information about corporate governance, please visit our website.

Total Compensation to Company Officers, Total Compensation by Type of Officer, and Numbers of Officers Receiving Compensation

Type of Officer	Millions of yen			Number of Eligible Directors
	Total Compensation, etc.	Total Compensation by Type		
		Basic Compensation	Bonuses	
Directors (excluding Audit & Supervisory Committee members and outside directors)	353	203	149	8
Outside directors (excluding Audit & Supervisory Committee members)	12	12	—	1
Directors (Audit & Supervisory Committee members, excluding outside directors)	50	28	21	1
Outside directors (Audit & Supervisory Committee members)	24	24	—	3

Note: These amounts do not include salaries earned as employees.

BOARD OF DIRECTORS As of May 1, 2018

President, Chief Executive Officer,
Member of the Board,
Representative Director

Executive Vice President, Member of the Board
Chief Operating Officer of MONOZUKURI Division
Senior General Manager of Research and Development Department

Senior Managing Executive Officer,
Member of the Board
Division COO, Corporate Strategy Division

Important Concurrent Positions

Director of Suntory Beverage & Food Asia Pte. Ltd.
Director of Orangina Schweppes Holding B.V.
Director of Lucozade Ribena Suntory Limited
Director of FRUCOR SUNTORY NEW ZEALAND LIMITED
Director of FRUCOR SUNTORY AUSTRALIA PTY. LIMITED
Director of Pepsi Bottling Ventures LLC

Managing Executive Officer, Member of the Board
Division CEO, Japan Business Division

Important Concurrent Positions

Director, Member of the Board, Suntory Foods Limited
Director, Member of the Board, Suntory Beverage Solution Limited
Director, Member of the Board, Suntory Products Limited

Director, Member of the Board

Important Concurrent Position

Representative Director and Executive Vice President of Suntory Holdings Limited

Outside Director, Independent Officer,
Member of the Board

Important Concurrent Positions

Managing Director of Kellogg Japan G.K.
Outside Director of JC Comsa Corporation

Director, Member of the Audit and Supervisory Committee

Important Concurrent Positions

Audit & Supervisory Board Member of Suntory Foods Limited
Audit & Supervisory Board Member of Suntory Beverage Solution Limited
Audit & Supervisory Board Member of Suntory Products Limited

Outside Director, Independent Officer,
Member of the Audit and Supervisory Committee

Important Concurrent Positions

Attorney of TMI Associates
Outside Audit & Supervisory Board Member of Sumitomo Dainippon Pharma Co., Ltd.

Outside Director, Independent Officer,
Member of the Audit and Supervisory Committee

Important Concurrent Position

President and Representative Partner of Masuyama & Company LLC.

MESSAGE FROM AN OUTSIDE DIRECTOR

Relying on SBF's strengths to achieve growth as a global company

Yukari Inoue
Outside Director

Representing Shareholder Perspectives as an Independent Director

Having spent 30 years working in listed foreign companies, I believe that one of the most important characteristics of these companies is their emphasis on shareholder perspectives. For example, when they plan new products or propose new projects, they always explain the returns that can be expected as a result of investment in these initiatives. Success also depends on a company's ability to convince its shareholders that its decisions are appropriate. Repetitions of this experience naturally make employees more aware of shareholder perspectives.

As an outside director of SBF, I see myself as a representative of ordinary shareholders. From that perspective, I am continually thinking about how SBF can achieve sustainable growth and improve its corporate value. In my opinion, the role of an outside director is to provide external perspectives while understanding the internal perspective and raise issues that may be difficult for those within the company to speak about. Fortunately, the meetings of the SBF Board of Directors are characterized by a mood of openness. I am grateful for an environment in which I can speak my mind.

Global Experience on the Frontline of Business

I believe that I can best contribute through my understanding of the business principles of foreign companies, which I have developed through my experience with such companies. During my 17 years with a leading global FMCG company, I was involved in the start-up of global operations at corporate headquarters and gained direct experience of corporate thinking and the way in which initiatives are accepted in various regions and countries.

Through this work, I became keenly aware of how difficult it is to implement one-way corporate strategies in local markets. In that sense, I am very impressed by SBF's concept of local autonomy, as explained by President Kogo. By giving autonomy to each region, SBF achieves growth based on an understanding of local consumers and customers. I believe that the central corporate organization should be an enabler. Its role should be to facilitate growth by providing support.

Ensuring the Future Growth of SBF

As companies grow and their activities become more global, it can become more difficult for employees to understand the character of their companies. The corporate philosophy becomes extremely important when employees start to wonder about the purpose of their work. SBF's *Mizu To Ikiru* philosophy is excellent in my opinion. It consists of concepts that anyone can support, and they are expressed in clear and simple language. Also important is the corporate culture. Culture is like the air in a company, and the air in SBF is imbued with the bold, adventurous spirit of *Yatte Minahare*. When I attend board meetings, I sense the *Yatte Minahare* spirit in everyone there. I believe that the people who inherit this corporate culture are SBF's most important assets. SBF's brands are also assets. I want to help SBF to strengthen its brands and services in each region and country. I also want to help it build its global corporate brand, strengthen its employer branding, and improve its shareholder value.

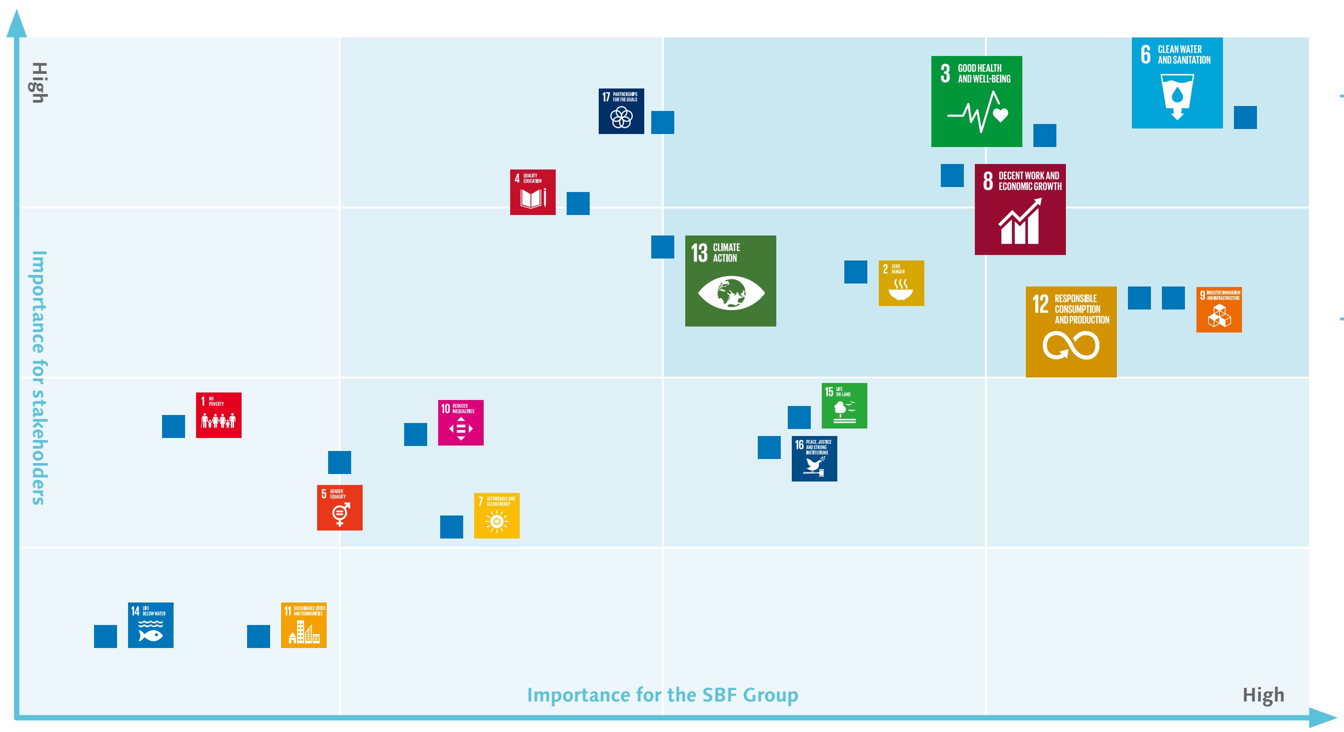
Clarification of Materiality

Suntory Beverage & Food (SBF) has further clarified priority areas for future sustainability activities by analyzing its materiality from the perspective of the Sustainable Development Goals (SDGs*).

We used global trends relating to the SDGs as the basis for an analysis of issues in terms of their importance to our shareholders and other SBF Group stakeholders, and also from the viewpoint of opportunities and risks in the context of our medium- to long-term management strategies. After assessment and verification by third-party organizations, we selected five of the 17 SDGs as goals or highly significant initiatives. They are Goal 6 (Clean Water and Sanitation), Goal 3 (Good Health and Well-being), Goal 8 (Decent Work and Economic Growth), Goal 12 (Responsible Consumption and Production), and Goal 13 (Climate Action). We will continue to expand our activities in these areas.

As a company that has pledged to dedicate itself to the *Mizu to Ikiru* (living with water) "Promise," our most important priority is the conservation of water resource, which is essential to society as well as our business operations. The entire SBF Group will continue to focus on water-related initiatives.

Analysis Matrix of Priority Issues



Materiality for the SBF

6 CLEAN WATER AND SANITATION

SBF identified five priority issues and, from them, Goal 6 (Clean Water and Sanitation) as the most important issue.

The Suntory Group Sustainable Water Philosophy Formulated in January 2017

p40

SBF Group Activity Policies for Priority Issues

We will consider our approach to materiality across our entire value chain, with reference to the total of 169 targets defined by the SDGs, focusing particularly on water. We will expand our activities in the following areas.

Priority Issue	Keywords of the initiative	Activities to strengthen
6 CLEAN WATER AND SANITATION	• Improve effective and sustainable use of water, address water shortages • Reduce pollution, reduce untreated waste water, improve water quality • Protect and recover ecosystems that are related to water in forests, etc.	3Rs of water focusing on manufacturing sites p40 Collaboration with local communities in water resource conservation p41
3 GOOD HEALTH AND WELL-BEING	• Strengthen Natural & Healthy product portfolio conforming to consumer needs • Strengthen early warning and mitigation of health harming factors	Expansion of Natural & Healthy portfolio p34
8 DECENT WORK AND ECONOMIC GROWTH	• Economic growth through employee diversification and technological innovation • Human resource development across multiple regions • Productivity improvement through flexible work styles	Career development Acceleration of diversity management p44
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Sustainable management and promotion of efficient use of various resources • Offering information and raising awareness of sustainable development and lifestyle that is in harmony with nature • Reduce food product loss	Development of plastic bottles based on 2R+B strategy p43 CSR procurement p42 Reduction of waste and promotion of reuse p42
13 CLIMATE ACTION	• Strategy planning for climate change measures • Education and raising awareness of climate change	Reduction of CO_2 emissions in the value chain p42

*Sustainable Development Goals (SDGs)

They are international goals focused on the elimination of all forms of poverty. They call on every country to pursue prosperity while protecting the global environment. The 17 goals of SDGs are a clear statement of world targets to take specific actions. As a globally active enterprise, the SBF Group will continue its efforts to contribute to the solution of global issues by expanding its initiatives based on the SDGs and other international targets.

*Sustainable Development Goals (SDGs) are targets that should be reached globally by 2030 that were adopted at the UN Sustainable Development Summit held in September 2015

Suntory Group's Activities

Signing of United Nations Global Compact

The Suntory Group supports international standards such as the Universal Declaration of Human Rights as well as the United Nations Guiding Principles on Business and Human Rights, and it has signed the United Nations Global Compact, which contains universal principles for human rights, labor, and the environment advocated by the United Nations.

UN GLOBAL COMPACT Network Japan WE SUPPORT

Yatte Minahare

We earnestly accept challenges. United by our drive to succeed, we move forward together to create markets and provide new value. From the start, Suntory has been a pioneer. Today we look forward boldly and confidently.

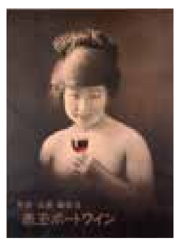
History of business development

1899

Shinjiro Torii founds Torii Shoten and starts production and sale of wine

1907

Launch of *Akadama Port Wine*, a sweet grape wine



*Name changed to *Akadama Sweet Wine* in 1973

1920s

1921

Founding of Kotobukiya Limited

1923

Construction of the Yamazaki Distillery, Japan's first malt whisky distillery, marking the first step toward the production of Japanese whisky

1929

Launch of Japan's first authentic whisky, *Suntory Whisky Shirofuda* (white label)

1937

Launch of *Suntory Kakubin* (square bottle) Whisky

1940s

1960s

1963

Change of company name from Kotobukiya to Suntory Limited. Entry into beer business

1972

Establishment of Suntory Foods Limited, beverage and food sales company

1980s

1983

Start of management of Château Lagrange (Bordeaux, France)

1996

Start of health food business development, with the launch of Sesamin E

2000s

2004

Successful development of world's first "blue rose" through application of biotechnology

2005

Award of Japan's first Grand Gold Medal in the Monde Selection to *The Premium Malt's* in the Selection of Beers division

2009

Welcoming of Orangina Schweppes to the SBF Group

2010s

2013

Listing of Suntory Beverage & Food Limited on the first section of the Tokyo Stock Exchange

2014

Establishment of Beam Suntory Inc.

History of environment, culture and social activities

1921

Establishment of organization "Hojukai" for social contribution

"Imamiya Dispensary," a charitable clinic in Osaka, was established by the founder.

1946

Establishment of Institute of Food Chemistry (currently the Suntory Foundation for Life Sciences)

1961

Opening of Suntory Museum of Art

1969

Establishment of Torii Music Foundation (currently the Suntory Foundation for Arts)

1973

Start of bird conservation activities

1979

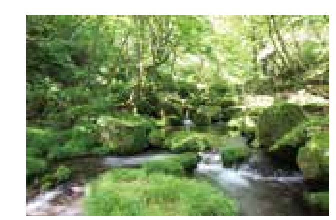
Establishment of Suntory Foundation

1986

Opening of Suntory Hall

2003

Start of Suntory's "Natural Water Sanctuaries" activities



2004

Start in Japan of the *Suntory Mizuiku*—Education Program for Nature and Water to teach the next generation about the environment

2014

Formulation of Suntory Environmental Vision toward 2050

2015

Start of the *Suntory Mizuiku*—Education Program for Nature and Water overseas, first in Vietnam

2017

Formulation of Suntory Group's Sustainable Water Philosophy

Giving back to society

By giving back generously to the world, we show that Suntory stands for both enjoyment and responsibility. While we always aim for success, we recognize the importance of the world around us. We are committed to building a long-lasting, mutually beneficial relationship with society.

History of SBF's Locally Loved Brands—Drinks that Enrich Living

Iyemon

Oolong Tea

1981
• *Suntory Oolong Tea*

Establishment of sugar-free tea category

2004
• *Suntory Green Tea Iyemon*

2006
• *Suntory Black Oolong Tea* (FOSHU*)

The creation of a line-up of high-quality, high value-added products offering health and other benefits

2013
• *Suntory Iyemon Tokucha* (FOSHU*)

2015
• *Yogurina & Suntory Tennensui*

2017
• *Craft BOSS* series

SBF offers not only long-loved brands, but also creates new products or new beverage categories that match and anticipate changes in consumer needs, lifestyles and preferences.

*certified as a Food for Specified Health Uses

Boss

1991
• *Suntory Minami-Alps Tennensui* mineral water

1992
• *Boss*

The start of two long-selling brands

Suntory Tennensui

Good Mood

2017

2003

Sting

2015
• 180th anniversary

1820s
• Beginning of the brand

Mr. Henderson William Brand, royal chef to King George IV, creates a chicken essence beverage with the aim of improving the King's health

BRAND'S Essence of Chicken

1835

Available to the public as a nutritional drink

1970s
• Sales growth as a household staple in Asia

Rapid demand expansion thanks to consumers seeking products to enhance health and energy

2013

TEA+

2003

Okky

1929

The beverage started as a cold remedy for children.

Lucozade

1938

This blackcurrant drink rich in Vitamin C has been loved by a wide range of people, especially children.

Ribena

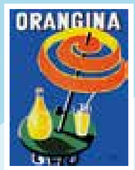
2012
• *Orangina* goes on sale in Japan by SBF

1980s

Orangina's national and regional popularity reaches global levels

1970s
• *Orangina* promotion "Shake It!"

"Shake It!" slogan informs consumers how to best enjoy *Orangina* and its natural pulp content



1950s
• Expansion of *Orangina* sales throughout France

First gained popularity in cafes

1936
• Birth of *Orangina*

Allows consumers everywhere to enjoy the taste of Mediterranean oranges all year round!

Known for its charming bottle design

Orangina

We are always evolving to satisfy people

with unexpected drinking experiences.

Nature's Twist

2013

The first in-house brand by PBV in the USA.

2018

Amplify

2016

MayTea

2016

V line-up expands with products such as *V Pure*

V Energy

1997

Hugely popular every day energy drink

2010s

Lucozade and *Ribena* have been evolving to match customer preferences and are now sold in more than 15 countries.

In 2017-2018, the brands were reformulated to create lower sugar products in response to rising health consciousness.

1981

This fruit juice brand is popular with a wide range of consumers in New Zealand's fruit juice market.

Just Juice

Operating Environment and Initiatives in the Fiscal Year Ended December 31, 2017

During the fiscal year ended December 2017, Suntory Beverage & Food Limited Group (the Group) put efforts into brand reinforcement and new demand creation under its philosophy of proposing premium and unique products that match the tastes and needs of consumers, and enriching consumers' lives. By utilizing the expertise of each company, the Group also worked to strengthen earning capacity through cost reductions and to improve quality of products throughout the group. Furthermore, with the aim of achieving sustainable future growth, the Group concentrated on strengthening its business foundation and redeveloping its business portfolio in each area.

In order to strengthen global management and to accelerate growth further, the Company implemented organizational changes on April 1, 2017. In accordance with this, starting from the first six months of the fiscal year ending December 31, 2017, the previous reportable segments of "Japan business" and "Overseas business" have been changed to "Japan business," "Europe business," "Asia business," "Oceania business" and "Americas business." Also, in order to more appropriately evaluate and manage the performance of each reportable segment, we have changed the method for calculating the profit or loss of each reportable segment.

Analysis of Results of Operations

For the fiscal year under review, the Group reported consolidated revenue of ¥1,234.0 billion, up 2.1% year on year, consolidated operating income of ¥118.0 billion, up 5.4% and profit for the year attributable to owners of the Company of ¥78.1 billion, up 9.2%. The Company has applied the International Financial Reporting Standards (IFRS) beginning from the fiscal year under review. To present comparisons with the previous corresponding periods, the figures of the previous fiscal year have been restated according to IFRS.

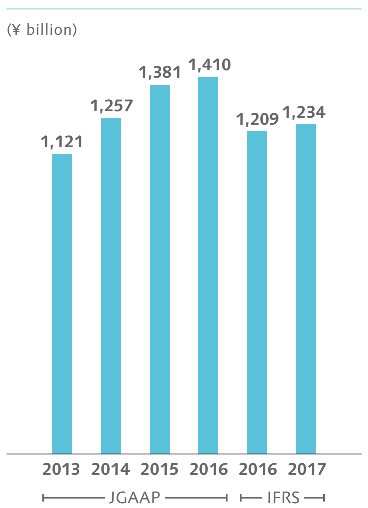
Segment Performance

Japan Business

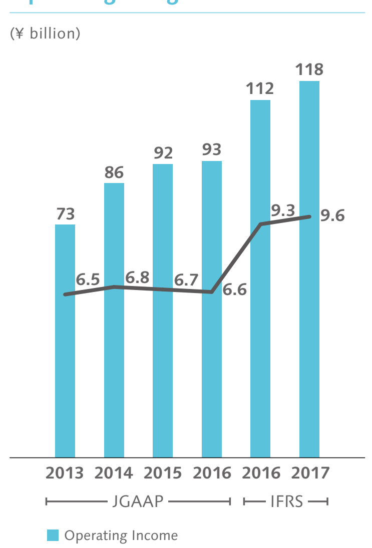
In Japan, the Group worked on creating new demand by proposing products that bring new value, as well as strengthening core brands. As the result, sales volume increased year on year.

For the *Suntory Tennensui* brand, the Group promoted the brand's unique value by emphasizing its qualities of *clear & tasty* and *natural & healthy*, and sales for the core product *Suntory Tennensui* mineral water remained strong. With the contribution of new product, *Suntory Tennensui PREMIUM MORNING TEA*, sales volume for the brand as a whole considerably exceeded that of the same period of the previous year.

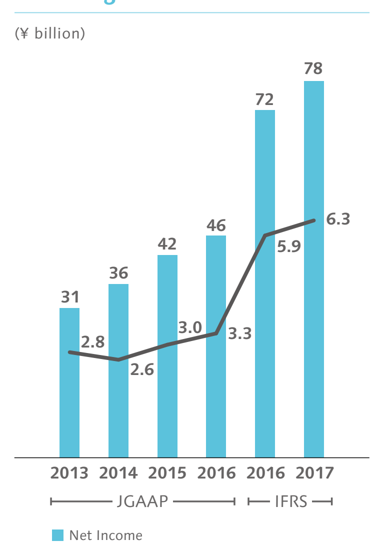
Revenue



Operating Income and Operating Margin



Profit for the year Attributable to Owners of the Company and Net Margin



For the Boss coffee brand, the Group continued to focus on core products: *Premium Boss*, *Rainbow Mountain Blend*, *Zeitaku Bito*, *Muto Black* and *Café au Lait*. In addition, the Group launched *Pride of Boss* in September to celebrate the 25th anniversary of the launch of the Boss brand, with the aim of invigorating the 185g canned coffee market. Furthermore, *Craft Boss* recorded strong sales since its launch by offering a new style of drinking coffee—from a PET bottle. As a result of these activities, sales volume for the *Boss* brand grew strongly, despite the market for RTD coffee showing a general sluggishness, particularly in the 185g canned coffee.

For the *Iyemon* brand, both the flavor and packaging were renewed in March in order to provide a PET bottle green tea product with the color, scent and taste of "freshly-brewed high-quality tea" desired by consumers. Active marketing operations were also effective to increase sales volume over previous year.

For the *Suntory Oolong Tea* brand, the Group promoted the unique value and taste of oolong tea by the factor that both the flavor and packaging were renewed in May, leading to a year-on-year increase in sales volume.

Sales volumes of FOSHU drink products declined year on year. The Group made efforts to capture new users, through measures including the launch of *Suntory Tokucha Jasmine* in June and continued active marketing operations.

In the vending machine business, the Group promoted initiatives to enhance the attractiveness of the vending machine channel such as by launching canned and PET bottle products exclusive to vending machines, and carrying out original, region-specific campaigns. The Group also focused its efforts on sales to corporate customers and strove to capture beverage demand in the office environment.

Furthermore, despite continuing to focus on efforts to improve profitability such as by aiming for efficient expenditure of sales promotion and advertising costs, production costs rose temporarily as a result of deterioration in the raw materials market and an increase in outsourcing production costs, negatively affecting profits.

As a result of these activities, the Japan business reported revenue of ¥689.2 billion, up 0.2% year on year and segment profit of ¥57.3 billion, up 5.1%.

Europe Business

In Europe, aggressive marketing activities were conducted with a focus on core brands.

In France, the Group focused on small-size format products, which helped sales volume of the carbonated fruit drink *Orangina* and the fruit juice *Oasis* to increase year on year. In addition, sales of the premium low-sugar iced tea *MayTea*, launched in May 2016, continued to gain new customers and generate additional sales. On the other hand, due to strong demand to our core brands and decline in our supplying capabilities caused by temporary suspension of our production line, supply chain costs including outsourcing production costs increased.

In the UK, while sales of the energy drink *Lucozade Energy*, which has been renewed into a low-sugar product since April, was challenging, the sports drink *Lucozade Sport* delivered strong growth due to proactive marketing activities. As a result, sales volume of the *Lucozade* brand products decreased year on year. Sales volume of the fruit juice *Ribena* also decreased year on year.

In Spain, the Group continued to concentrate on on-premise channels, and sales of Schweppes grew steadily, with a highlight on tonic water.

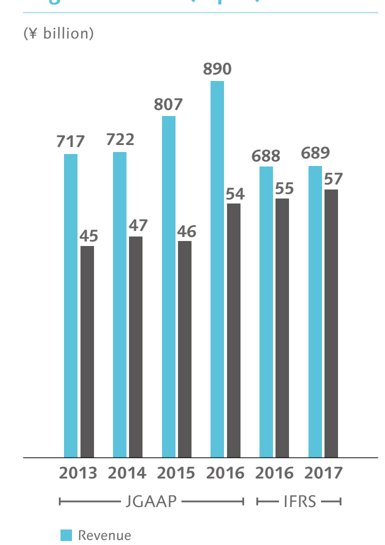
In Africa, the Group strove to reinforce the business foundation with a focus on Nigeria.

As a result of these activities, the Europe business reported revenue of ¥238.9 billion, up 4.2% year on year and segment profit of ¥34.6 billion, up 2.9%.

Asia Business

In Asia, in addition to reinforcing core brands, the Group worked on strengthening the sales and distribution structures in each country.

Revenue and Segment Profit (Japan)



Regarding the beverage business, in Vietnam, sales increased year on year contributed by proactive marketing activities for the energy drink Sting and the RTD tea *TEA+*. In Indonesia, the Group undertook initiatives to reinforce the sales and distribution structures with measures such as improving distributor management capabilities centering Java area. These efforts led to strong sales of the mainstay cup jelly drink *Okky*.

Regarding the health supplement business, sales of *BRAND'S Essence of Chicken* grew in the core market Thailand, due to factors such as improved route-to-market capabilities achieved by changing the distribution structure. From May onward, Cerebos Pacific Limited and its subsidiaries began business under the name of BRAND'S SUNTORY to further strengthen and grow the *BRAND'S* brand. In addition, the major functions of the business, such as marketing, were relocated from Singapore to Thailand in June to grasp consumers' needs more swiftly and appropriately.

As a result of these activities, the Asia business reported revenue of ¥177.1 billion, up 7.6% year on year and segment profit of ¥23.2 billion, up 34.5%.

Oceania Business

In Oceania, the Group worked to expand sales by conducting aggressive marketing activities surrounding its core brands.

In New Zealand, under an unfavorable business environment, the Group introduced new flavors and new packaging supported by aggressive marketing activities, primarily for the energy drink *V* and the fruit juice brands *Just Juice* and *Simply Squeezed*.

In Australia, the Group worked on initiatives to expand sales by proceeding with the flavor expansion of the *V* brand, as well as bolstering storefront activities of the sports drink *Maximus*.

On the other hand, earnings were affected from the increase in sales promotion costs in response to intensified competition.

As a result of these activities, the Oceania business reported revenue of ¥42.8 billion, up 3.8% year on year and segment profit of ¥5.0 billion, down 13.8%.

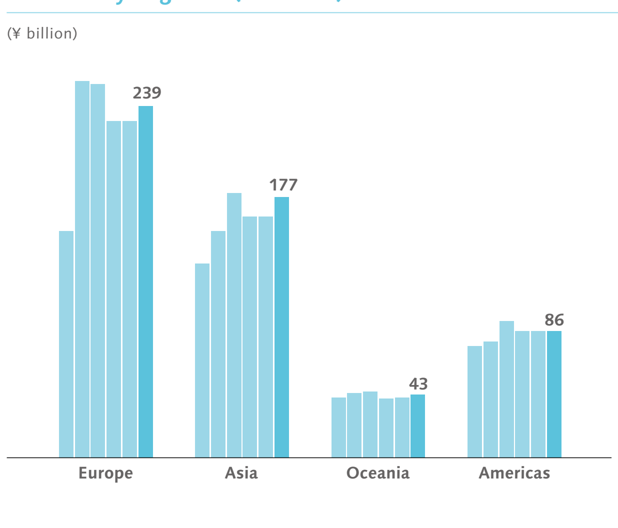
Furthermore, in order to accelerate the Group's strategy, from June onward, subsidiaries in New Zealand and Australia began business under the name of FRUCOR SUNTORY.

Americas Business

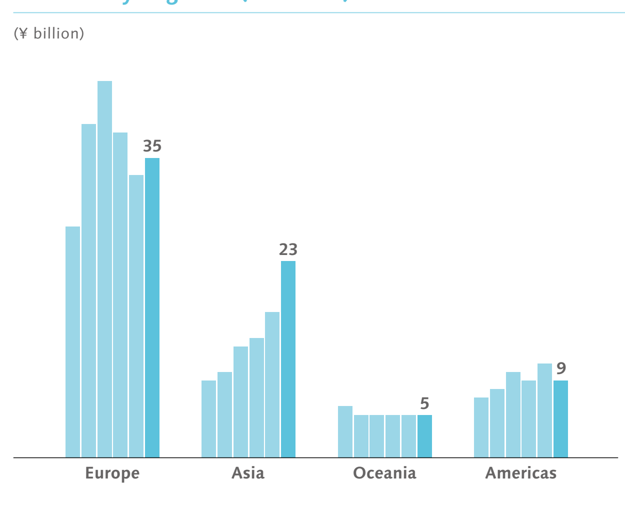
In the Americas, the Group strove to further support PepsiCo brand products in North Carolina, while focusing on the growing non-carbonated beverage category, which included water and RTD coffee. On the other hand, earnings were affected by a decrease in sales of carbonated beverage category as a result of intensified competition and higher raw material costs.

As a result of these activities, the Americas business reported revenue of ¥86.0 billion, down 0.2% year on year and segment profit of ¥9.3 billion, down 17.9%.

Revenue by Segment (Overseas)



Revenue by Segment (Overseas)



R&D Activities

Our research and development divisions believe that great taste, underpinned by safety and reliability, lies at the heart of the value of each product. Accordingly, research and development divisions and departments established in Japan and overseas are working to develop high-value-added products. Research and development costs for the consolidated fiscal year totaled ¥9.5 billion, consisting of ¥6.4 billion in our Japan business, ¥1.7 billion in our Europe business, ¥0.2 billion in our Oceania business, ¥0.1 billion in our Americas business.

Analysis of Financial Condition

Total assets as of December 31, 2017 were ¥1,522.0 billion, an increase of ¥100.6 billion compared to December 31, 2016. The main factors were increases in intangible assets and other assets due to the effect of foreign currency translation in overseas subsidiaries.

Total liabilities stood at ¥775.8 billion, an increase of ¥17.2 billion compared to December 31, 2016. This was due in part increases in trade and other payables, despite other factors including a decrease in interest-bearing debt.

Total equity stood at ¥746.2 billion, an increase of ¥83.4 billion compared to December 31, 2016 due in part to an increase in retained earnings resulting from the recording of profit for the year attributable to owners of the Company and an increase in translation adjustments of foreign operations, despite other factors including a decrease in retained earnings resulting from dividends paid. As a result of the above, ratio of equity attributable to owners of the Company to total assets was 45.4% and equity attributable to owners of the Company per share was ¥2,234.43.

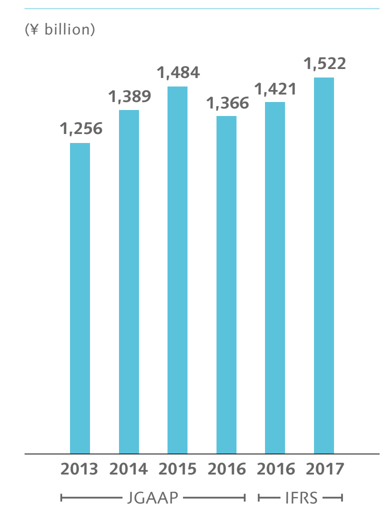
Cash Flows

Cash and cash equivalents as of December 31, 2017 amounted to ¥113.9 billion, an increase of ¥29.8 billion compared to December 31, 2016.

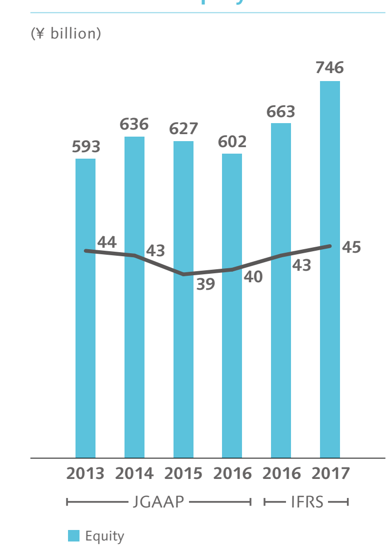
Net cash inflow from operating activities was ¥149.5 billion, a decrease of ¥13.6 billion compared to the previous fiscal year. This was the result of an increase in inventories of ¥7.9 billion, despite profit before tax of ¥114.4 billion and depreciation and amortization of ¥63.9 billion and others.

Net cash outflow from investing activities was ¥53.0

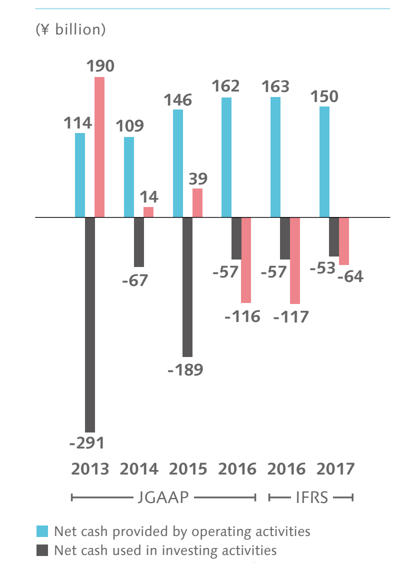
Total Assets



Equity and Shareholders' Equity Ratio



Cash Flows



billion, a decrease of ¥4.5 billion compared to the previous fiscal year. This was mainly the result of the absence of payments for business acquisition of ¥8.1 billion that occurred in the previous fiscal year, despite payments for property, plant and equipment and intangible assets of ¥55.3 billion and others.

Net cash outflow from financing activities was ¥63.6 billion, compared to ¥117.1 billion of net cash outflow from financing activities in the previous fiscal year. This was mainly the result of repayments of long-term borrowings of ¥61.9 billion and others.

Capital Expenditures

Total capital expenditures by the SBF Group in the year ended December 2017 amounted to ¥59.1 billion. The purposes for this expenditure were the expansion of production capacity, the enhancement of marketing capabilities, quality improvement, and rationalization measures.

Capital expenditures relating to business operations in Japan amounted to ¥33.3 billion. The main items were production capacity expansion, rationalization measures, and the installation of vending machines.

Capital expenditures relating to overseas business operations amounted to ¥12.1 billion in Europe, ¥6.3 billion in Asia, ¥2.2 billion in Oceania, and ¥5.2 billion in the Americas. The main expenditure items were production capacity expansion and rationalization measures.

Dividend Policy

The Company believes its prioritization of strategic investments as well as capital expenditures for sustainable revenue growth and increasing the value of its business will benefit its shareholders. In addition, the Company views an appropriate shareholder return as one of its core management principles. While giving due consideration to providing a stable return and maintaining robust internal reserves for the future, the Company intends to pursue a comprehensive shareholder return policy that also takes into account its business results and future funding needs. Specifically, the Company aims to stably increase dividends on the basis of profit growth with a targeted consolidated payout ratio of 30% or more of profit for the year attributable to owners of the Company*. Looking to the medium and long-term, the Company will also consider increasing the payout ratio depending on such factors as its need for funds and progress in profit growth.

*The payout ratio used for the year-end dividend for fiscal years until the fiscal year ended December 31, 2017, was a payout ratio based on net income attributable to owners of the parent before amortization of goodwill (sum of net income attributable to owners of the parent and amortization of goodwill based on Japanese GAAP).

Our basic policy is to declare dividends twice a year in the form of interim and year-end dividends. Determinations regarding year-end dividends are made at the annual general meeting of shareholders, while interim dividends are determined by the Board of Directors. For the fiscal year under review, the SBF Group declared an annual dividend of ¥75 per share, including an interim dividend of ¥37 per share. As noted above, we use internal reserves for strategic investments in future business expansion and capital expenditures to strengthen core businesses.

Our Articles of Incorporation provide that interim dividends with a record date of June 30 of every year may be declared by a resolution of the Board of Directors.

The dividend payments for the fiscal year under review are as follows.

Date of determination	Total dividend (millions of yen)	Dividends per share (yen)
August 7, 2017 Board of Director resolution	11,433	37
March 29, 2018 Ordinary general meeting of shareholders	11,742	38

Outlook for the Fiscal Year Ending December 31, 2018

The SBF Group has strengthened our business foundation by listing shares on the Tokyo Stock Exchange and by engaging in various mergers and acquisitions. Utilizing this business foundation, we aim to accelerate self-sustainable growth in each area of operations, creating synergies and expanding in an integrated manner. Based on the long-term strategy and the medium-term plan that have been newly formulated, the Group will work to further improve profitability and build its business foundation in order to further strengthen the strategies it has applied hitherto. For more about these initiatives, see P.14 and 15.

In the fiscal year ending December 31 2018, the Group expects consolidated revenue of ¥1,293.0 billion, up 4.8% year on year, consolidated operating income of ¥127.0 billion, up 7.7%.

Business and Other Risks

Our business, financial condition, and operating results could be materially adversely affected by the factors discussed below. The risks outlined below are those identified by Suntory Beverage & Food Limited and its consolidated subsidiaries as of March 31, 2018.

(1) Risks related to product development and supply

The beverage and food industry is highly susceptible to changes in consumer preferences. In order to generate revenues and profits, we must have product offerings that appeal to consumers. Although we strive to effectively monitor changes in the markets for our products, there is no assurance that we will develop new products that appeal to consumers. In particular, one element of our product strategy is to introduce products that appeal to health-conscious consumers, but we may face increased competition as other manufacturers also focus on products that emphasize health. Any significant changes in consumer preferences or any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitiveness, and impact our operating results and financial position.

In regard to product supply, while we make predictions for consumer demand and design plans related to supply and demand based on such factors as consumer preferences, there is a possibility that we will not be able to appropriately respond to demand in the event that it exceeds the Group's estimations. In such an event, the Group would lose opportunities for sales, and the Group's brand image would also be adversely affected. There is also a possibility that demand for the Group's products would decrease. Such circumstances could have an impact on the Group's business performance and financial position.

In addition, the Group's continued success is also dependent on its ability to innovate, which includes maintaining a robust pipeline of new products and improving the effectiveness of product packaging and marketing efforts. While we devote significant resources to promoting our brands and new product launches, there can be no assurance as to our ability to effectively execute our marketing programs in the event of changes in the consumer environment. Any failure on our part to implement effective sales policies that respond to market trends and technological innovations, achieve appropriate innovation, or successfully launch new products could decrease demand for our products by negatively affecting consumer perception of our brands, as well as result in inventory write-down and other costs.

(2) Risks related to competition

The beverage and food industry is highly competitive. We compete with major international beverage companies that, like us, operate in multiple geographic areas, as well as numerous companies that are primarily local in operation. Large competitors can use their resources and scale to rapidly respond to competitive pressures and changes in consumer preferences by introducing new products, reducing prices or increasing promotional activities. We also compete with a variety of regional and private label manufacturers, which may have historical strengths in particular geographic markets or product categories. Our inability to compete effectively could have an impact on our operating results and financial condition.

(3) Risks related to potential acquisitions and joint ventures

Identifying and taking advantage of additional acquisition and market entry opportunities in Japan, Europe, other developed markets, and emerging markets is an important part of our growth strategy. Accordingly, we regularly evaluate potential acquisitions and joint ventures, some of which are large in size or otherwise substantial. Potential issues associated with these activities could include, among others:

- we may be unable to identify appropriate acquisitions and other opportunities or may be unable to agree on terms with potential counterparties, due to competing bids among other reasons;
- we may fail to receive necessary consents, clearances, and approvals in connection with an acquisition or joint venture;
- we may be unable to raise necessary capital on favorable terms;
- in entering new geographic markets or product segments, we may change our business profile and face challenges with which we are unfamiliar or fail to anticipate; and
- we may be unable to realize the full extent of the profits or cost savings that we expect to realize as a result of an acquisition or the formation of a joint venture.

If we do not successfully execute our acquisition and joint venture strategy, we may be unable to realize our medium- and long-term growth objectives.

(4) Risks related to international operations
Our global operations and ongoing investment in developed and especially emerging markets mean we are subject to risks involved in international operations generally. Such risks include among others:

- the need to comply with differing or undeveloped legal, regulatory, and tax regimes;
- negative economic or political developments;
- fluctuations in exchange rates; and
- disruptions from extraordinary events such as terrorism, political instability, civil unrest, or infectious diseases.

We also intend to leverage our product development expertise and existing product portfolio in Japan and key overseas group companies to expand our product offerings in other markets. However, there can be no assurance that our existing products, variants of our existing products, or new products that we make, manufacture, market, or sell will be accepted or successful in other markets, due to local competition, product price, cultural differences, or other factors. If we are unable to develop products that appeal to consumers in new markets in which we have little or no prior experience, our ability to realize our growth objectives could be adversely affected.

(5) Risks related to business plans and management strategies
Although we have established a long-term strategy and medium-term plan to achieve medium- and long-term growth, there can be no assurance that we will be successful in implementing our long-term strategy, or achieving our medium-term plan. In order to implement our long-term strategy and achieve our medium-term plan, we will need to achieve growth organically and through acquisitions and joint ventures. In addition to the risks we face in sourcing acquisition and joint venture opportunities and executing and integrating acquisitions and joint ventures as noted in Item (3) above, we also face risks in achieving organic growth in our existing operations. For example, we may not succeed in implementing our long-term strategy.

(6) Risks related to our product safety
As a beverage and food manufacturer, the safety of our products is vital to our business and we strive to comply with applicable rules and regulations and ensure that our products meet all required quality standards. In addition, we have adopted various quality, environmental, and health and safety standards in our operations. However, despite our efforts, our products may not meet these standards or could otherwise become contaminated, resulting in product safety issues. Such failure to meet our standards or contamination of our products could occur in our own operations or those of third-party manufacturers, distributors or suppliers, who we do not control. This could result in expensive production interruptions, recalls, or liability claims and harm the affected brand and our corporate reputation. Moreover, negative publicity could be generated from unfounded or nominal liability claims or limited recalls.

(7) Risks related to distribution channels
We sell our products through multiple channels, including wholesalers and major retail groups. In Japan, our vending machine network, among others, is also an important distribution channel. Challenges we face with respect to our distribution channels include:

- consolidation among wholesalers or retail groups in many markets could result in large, sophisticated wholesalers or retailers with strong bargaining power in terms of pricing and sales promotions. The loss of significant customers, or unfavorable changes to pricing and other terms, could adversely affect our results of operations;
- independent retailing groups, including those in Japan, are introducing competitively priced private label products that contribute to intensifying price competition; and
- the Japanese market is relatively saturated in terms of vending machines, resulting in increased price competition. In addition, sales per machine may decrease due to increased competition from an increase in convenience store locations.

These risks related to our distribution channels could impact our results of operations and financial condition.

(8) Risks related to economic conditions
Unfavorable economic conditions, such as a future recession or economic slowdown in Japan or our other major markets, could negatively affect the affordability of, and consumer demand for, our products. Under challenging economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products or by shifting away from our products to lower-priced offerings from other companies. Weak consumer demand for our products in Japan or in other major markets could reduce our profitability and negatively affect our results of operations and financial position.

The Japanese government plans to increase the rate of consumption tax from the current 8% to 10% in October 2019. It is unclear what impact these increases will have on our sales in Japan or whether we will be able to maintain current margin levels following such increases. Furthermore, Japan's long-term demographic trends generally point to an aging and declining population. This could have a negative impact on consumer demand. If the tax increases or Japan's demographic trends result in decreased demand for our products or increased pricing pressure, they may have a negative effect on our results of operations and financial position.

(9) Risks related to foreign exchange rate fluctuations
We purchase certain raw materials internationally using currencies other than the Japanese yen, principally the U.S. dollar. Although we use derivative financial instruments to reduce our net exposure to exchange rate fluctuations, such hedging instruments do not protect us against all fluctuations and our business and financial performance could be adversely affected. In addition, because our consolidated financial statements are presented in Japanese yen, we must translate revenues, income and expenses, as well as assets and liabilities, of overseas subsidiaries into Japanese yen at exchange rates in effect during or at the end of each reporting period. Therefore, foreign exchange rate fluctuations could impact our results of operations and financial position.

(10) Risks related to interest rate fluctuations
We finance a portion of our operations through interest-bearing loans and in the future we may conduct debt financing through loans, the issuance of corporate bonds, or other means. In addition, we may engage in fundraising to finance future acquisitions. Although we use fixed-interest transactions and derivative instruments to manage our interest rate exposure, large increases in interest rates could have an adverse effect on our financial condition and results of operations.

(11) Risks related to goodwill and intangible assets
As of December 31, 2017, the Group's goodwill was ¥254.0 billion and intangible assets were ¥432.8 billion. Among the intangible assets, trademarks were ¥346.9 billion. The majority of goodwill is related to the acquisition of shares in the Orangina Schweppes Group and Japan Beverage Holdings Inc. Furthermore, most of the intangible assets are trademarks. Most of the trademarks are related to the manufacture and sales business of Lucozade and Ribena, which were acquired from GlaxoSmithKline plc, and the manufacture and sales business of Schweppes, sOrangina, Oasis and other products, which were acquired through the acquisition of the Orangina Schweppes Group.

We may record additional goodwill and intangible assets as a result of conducting new acquisitions and joint ventures in the future. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment each reporting period, or whenever there is any indication of impairment. Depending on the result of this test, we are required to post an impairment loss. The recording of such an impairment loss could have an adverse effect on our results of operations and financial position.

(12) Risks related to procurement of raw materials
The principal raw materials we use in our business are aluminum and steel cans and ends, glass bottles, PET bottles and caps, paperboard packaging, coffee beans, tea leaves, juice, fruit, sweeteners, and other ingredients. The price of these materials is affected by changes in weather patterns and supply and demand in the relevant global markets. Additionally, conversion of raw materials into our products for sale also uses electricity and natural gas. The cost of the raw materials and energy can fluctuate substantially. Continued increases in the prices of these raw materials and energy could exert pressure on our costs, and we may not be able to pass along any such increases to the sales price of our products, which could negatively affect our business, results of operations, and financial position.

In addition, some raw materials we use are sourced from industries characterized by a limited supply base. Although we believe we have strong relationships with our suppliers, we could suffer raw material shortages if they are unable to meet our requirements. The failure of our suppliers to meet our needs could occur for many reasons, including climate change, adverse weather conditions, natural disasters, fires, crop failures, epidemic, strikes, manufacturing problems, transportation issues, supply interruptions, government regulation, political instability, and terrorism. Some of these risks may be more acute in cases in which the supplier or its facilities are located in countries or regions where there is a high risk that the aforementioned circumstances will occur. Changing suppliers can require long lead times and any significant interruption to supply over an extended period of time could substantially harm our business, results of operations, and financial position.

(13) Risks related to water supply

Water is the main ingredient in substantially all our products and water resources in many parts of the world are facing unprecedented challenges from population pressures, pollution, poor management, and the impact of climate change. As demand for water resources increases around the world, companies that depend on abundant water resources, including us, may face increased production costs or capacity constraints which could adversely affect our profitability or growth strategy over the long term.

(14) Risks related to weather conditions

Sales of certain types of our products are significantly influenced by weather conditions. We ordinarily record our highest sales volume levels during hotter weather in the spring and summer months, but unseasonably cool weather conditions during this period could depress demand for our products and negatively impact our results of operations and financial position.

(15) Risks related to corporate social responsibilities

Recognizing that the global natural environment constitutes one of our management resources, we are working in earnest to implement environmental preservation activities, in an effort to hand a sustainable society to future generations. We are striving to thoroughly reduce water usage, cut CO_2 emissions, convert waste materials into useful resources, and recycle containers. In the course of executing business operations, we comply with various related environmental regulations. Also, we are working with our suppliers to promote procurement activities that take into account social responsibilities such as those related to human rights, labor standards, and the environment. However, our results of operations and financial position could be negatively affected if, despite our efforts, any of the following were to occur in relation to our business activities and supply chain: Global environmental problems due to global climate change, resource depletion, and other issues; environmental pollution caused by accidents, mishaps, and other events; higher cost outlays for investment in new equipment and production quantity restrictions mainly due to amendments in relevant laws and regulations; and problems concerning human rights such as occupational health and safety, and child labor.

(16) Risks related to supply chains

We and our business partners source materials and conduct manufacturing activities globally. Using supply chain management techniques to manage proper quality, lower costs and improve profitability is one element of our business strategy, but we may not be able to achieve the targeted efficiencies, due to factors beyond our control. Damage or disruption to our manufacturing or distribution capabilities due to any of the following could impair our ability to make, manufacture, distribute, or sell our products: climate change; adverse weather conditions; natural disasters; fires; crop failures; epidemic; strikes; manufacturing problems; transportation issues; supply interruptions; government regulation; government action; infectious diseases; industrial accidents or other occupational health and safety issues; labor shortages; political instability; and terrorism. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition, and results of operations, as well as require additional resources to restore our supply chain.

(17) Risks related to management team and employees

Our continued growth requires us to hire, retain, and develop our leadership driven management team and highly skilled workforce. We must hire talented new employees and then train them and develop their skills and competencies. Any unplanned turnover or our failure to develop an adequate succession plan for current management positions could deplete our institutional knowledge base and erode our competitive advantage. Our operating results and financial position could be adversely affected by increased costs due to increased competition for employees, higher employee turnover, increased employee benefit costs or impediments to employee health, etc. that could arise from not being able to adequately perform labor management.

(18) Risks related to employee retirement benefit obligations

Our post-employment benefit expenses, post-employment benefit obligations and plan assets are calculated based on actuarial assumptions and estimates such as an assumed discount rate. A divergence of actual results from our assumptions or estimates, or a change in those assumptions and estimates, could adversely affect our results of operations and financial position.

(19) Risks related to information systems and services

We depend on key information systems and services to accurately and efficiently transact our business, interface with customers, provide information to management, and prepare financial reports, among other activities. In addition, we rely on third-party providers, including a subsidiary of Suntory Holdings Limited, for a number of key information systems and business processing services. Although we have implemented policies and procedures to increase the security of these systems and services, they are vulnerable to interruptions or other failures resulting from, among other things, hardware, software, equipment, or telecommunications defects and failures, processing errors, earthquakes and other natural disasters, terrorists attacks, computer virus infections, computer hacking, unauthorized access with malicious intentions, or any other security issues or supplier defaults. Security, backup, and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. In the event that such breakdowns or faults occur, this could adversely affect our results of operations and financial position.

(20) Risks related to legal compliance

We are subject to a variety of national and local laws and regulations in Japan, Europe, Asia, Oceania, the Americas, and the other regions in which we do business. These laws and regulations apply to many aspects of our business activities, including the manufacture, labeling, transportation, advertising, and sale of our products. In particular, if an accident or non-compliance with these laws or regulations results in environmental pollution, we could be subject to claims or sanctions and incur increased costs. Due to our global operations, we must also comply with anti-corruption provisions of Japanese law or foreign statutes. Violations of applicable laws or regulations could damage our reputation or result in regulatory or private actions with substantial penalties or damages. In addition, any significant change in such laws or regulations or their interpretation, or the introduction of higher standards or more stringent laws or regulations, could result in increased compliance costs.

Recently, a number of jurisdictions have introduced or have been considering measures such as special excise taxes and new labeling requirements, serving sizes, or other restrictions on the sale of sweetened soft drinks including carbonated soft drinks on health grounds. Although we believe our product portfolio has a much higher proportion of non-carbonated and healthy products as compared to other global beverage firms, any such regulatory measures could adversely affect our results of operations and financial position.

(21) Risks related to the reputation of our brands

Maintaining a good reputation globally is critical to selling our branded products. Product contamination or tampering; the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials and ingredients obtained from suppliers; allegations of product quality issues, mislabeling or contamination, even if untrue; or negative opinions spread by the mass media or on the internet, may harm our reputation and reduce demand for our products or cause production and sales disruptions. If any of our products fail to meet health or safety standards, cause injury to consumers or are mislabeled, we may have to engage in a product recall and/or be subject to liability. Furthermore, Suntory Holdings Limited and other Suntory Group companies not under our control also use the "Suntory" brand. Similar problems or compliance failures in Suntory Holdings Limited or other Suntory Group companies, or issues related to, for example, compliance at one of our contractors, could also contribute to negative perceptions of our brand. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition, and results of operations, as well as require additional resources to rebuild our reputation.

(22) Risks related to intellectual property

We license the "Suntory" brand from our Parent, Suntory Holdings Limited, and expect to continue to do so in the future. If our license is terminated, including because we are no longer a subsidiary of our Parent, our corporate image and marketing efforts could be impacted, and we could be required to make a significant investment in rebranding.

We also license various other trademarks from third parties and license our own trademarks to third parties.

For trademarks licensed from third parties, the licensor may terminate the license arrangement or other agreements.

Consequently, we may no longer be able to manufacture or sell the related products. The termination of any material license arrangement or other agreements could adversely affect our results of operations and financial position.

For trademarks licensed to third parties, problems could occur with respect to the use of trademarks and related products by these third parties. This could have an impact on our use of the trademarks and the reputation of our brands. In regions where we have not registered our trademarks, third parties may own or use the same or similar trademarks to our own. In the event that problems occur with respect to the use of trademarks or related products by these third parties, this could adversely affect our brands, and could have an impact on our results of operations and financial position.

We also possess other intellectual property that is important to our business. This intellectual property includes trademarks, copyrights, patents, and other trade secrets. We and third parties could come into conflict over intellectual property rights. Conflict could disrupt our business and cost a substantial amount to protect our rights or defend ourselves against claims. We cannot be certain that the steps we take to protect our rights will be sufficient or that others will not infringe or misappropriate our rights. If we are unable to protect our intellectual property rights, our brands, products, and business could be harmed.

(23) Risks associated with control by the Parent

As of 30 March, 2018, our Parent, Suntory Holdings Limited, owned 59.48% of the outstanding shares of our common stock, and accordingly, has control, or a veto right with respect to fundamental decisions such as election and removal of our Directors, the approval of joint ventures or other business reorganizations, the transfer of material businesses, amendments to our Articles of Incorporation, and the declaration of dividends.

Suntory Holdings Limited could continue to influence the determination of all matters that require the approval of the general meeting of shareholders, regardless of the intentions of other shareholders. Our management makes decisions independently of our Parent, with no matters requiring the Parent's prior approval.

1) Details on our main relationships with Suntory Holdings Limited and other subsidiaries are as follows:

Type of transaction	Counterparty	Amount (millions of yen)	Method used to determine transaction terms
Outsourcing of product shipping	Suntory Logistics Ltd.	23,784	Determined by discussions between the parties after considering the quality and market price of similar services
Payment of brand royalties	Suntory Holdings Limited	20,815	The rate of royalty was determined by discussions between the parties after considering the brand value and other factors
Purchase of coffee beans	Suntory Coffee Roastery LTD.	11,159	Determined by discussions between the parties after considering the quality and market price of similar products.

With respect to transactions with the Suntory Group, the legal affairs division and the accounting division confirm in advance the necessity of a transaction as well as the validity of its terms and conditions and the method of determination. In addition, from the standpoint of ensuring our independence from Suntory Holdings Limited, we engage in ample deliberation at Board of Directors meetings, attended by several independent Outside Directors, in regard to transactions that are deemed particularly important. These deliberations address the necessity and validity of such a transaction, and decisions are made upon the completion of the deliberations. Moreover, in regard to whether or not transactions based on the content of these deliberations are actually being carried out, the internal audit division conducts ex-post evaluations of the transaction's content and the Audit & Supervisory Committee performs audits. In this way, we have developed a framework to ensure sound and appropriate terms for transactions with the Suntory Group.

2) Posts held concurrently at Suntory Holdings Limited by our officers

Among our Directors, Director Nobuhiro Torii concurrently serves as Executive Vice President of Suntory Holdings Limited. This appointment was made in the hope that Mr. Torii's track record in bearing responsibility of the Group as Representative Director of the Company until March 2016, coupled with his abundant knowledge and experience in general management, will help further strengthen the functions of the Company's Board of Directors.

3) Acceptance of seconded personnel (employees) from Suntory Holdings Limited

Among our personnel, a certain number of full-time employees other than employees at the managerial level and above are seconded from Suntory Holdings Limited. As of December 31, 2017, there were approximately 260 employees seconded to us from Suntory Holdings Limited. In addition, all of our employees at the managerial level and above are registered with us. Employees seconded from Suntory Holdings Limited will become SBF employees upon promotion to the managerial level and above.

4) Trademarks, patents, and comprehensive licensing agreements

We have entered into a licensing agreement with Suntory Holdings Limited regarding our use of the "Suntory" corporate brand. Based on this agreement, we are licensed to use the "Suntory" name and brand. Under the terms of the agreement, our use of the "Suntory" brand remains effective as long as we remain part of the Suntory Group. Based on the agreement, we are paying brand royalties to Suntory Holdings Limited.

Also, for the Suntory Group to facilitate the effective use of intellectual property rights and promote optimization by focusing on maintaining these rights, Suntory Holdings Limited holds a portion of the intellectual property rights such as patents, designs, and trademarks related to our business and we are granted exclusive licensing rights, etc., by Suntory Holdings Limited. We do not pay Suntory Holdings Limited royalties for the aforementioned exclusive licensing rights, etc. Furthermore, were this arrangement to come to an end, these intellectual property rights would be transferred without compensation from Suntory Holdings Limited to us.

Consolidated Statement of Financial Position

Suntory Beverage & Food Limited and its subsidiaries
As at December 31, 2017

Millions of yen

	Notes	Transition date (January 1, 2016)	2016	2017
ASSETS				
Current assets:				
Cash and cash equivalents		97,718	84,096	113,883
Trade and other receivables	7, 31	174,535	176,781	176,653
Other financial assets	8, 31	629	376	11,793
Inventories	9	81,642	73,985	81,015
Other current assets	10	21,161	23,818	25,487
Subtotal		375,687	359,057	408,832
Assets held for sale	11	96	—	22,081
Total current assets		375,783	359,057	430,914
Non-current assets:				
Property, plant and equipment	12	374,435	362,342	354,216
Goodwill	13	253,142	245,481	254,025
Intangible assets	13	469,404	411,356	432,814
Investments accounted for using the equity method	14	3,721	3,745	1,233
Other financial assets	8, 31	12,820	13,531	20,460
Deferred tax assets	15	10,202	12,206	12,701
Other non-current assets	10	17,053	13,677	15,663
Total non-current assets		1,140,781	1,062,340	1,091,115
Total assets		1,516,565	1,421,398	1,522,029

See notes to consolidated financial statements.

Millions of yen

	Notes	Transition date (January 1, 2016)	2016	2017
LIABILITIES AND EQUITY				
Liabilities:				
Current liabilities:				
Bonds and borrowings	16, 31	113,649	72,239	95,654
Trade and other payables	18, 31	276,515	281,545	289,521
Other financial liabilities	17, 19, 31	28,720	31,802	32,678
Accrued income taxes		13,138	15,849	18,773
Provisions	21	2,542	2,147	1,385
Other current liabilities		7,330	9,886	8,860
Subtotal		441,896	413,470	446,873
Liabilities directly associated with assets held for sale	11	—	—	6,215
Total current liabilities		441,896	413,470	453,088
Non-current liabilities:				
Bonds and borrowings	16, 31	298,743	239,283	211,375
Other financial liabilities	17, 19, 31	30,349	23,677	25,306
Post-employment benefit liabilities	20	8,920	11,214	11,888
Provisions	21	3,191	2,954	2,913
Deferred tax liabilities	15	62,519	62,688	66,001
Other non-current liabilities		6,298	5,294	5,253
Total non-current liabilities		410,023	345,112	322,738
Total liabilities		851,919	758,583	775,827
Equity:				
Share capital	22	168,384	168,384	168,384
Share premium	22	191,233	182,326	182,404
Retained earnings	22	259,401	309,582	364,274
Other components of equity	22	(1,365)	(51,507)	(24,625)
Total equity attributable to owners of the Company (Note 1)		617,653	608,784	690,437
Non-controlling interests		46,991	54,030	55,763
Total equity		664,645	662,815	746,201
Total liabilities and equity		1,516,565	1,421,398	1,522,029

See notes to consolidated financial statements.

Consolidated Statement of Profit or Loss

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2017

Millions of yen

	Notes	2016	2017
Revenue	6	1,209,149	1,234,008
Cost of sales	9, 12, 13, 20	(677,365)	(697,789)
Gross profit		531,783	536,219
Selling, general and administrative expenses	12, 13, 20, 24	(412,210)	(412,444)
Gain on investments accounted for using the equity method	14	665	447
Other income	13, 25	3,959	5,862
Other expenses	12, 13, 26	(12,332)	(12,129)
Operating income	6	111,865	117,955
Finance income	27, 31	559	871
Finance costs	27, 31	(4,619)	(4,384)
Profit before tax		107,804	114,442
Income tax expense	15	(29,254)	(28,267)
Profit for the year		78,549	86,175
Profit attributable to:			
Owners of the Company (Note 1)		71,501	78,112
Non-controlling interests		7,048	8,062
PROFIT FOR THE YEAR		78,549	86,175

Yen

	Note	2016	2017
Earnings per share	29	231.4	252.79

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2017

Millions of yen

	Notes	2016	2017
PROFIT FOR THE YEAR		78,549	86,175
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial assets	28, 31	—	388
Remeasurement of post-employment benefit plans	20, 28	(1,735)	755
Total	28	(1,735)	1,144
Items that may be reclassified to profit or loss:			
Translation adjustments of foreign operations	28	(49,224)	24,913
Changes in the fair value of cash flow hedges	28, 31	(200)	512
Changes in the fair value of available-for-sale securities	28	123	—
Changes in comprehensive income of investments accounted for using the equity method	14, 28	(200)	66
Total	28	(49,501)	25,492
Other comprehensive income (loss) for the year, net of tax	28	(51,237)	26,637
Comprehensive income for the year		27,311	112,812
Comprehensive income attributable to:			
Owners of the Company (Note 1)		21,359	105,776
Non-controlling interests		5,952	7,036
Comprehensive income for the year		27,311	112,812

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2017

Millions of yen

	Notes	Attributable to owners of the Company (Note 1)					Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Other components of equity	Total		
BALANCE AT JANUARY 1, 2016		168,384	191,233	259,401	(1,365)	617,653	46,991	664,645
Profit for the year				71,501		71,501	7,048	78,549
Other comprehensive loss					(50,142)	(50,142)	(1,095)	(51,237)
Total comprehensive income (loss) for the year		—	—	71,501	(50,142)	21,359	5,952	27,311
Dividends	23			(21,321)		(21,321)	(3,858)	(25,179)
Transactions with non-controlling interests			(8,907)			(8,907)	4,944	(3,963)
Total transactions with owners of the Company (Note 1)		—	(8,907)	(21,321)	—	(30,228)	1,085	(29,142)
BALANCE AT DECEMBER 31, 2016		168,384	182,326	309,582	(51,507)	608,784	54,030	662,815
Cumulative effect of adopting new accounting standards					(716)	(716)	0	(716)
BALANCE AT JANUARY 1, 2017		168,384	182,326	309,582	(52,224)	608,068	54,030	662,098
Profit for the year				78,112		78,112	8,062	86,175
Other comprehensive income (loss)					27,663	27,663	(1,026)	26,637
Total comprehensive income for the year		—	—	78,112	27,663	105,776	7,036	112,812
Dividends	23			(23,484)		(23,484)	(5,397)	(28,881)
Transactions with non-controlling interests			77			77	95	172
Reclassifications to retained earnings	8			64	(64)	—		—
Total transactions with owners of the Company (Note 1)		—	77	(23,419)	(64)	(23,406)	(5,302)	(28,708)
BALANCE AT DECEMBER 31, 2017		168,384	182,404	364,274	(24,625)	690,437	55,763	746,201

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2017

Millions of yen

	Notes	2016	2017
Cash flows from operating activities			
Profit before tax		107,804	114,442
Depreciation and amortization		62,347	63,934
Impairment losses		537	184
Interest and dividends income		(499)	(871)
Interest expense		4,380	2,724
Gain on investments accounted for using the equity method		(665)	(447)
(Increase) decrease in inventories		5,373	(7,887)
Increase in trade and other receivables		(10,674)	(1,425)
Increase in trade and other payables		10,125	6,453
Other		13,410	3,446
Subtotal		192,141	180,554
Interest and dividends received		500	833
Interest paid		(4,833)	(2,813)
Income tax paid		(24,724)	(29,061)
Net cash inflow from operating activities		163,083	149,513
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(51,793)	(55,339)
Proceeds on sale of property, plant and equipment and intangible assets		2,651	787
Payments for business acquisition		(8,088)	—
Other	13	(232)	1,593
Net cash outflow used in investing activities		(57,461)	(52,958)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	30	(1,291)	8,751
Proceeds from long-term borrowings	30	27,790	26,642
Repayment of long-term borrowings	30	(105,128)	(61,905)
Payments of finance lease liabilities	30	(9,509)	(8,404)
Dividends paid to owners of the Company (Note 1)	23	(21,321)	(23,484)
Dividends paid to non-controlling interests		(3,858)	(5,397)
Payments for acquisition of shares of subsidiaries		(3,808)	(171)
Other		—	374
Net cash outflow used in financing activities		(117,126)	(63,593)
Net increase (decrease) in cash and cash equivalents		(11,505)	32,961
Cash and cash equivalents at the beginning of the year		97,718	84,096
Effects of exchange rate changes on cash and cash equivalents		(2,117)	265
Cash and cash equivalents included in assets held for sale	11	—	(3,439)
Cash and cash equivalents at the end of the year		84,096	113,883

See notes to consolidated financial statements.

1. Reporting entity

Suntory Beverage & Food Limited (the "Company") is a company incorporated in Japan and listed in the first section of the Tokyo Stock Exchange. The Company is a 59.48% owned subsidiary of Suntory Holdings Limited (the "Parent"), a non-listed holdings company that was established on February 16, 2009, through a stock transfer from Suntory Limited (currently, Suntory Spirits Limited), a company founded in Japan in 1899. The Parent and its subsidiaries (together, the "Suntory Group") produce and distribute various popular brands of beverages in various alcoholic and non-alcoholic beverage and food categories. Kotobuki Realty Co., Ltd. is the ultimate parent company of the Suntory Group. The Company was established on January 23, 2009, and commenced the non-alcoholic beverage and food business of the Suntory Group on April 1, 2009. Such business was transferred to the Company by way of corporate split with Suntory Limited in connection with the reorganization of the Suntory Group, which adopted the holdings company structure mentioned above. The addresses of its registered office and location of principal offices are disclosed on our website (URL http://www.suntory.co.jp/softdrink/). The Company and its subsidiaries (the "Group") operates the beverage and food segment of the Suntory Group by manufacturing and distribution of the products. Principal activities of the Group are described in "Note 6. Segment information."

2. Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements were approved by the President & Chief Executive Officer and Managing Executive Officer & Senior General Manager of Global Finance Department on March 19, 2018. The Group has adopted IFRSs from the year ended December 31, 2017, and the consolidated financial statements for the year ended December 31, 2017 are the first consolidated financial statements prepared in accordance with IFRSs. The date of transition to IFRSs is January 1, 2016. The effect of the transition to IFRSs on the Group's financial position, profit or loss, and cash flows on the transition date and as at December 31, 2016 is described in "Note 37. First-time adoption."

The Group's accounting policies have complied with IFRSs effective on December 31, 2017, except for IFRSs which have not been early adopted by the Group and for the exemptions allowed by the provisions of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The exemptions used by the Group are described in "Note 37. First-time adoption." The Group's consolidated financial statements are prepared on the cost basis, except for the financial instruments and other items that are measured at fair value as described in "Note 3. Significant accounting policies."

3. Significant accounting policies

(1) Basis of consolidation

The Group's consolidated financial statements with the fiscal closing date of December 31 are composed of the Company and its 102 subsidiaries (101 as at December 31, 2016) together with the Group's attributable share of the results of 9 associates (12 as at December 31, 2016) and 0 joint ventures (2 as at December 31, 2016).

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group's subsidiaries are included in the scope of consolidation, which begins when it obtains control over a subsidiary and ceases when it loses control of the subsidiary. Disposal of the Group's ownership interests in a subsidiary that does not result in the Group losing control over the subsidiaries is accounted for as an equity transaction. Any difference between the amount of an adjustment to the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and is attributed to owners of the Company. Non-controlling interests of the subsidiaries are identified separately from ownership interests attributable to the Group. Comprehensive income of subsidiaries is attributed to owners of the Company and non-controlling interests, even when comprehensive income attributed to non-controlling interests results in a negative balance.

An associate is an entity over which the Group has significant influence over the financial and operating policy of the associate, but does not have control. Investments in an associate are initially recognized at cost upon the acquisition and are subsequently accounted for using the equity method. Investments in an associate include goodwill recognized upon the acquisition, net of accumulated impairment losses.

A joint venture is an entity jointly controlled by two or more parties including the Group under the contractually agreed sharing of control of an arrangement over economic activities of the joint venture, which exists only when decisions for strategic financial and operating decisions related to relevant activities require unanimous consent of the parties sharing control. A joint venture of the Group is accounted for using the equity method.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the acquisition-date fair values of the assets transferred, liabilities assumed and the equity financial instruments issued by the Company in exchange for control of the acquiree. Excess of the acquisition cost over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill in the consolidated statement of financial position. Conversely, any excess of the Group's share of the net fair value of the identifiable assets and liabilities of the investee over the acquisition cost is immediately recognized as income in the consolidated statement of profit or loss. The Group accounts for the acquisition of additional non-controlling interests as an equity transaction, and accordingly, it does not recognize goodwill attributable to such transactions.

Identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for the following:

- Deferred tax assets or liabilities and assets or liabilities associated with employee benefit arrangements; and
- Assets or disposal groups that are classified as held for sale in accordance with IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations*.

Transaction costs that are directly attributable to a business combination, such as agent, legal, and due diligence fees, are expensed as incurred.

(3) Foreign currencies

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the separate financial statements of each entity, a transaction denominated in a currency other than the entity's functional currency is translated into its functional currency using the exchange rate that approximates the exchange rate prevailing at the date of the transaction. The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. Amounts presented in the consolidated financial statements are rounded down to the nearest million yen.

Assets and liabilities of the Group's foreign operations are translated into Japanese yen using exchange rates prevailing at the reporting date ("Closing rates"). Income and expense items are translated into Japanese yen at the average exchange rates for the reporting period, unless any significant change occurs ("Average rates"). Any exchange differences arising from translation of the financial statements of the Group's foreign operations are recognized in other comprehensive income. Any exchange differences arising from translation of the Group's foreign operation disposed are recognized in profit or loss for the reporting period in which that foreign operation is disposed of.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing at the reporting date. Any exchange differences arising from translation or settlement of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. However, exchange differences arising from translation or settlement of financial assets measured at fair value through other comprehensive income (FVTOCI) and cash flow hedges are recognized in other comprehensive income.

The exchange rates between principal foreign currencies and the Japanese yen that were used for the transition date and the years ended December 31, 2016 and 2017 were as follows:

Yen

	Transition date (January 1, 2016)	2016	2017
U.S. Dollar:			
Average rates	—	108.8	112.2
Closing rates	120.6	116.5	113.0
Euro:			
Average rates	—	120.2	126.7
Closing rates	131.8	122.7	134.9
Pound Sterling:			
Average rates	—	147.5	144.5
Closing rates	178.8	143.0	152.0
Singapore Dollar:			
Average rates	—	78.7	81.3
Closing rates	85.4	80.6	84.5
Thai Baht:			
Average rates	—	3.1	3.3
Closing rates	3.3	3.2	3.5
Vietnam Dong:			
Average rates	—	0.0049	0.0049
Closing rates	0.0054	0.0051	0.0050
New Zealand Dollar:			
Average rates	—	75.7	79.7
Closing rates	82.9	81.2	80.2
Australian Dollar:			
Average rates	—	80.8	86.0
Closing rates	87.9	84.4	88.2

(4) Financial instruments

a. Financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade and other receivables at the originated date. Other financial assets are initially recognized at the transaction date when the Group becomes a party to the contractual provision for the financial instruments. Financial assets are classified into the following specific categories; financial assets measured at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI) and financial assets measured at amortized cost. The classification is determined at the initial recognition.

All financial assets, excluding financial assets classified as measured at FVTPL, are measured at their fair value plus transaction costs. Financial assets are classified as measured at amortized cost if both of the following conditions are met:

- The financial assets are held within a business model whose objective is to hold the asset in order to collect contractual cash flows; and
- 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.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value. For financial assets measured at fair value other than equity instruments held for trading that should be measured at FVTPL, each equity instrument is designated as measured at FVTPL or FVTOCI. Such designation is continuously applied.

(ii) Subsequent measurement

Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost, using the effective interest method. Financial assets measured at fair value are remeasured at fair value. Any gain or loss on financial assets measured at fair value is recognized in profit or loss. However, changes in the fair value of equity instruments designated as measured at FVTOCI are recognized in other comprehensive income and the changes are reclassified to retained earnings when equity instruments are derecognized or when there is a significant decline in their fair value. Dividends from such financial assets are recognized as part of finance income in profit or loss for the year.

(iii) Impairment

For impairment of financial assets measured at amortized cost, the Group recognizes a loss allowance against expected credit losses on such financial assets. At each reporting date, financial assets are assessed whether there has been a significant increase in credit risk of the financial asset subsequent to initial recognition.

If the credit risk on financial assets has not increased significantly subsequent to initial recognition, a loss allowance is measured at an amount equal to 12-months of expected credit losses. On the other hand, if the credit risk on financial assets has increased significantly subsequent to initial recognition, a loss allowance is measured at an amount equal to the lifetime expected credit losses. However, a loss allowance for trade and other receivables is always measured at an amount equal to the lifetime expected credit losses. Expected credit losses on financial assets are assessed based on objective evidence which reflects changes in credit information, and past due information of receivables. An impairment loss is recognized in profit or loss. If any event resulting in a decrease of impairment losses occurs after the recognition of impairment losses, impairment gains are recognized through profit or loss. The carrying amount of financial assets, net of any cumulative impairment losses, presented in the consolidated financial statements represents the maximum exposure to credit risk of the Group's financial assets, without considering value of associated collaterals obtained.

(iv) Derecognition

The Group derecognizes financial assets when the contractual rights of the cash flows from the assets expire, or when it substantially transfers all the risks and rewards of ownership of the assets to another party. If the Group continues to control the transferred assets, the Group continues to recognize the asset and related liabilities to the extent of its continuing involvement.

b. Financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes bonds and borrowings at the issuance date, and other financial liabilities at the transaction date. Financial liabilities are classified into either subsequently measured at FVTPL or amortized cost. The classifications are determined at initial recognition. All of the financial liabilities are initially measured at fair value and any directly attributable transaction costs are further deducted from the fair value of financial liabilities measured at amortized cost.

(ii) Subsequent measurement

Financial liabilities measured at FVTPL include those held for trading purposes and those designated as measured at FVTPL upon initial recognition. Such financial liabilities measured at FVTPL are subsequently measured at fair value, with changes recognized in profit or loss for the reporting period. Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. A gain or loss on financial liabilities no longer amortized using the effective interest method and derecognized is recognized as part of finance costs in profit or loss for the reporting period.

(iii) Derecognition

Financial liabilities are derecognized when they are extinguished, i.e., when the obligations specified in the contract are discharged, cancelled or expired.

c. Presentation of financial assets and liabilities

Financial assets and liabilities are presented at their net amount in the consolidated statement of financial position only when the Group has a legally enforceable right to offset the financial asset and liability balances and it intends either to settle on a net basis or to realize financial assets and settle financial liabilities simultaneously.

d. Derivatives and hedge accounting

The Group utilizes derivatives, such as foreign exchange contracts and interest rate swap contracts to hedge foreign exchange and interest rate risks, respectively. Derivatives are initially measured at fair value upon execution of a contract and are subsequently remeasured at fair value.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship to which it applies hedge accounting and its risk management objective and strategy for undertaking the hedge. That documentation includes identification of a specific hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will test the effectiveness of changes in fair value of the hedging instrument in offsetting the exposure to fair value or cash flow changes of the hedged item attributable to the hedged risks. These hedges are presumed to be highly effective in offsetting fair value or cash flow changes. Further, continuing assessments are made as to whether the hedges are highly effective over all of the reporting periods of such designation.

If the hedging relationship does not meet the hedge effectiveness requirements in terms of hedge ratios due to a change in an economic relationship between the hedged item and the hedging instrument, despite that the risk management objective remains unchanged, the hedge ratio will be adjusted to meet the hedge effectiveness requirement. If the hedging relationship no longer meets the hedge effectiveness requirement in spite of the hedge ratio adjustment, hedge accounting is discontinued for the portion of the hedge relationship that no longer meets the requirement.

The hedges that meet the hedge accounting criteria are classified and are accounted for under IFRS 9 as follows:

(i) Fair value hedges

Changes in the fair value of the hedging instrument are recognized in profit or loss in the consolidated statement of profit or loss. However, changes in fair value of a hedged item that is an equity instrument designated as measured at FVTOCI are recognized in other comprehensive income in the consolidated statement of comprehensive income. For changes in fair value of the hedged item attributable to the risk being hedged, such changes are adjusted with the carrying amount of the hedged item and are recognized in profit or loss in the consolidated statement of profit or loss. However, changes in fair value of an equity instrument with an election to present such changes in other comprehensive income are recognized in other comprehensive income in the consolidated statement of comprehensive income.

(ii) Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income in the consolidated statement of comprehensive income. The portion of the gain or loss on the hedging instrument that is hedge ineffective is immediately recognized in profit or loss in the consolidated statement of profit or loss. The amount of the hedging instrument recognized in other comprehensive income is reclassified to profit or loss at the point a hedged future transaction affects profit or loss. If the hedged item gives rise to the recognition of a non-financial asset or liability, the amount recognized in other comprehensive income is removed to adjust the original carrying amount of the non-financial asset or liability.

If a forecasted hedge transaction or firm commitment is no longer expected to arise, the cumulative gains and losses previously recognized in equity through other comprehensive income are reclassified to profit or loss. If hedged future cash flows are still expected to arise, the cumulative gains and losses previously recognized in equity through other comprehensive income remain in equity until such future cash flows arise.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks that can be withdrawn at any time, and short-term investments with a maturity of three months or less from the acquisition date, which are readily convertible into cash and are exposed to insignificant risk in changes in value.

(6) Inventories

Inventories are stated at the lower of cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs necessary to make the sale. The cost of inventories is principally determined using the average basis, comprising all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition.

(7) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment comprises any costs directly attributable to the acquisition of the item, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located and borrowing costs that should be capitalized. Depreciation on an item of property, plant and equipment, other than land and construction in progress, are recognized on a straight-line basis over its estimated useful life. The range of estimated useful lives by major asset item are as follows:

• Buildings and structures	5 to 50 years
• Machinery, equipment and vehicles	2 to 17 years
• Tools, furniture and fixtures	2 to 15 years

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date. Any changes are treated as a change in accounting estimate and is accounted for prospectively.

(8) Intangible assets

Intangible assets are measured at cost at initial recognition. Upon initial recognition, intangible assets, exclusive of intangible assets with indefinite useful lives, are amortized on a straight-line basis over their estimated useful lives, and are stated at their carrying amounts, i.e., at cost less accumulated amortization and any accumulated impairment losses.

The estimated useful lives of principal intangible assets with definite useful lives are as follows:

• Trademarks	20 years
• Computer software	2 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each reporting period. Any changes are treated as a change in accounting estimates and is accounted for prospectively.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment in each reporting period, or whenever there is any indication of impairment.

Goodwill is measured at the acquisition date as the excess of the aggregate of the consideration transferred, the value of any non-controlling interests and the fair value of any previously held equity interest in the subsidiary acquired over the fair value of the identifiable net assets (i.e., net of identifiable assets acquired and the liabilities assumed). Goodwill is not amortized, but is tested for impairment in each reporting period, or whenever there is any indication of impairment.

(9) Leases

Where the Group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is classified as a finance lease. Assets held under a finance lease are initially recognized at the lower of the fair value of leased assets and the present value of minimum lease payments, which are determined at the inception of the lease. Subsequent to the initial recognition, the leased asset is depreciated over the shorter of its estimated useful life and its lease term based on the applicable accounting policies for the asset. Lease payments under finance lease are allocated to finance costs and the repayment of the lease obligations based on the interest method. Finance costs are expensed in the consolidated statement of profit or loss.

Other leases are classified as operating leases. Lease payments for an operating lease transaction are recognized as an expense on a straight-line basis over the lease term in the consolidated statement of profit or loss.

(10) Impairment of non-financial assets

The carrying amount of a non-financial asset of the Group, exclusive of inventories and deferred tax assets, is assessed at each reporting date to test whether there is any indication that the asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Further, the recoverable amount is estimated annually at the same time every year for goodwill and intangible assets with indefinite useful lives and intangible assets that are not yet available for use.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. Non-financial assets not tested for impairment on an individual basis are grouped into the smallest cash-generating unit that generates cash inflows from the continuing use of the asset, which are largely independent of those from other assets or asset groups. In performing impairment testing on goodwill, an entity groups cash-generating units to which goodwill is allocated to enable performing impairment testing in a manner that reflects the smallest unit to which it relates. Goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination. Corporate assets of the Group do not generate independent cash inflows. If there is any indication that a corporate asset may be impaired, the recoverable amount of the cash-generating unit to which the corporate asset belongs is determined.

Impairment loss is recognized in profit or loss when the carrying amount of an asset or cash generating unit is greater than its recoverable amount. An impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses recognized for goodwill are not reversed subsequently. Impairment losses recognized for other assets are assessed at each reporting date whether there is any indication that they may no longer exist or may have decreased. If there is a change in the estimates used to determine the recoverable amount of an asset, an entity reviews the recoverable amount of the asset and reverses an impairment loss for the asset. An impairment loss is reversed to the extent of carrying amount that would have been determined, net of any amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

(11) Post-employment benefit plans

The Company and certain subsidiaries established post-employment benefit plans for their employees: defined benefit and defined contribution plans. The present value of defined benefit obligations, related current service cost and, where applicable, past service cost are determined using the projected unit credit method. The discount rate is determined by reference to market yields at each reporting date on high quality corporate bonds corresponding to a discount period that is defined based on the period to the date of expected future benefit payment for each year. Net defined benefit liability (asset) is determined as the present value of defined benefit obligation less the fair value of plan assets (if any). Remeasurements of the net defined benefit liability (asset) are recognized collectively in other comprehensive income for the period in which they are incurred. The past service cost is accounted for as profit or loss for the period in which it is incurred.

Expenses related to defined contribution benefits are recognized when related services are rendered.

(12) Provisions

A provision is recognized only when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is measured at the present value of estimated future cash outflows discounted using a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

(13) Revenue

The Group is engaged in manufacturing and sale of soft drinks and foods. Revenue from the sale of such goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing involvement nor effective control over the goods, it is probable the economic benefits associated with the transaction will flow to the Group and the economic benefits and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received less any trade discounts, rebates and taxes collected on behalf of third parties, such as consumption tax or value added tax. Interest income is recognized using the effective interest method.

(14) Government grant

The Group measure and recognize grant revenue at its fair value when there is reasonable assurance that an entity will comply with the conditions attached to them and will receive the grants. The grants received to compensate costs incurred are recognized as revenue in the period in which such costs are incurred. The grants related to the acquisition of an asset is deducted from the carrying amount of the asset.

(15) Corporate income tax

Corporate income tax is comprised of current and deferred tax. Current and deferred tax is recognized through profit and loss, except for those that arise from a business combination or are recognized in other comprehensive income or directly in equity.

Current tax is measured at the amount expected to be paid to (collected from) the taxation authorities. The amount of current tax is determined based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in each tax jurisdiction where the Group owns the business activities and earns taxable profit (or loss). Deferred tax is recognized for the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their value for tax purposes as at the reporting date, as well as the carryforward of unused tax losses and unused tax credits.

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

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising on initial recognition of an asset or liability arising in a transaction other than business combinations and affects neither accounting profit nor taxable profit;
- Deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangement, to the extent it is probable that the temporary difference will not reverse in the foreseeable future; and
- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangement, to the extent it is probable that the Group is able to control the timing of the reversal of the temporary difference, and the temporary difference will not reverse in the foreseeable future.

A deferred tax liability is principally recognized for all taxable temporary differences and a deferred tax asset is recognized for all deductible temporary differences to the extent it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets are reviewed in each period and are adjusted to the extent it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are also reviewed in each period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to be applied in the period when the asset is realized or liability is settled, based on statutory tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are netted when the entity has a legally enforceable right to offset current tax assets and liabilities, and the deferred tax balances relate to the same taxation authority.

An asset or liability is recognized for uncertain tax positions at the estimated amount expected to arise from the uncertain tax position if it is probable that the position will result in a payment (or redemption) of taxes.

(16) Earnings per share

Earnings per share is calculated by the profit or loss attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares issued.

(17) Assets held for sale

The Group classifies an asset or asset group that will be recovered principally through a sales transaction rather than through continuing use as assets held for sale, only when its sale must be highly probable within one year, the asset or asset group is available for immediate sale in its present condition and the appropriate level of management of the Group is committed to a plan to sell the asset or asset group. The assets held for sale are not depreciated or amortized, and is measured at the lower of its carrying amount and the fair value less costs to sell.

(Early adoption of new accounting standards)

The Group has early adopted IFRS 9 *Financial Instruments* (as revised in July 2014; "IFRS 9") from January 1, 2017. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") upon its effective date.

The Group has applied the exemption provisions under IFRS 1 for IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") and IFRS 9. Therefore, the previous accounting standard (i.e., generally accepted accounting principles in Japan, hereafter "Japanese GAAP") has been applied to the Group's opening IFRSs statement of financial position and to the comparative period. Therefore, "Note 31. Financial instruments" as at transition date (January 1, 2016) and December 31, 2016 is not prepared.

Major effects of the early adoption are summarized as follows. Please see "Note 3. Significant accounting policies (4)" for the Group's detailed accounting policy under IFRS 9.

(1) Under Japanese GAAP, the nature of the instruments or the purpose of the investment determines the selection of the measurement approach for financial assets and liabilities. As a result of adoption of IFRS 9, financial instruments are reclassified and remeasured in line with the classification requirements (i.e., amortized cost or fair value) based on the condition of those instruments.

(2) Under Japanese GAAP, hedge transactions that qualify for hedge accounting are generally measured at fair value at the balance sheet date and a net unrealized gain (loss) is deferred until their maturity. Transactions utilized to hedge foreign currency exposures are translated at the contractual rates if they qualify for hedge accounting, as well as interest exposures are measured at the interest-rate swap rate. As a result of adoption of IFRS 9, hedge qualification requirements (for hedged items and hedging instruments) and the hedge effectiveness requirements have been revised.

(3) Under Japanese GAAP, the allowance for doubtful accounts is measured based on the historical credit loss experience and an evaluation of potential losses for the overdue or doubtful receivables. As a result of adoption of IFRS 9, impairment model on the expected credit loss has been implemented and measurement approach of impairment has been revised.

The impact of early adoption of IFRS 9 as at January 1, 2017 to the Group's financial statements was as follows:

Millions of yen

	Notes	Before adoption	Effect of IFRS 9	After adoption
ASSETS				
Current assets:				
Cash and cash equivalents		84,096	—	84,096
Trade and other receivables	(3)	176,781	—	176,781
Other financial assets	(2), (3)	376	5,107	5,483
Inventories	(2)	73,985	0	73,986
Other current assets		23,818	—	23,818
Total current assets		359,057	5,108	364,166
Non-current assets:				
Property, plant and equipment		362,342	—	362,342
Goodwill		245,481	—	245,481
Intangible assets		411,356	—	411,356
Investments accounted for using the equity method		3,745	—	3,745
Other financial assets	(1), (2), (3)	13,531	21,832	35,364
Deferred tax assets	(1), (2)	12,206	600	12,807
Other non-current assets	(1)	13,677	(103)	13,574
Total non-current assets		1,062,340	22,330	1,084,670
Total assets		1,421,398	27,438	1,448,837

Millions of yen

	Notes	Before adoption	Effect of IFRS 9	After adoption
LIABILITIES AND EQUITY				
Liabilities:				
Current liabilities:				
Bonds and borrowings	(2)	72,239	5,099	77,338
Trade and other payables	(2)	281,545	64	281,610
Other financial liabilities	(2)	31,802	33	31,835
Accrued income taxes		15,849	—	15,849
Provisions		2,147	—	2,147
Other current liabilities		9,886	—	9,886
Total current assets		413,470	5,197	418,667
Non-current liabilities:				
Bonds and borrowings	(1), (2)	239,283	20,719	260,003
Other financial liabilities	(2)	23,677	1,956	25,634
Post-employment benefit liabilities		11,214	—	11,214
Provisions		2,954	—	2,954
Deferred tax liabilities	(1)	62,688	281	62,970
Other non-current liabilities		5,294	—	5,294
Total non-current liabilities		345,112	22,958	368,071
Total liabilities		758,583	28,155	786,738
Equity:				
Share capital		168,384	—	168,384
Share premium		182,326	—	182,326
Retained earnings		309,582	—	309,582
Other components of equity	(1), (2)	(51,507)	(716)	(52,224)
Total equity attributable to owners of the Company		608,784	(716)	608,068
Non-controlling interests		54,030	(0)	54,030
Total equity		662,815	(716)	662,098
Total liabilities and equity		1,421,398	27,438	1,448,837

Notes in the above table are correspondent to the aforementioned major effects of the early adoption.

4. Critical accounting estimates and judgements

During the process of preparation of the consolidated financial statements in accordance with IFRSs, management is required to make judgements, estimates and assumptions. These judgements, estimates and assumptions may affect application of the Group's accounting policies, amount of assets, liabilities, revenue and expenses. However, actual results could differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of a change in accounting estimates are recognized prospectively from the period in which the estimate is revised.

The following are the judgements and estimates that management has made and that have significant effect on the amounts in the consolidated financial statements:

- Estimates used for impairment of properties, plant and equipment, intangibles and goodwill (Notes 3. Significant accounting policies (10), 12. Property, plant and equipment, and 13. Goodwill and intangible assets)
- Measurement of post-employment obligations (Notes 3. Significant accounting policies (11) and 20. Post-employment benefit plants)
- Judgements and estimates made for the recognition and measurement of provisions (Notes 3. Significant accounting policies (12) and 21. Provisions)
- Judgements made for assessing the recoverability of deferred tax assets (Notes 3. Significant accounting policies (15) and 15. Income tax expense)
- Judgements made in determining whether the Group controls another entity (Notes 3. Significant accounting policies (1) and 14. Investments accounted for using the equity method associates and joint ventures)
- Fair value of financial instruments (Notes 3. Significant accounting policies (4) and 31. Financial instruments (4))
- Estimates used for residual value and useful life of property, plant and equipment and intangible assets (Notes 3. Significant accounting policies (7)(8), 12. Property, plant and equipment, and 13. Goodwill and intangible assets)
- Measurement of the fair value of assets acquired and the liabilities assumed in a business combination (Note 3. Significant accounting policies (2)).

5. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations or amendments have been published by the date of authorization for the issuance of the consolidated financial statements that are not mandatory for the reporting period and have not been early adopted by the Group. The Group assessed the impact of initial adoption of "IFRS 15 *Revenue from Contracts with Customers*" is not material, and is currently assessing the impact of initial adoption of "IFRS 16 Leases."

IFRSs		Mandatory adoption on or after	Date of adoption by the Group	Nature of the new standards or amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	January 1, 2018	Establishment of an accounting standard for revenue recognition
IFRS 16	Leases	January 1, 2019	January 1, 2019	Establishment of an accounting standard for lease contracts

6. Segment information

The reportable segments are components of the Group for which separate financial information is available and regularly reviewed by the Board of Directors to make decisions about the allocation of resources and to assess segment performance.

The Group primarily manufactures and distributes soft drinks and foods. The Company, together with its manufacturing and sales subsidiaries, operates in the domestic market, and its regional subsidiaries operate in overseas markets. Therefore, the Group comprises of five reportable segments: "Japan business," "Europe business," "Asia business," "Oceania business," and "Americas business." The accounting policies of the reportable segments are the same as the Group's accounting policies described in "Note 3. Significant accounting policies." The intersegment transactions are considered on an arm's length basis.

The Group operates in a single business, the manufacturing and distribution of soft drinks and foods; therefore financial information by product and service is not prepared.

Profit or loss for each reportable segment of the Group were as follows:

Year ended December 31, 2016

Millions of yen

	Reportable segment					Segment total	Reconciliations	Consolidated
	Japan	Europe	Asia	Oceania	Americas			
Revenue:								
External customers	687,839	229,374	164,506	41,201	86,227	1,209,149	—	1,209,149
Intersegment	6	1,897	172	4	—	2,080	(2,080)	—
Total revenue	687,845	231,271	164,678	41,206	86,227	1,211,230	(2,080)	1,209,149
Segment profit	54,536	33,602	17,239	5,811	11,329	122,520	(10,654)	111,865
(Depreciation and amortization expense)	37,374	9,036	8,138	1,569	3,420	59,540	2,807	62,347

Year ended December 31, 2017

Millions of yen

	Reportable segment					Segment total	Reconciliations	Consolidated
	Japan	Europe	Asia	Oceania	Americas			
Revenue:								
External customers	689,192	238,943	177,064	42,767	86,040	1,234,008	—	1,234,008
Intersegment	3	1,367	563	6	—	1,940	(1,940)	—
Total revenue	689,195	240,311	177,627	42,773	86,040	1,235,948	(1,940)	1,234,008
Segment profit	57,309	34,580	23,180	5,012	9,298	129,382	(11,426)	117,955
(Depreciation and amortization expense)	36,644	9,618	9,108	1,943	3,652	60,968	2,966	63,934

"Reconciliations" to segment profit represent overhead costs incurred by the Company to manage the Group's operations and are not allocated to each reportable segment. Segment profit agrees with operating income presented in the consolidated statement of profit or loss.

Major countries included in each reportable segment are as follows:

Japan business	Japan
Europe business	France, United Kingdom, Spain, and others
Asia business	Vietnam, Thailand, Indonesia, and others
Oceania business	New Zealand, Australia, and others
Americas business	United States of America

Revenue from external customers by location was as follows:

Millions of yen

	Japan	Europe	Asia	Oceania	Americas	Total
Year ended December 31, 2016	687,839	229,641	133,758	71,682	86,227	1,209,149
Year ended December 31, 2017	689,192	239,349	143,799	75,627	86,040	1,234,008

Revenue is allocated into countries or areas based on the customers' domicile for the analysis above.

Non-current assets by location was as follows:

Millions of yen

	Japan	Europe	Asia	Oceania	Americas	Total
As at January 1, 2016	359,610	557,238	72,794	46,084	61,254	1,096,982
As at December 31, 2016	347,183	493,810	71,688	46,285	60,211	1,019,179
As at December 31, 2017	339,933	532,115	68,877	40,208	59,920	1,041,056

Non-current assets (property, plant and equipment, intangible assets and goodwill) are allocated based on their domicile for the above analysis.

There has been no single external customer sales to who represented 10% or more to the Group's revenue.

7. Trade and other receivables

Trade and other receivables were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Trade receivables	155,898	159,922	159,141
Other receivables	17,949	16,466	15,535
Other	1,401	1,025	2,861
Allowance for doubtful accounts	(714)	(632)	—
Loss allowance	—	—	(885)
Total	174,535	176,781	176,653

Trade receivables are amounts due from customers for goods sold in the ordinary course of business.

8. Other financial assets

Other financial assets as at the transition date and December 31, 2016 were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016
Equity investments	6,207	6,544
Guarantee deposits	5,385	5,849
Other	2,042	1,680
Allowance for doubtful accounts	(185)	(167)
Total	13,450	13,907
Current assets	629	376
Non-current assets	12,820	13,531
Total	13,450	13,907

Other financial assets as at December 31, 2017 were as follows:

Millions of yen

	2017
Financial assets at amortized cost:	
Guarantee deposits	5,809
Other	1,203
Loss allowance	(475)
Financial assets designated as heading instruments:	
Derivative assets	15,828
Financial assets measured at FVTPL:	
Other	1,155
Financial assets measuread at FVTOCI:	
Listed equity investments	5,566
Unlisted equity investments	3,158
Other	8
Total	32,253
Current assets	11,793
Non-current assets	20,460
Total	32,253

Equity investments are primarily listed and unlisted equity investments in Japan, held for the purpose of maintaining or strengthening business relations with customers. Such investments are designated as financial assets measured at fair value through other comprehensive income.

Certain items designated as financial assets measured at fair value through other comprehensive income have been disposed of during the year as part of the Group's capital strategy. Fair value and cumulative gain (or loss) recognized in other comprehensive income in other components of equity at the disposal were as follows:

Millions of yen

	2017
Fair value	186
Cumulative gains	118

The cumulative gains recognized in other comprehensive income in other components of equity is reclassified to retained earnings when the associated financial asset is sold, or a significant deterioration in fair value is recognized. The cumulative gains (net of tax) reclassified to retained earnings during the year ended December 31, 2017 was ¥64 million.

9. Inventories

Inventories were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Merchandise and finished goods	48,320	46,780	50,555
Work in progress	6,753	4,406	4,359
Raw materials	23,932	20,116	22,731
Consumables	2,635	2,682	3,370
Total	81,642	73,985	81,015

Inventories recognized as an expense, write-downs of inventories to net realizable value during the year were as follows:

Millions of yen

	2016	2017
Inventories recognized as an expense	624,871	639,820
Write-down of inventories to net realizable value	1,138	1,347

10. Other assets

Other assets were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Other current assets:			
Prepaid expenses	12,173	11,836	11,655
Consumption tax receivables	6,167	6,716	6,345
Corporate tax receivables	631	2,605	5,805
Other	2,188	2,660	1,681
Total	21,161	23,818	25,487
Other non-current assets:			
Long-term prepaid expenses	11,332	8,462	10,236
Other	5,721	5,215	5,426
Total	17,053	13,677	15,663

11. Assets held for sale

Assets held for sale and liabilities directly associated with assets held for sale were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Assets held for sale:			
Cash and cash equivalents	—	—	3,439
Trade and other receivables	—	—	5,237
Inventories	—	—	2,855
Property, plant and equipment	96	—	7,120
Goodwill	—	—	2,833
Other	—	—	594
Total	96	—	22,081
Liabilities directly associated with assets held for sale:			
Bonds and borrowings	—	—	963
Trade and other payables	—	—	4,922
Other	—	—	329
Total	—	—	6,215

Assets held for sale recognized as at the transition date related to machinery and vehicles primarily used in Asia business, which was sold during 2016. Assets held for sale and liabilities directly associated with assets held for sale as at December 31, 2017 was recognized in Asia business in relation to the share transfer agreement which concluded on October 19, 2017. The transferring process was subsequently completed on March 9, 2018. Please refer to "Note 36. Subsequent events."

12. Property, plant and equipment

The movement of carrying amount, cost, accumulated depreciation and impairment losses for property, plant and equipment was as follows:

Carrying amount

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Assets under construction	Other	Total
BALANCE AT JANUARY 1, 2016	107,470	148,896	96,155	14,250	7,662	374,435
Additions	1,390	6,485	17,579	29,028	3,103	57,587
Acquisitions through business combinations	830	3,614	18	2	0	4,466
Depreciation	(5,278)	(24,241)	(23,870)	—	(1,753)	(55,145)
Impairment losses	(14)	(1,711)	(42)	—	(0)	(1,768)
Reversal of impairment losses	—	90	—	—	—	90
Sales or disposals	(1,027)	(748)	(3,088)	(0)	(500)	(5,364)
Reclassifications	8,328	15,769	2,476	(27,484)	42	(867)
Exchange differences	(3,385)	(6,180)	(362)	(667)	(513)	(11,110)
Other	(15)	84	(46)	(5)	—	17
BALANCE AT DECEMBER 31, 2016	108,299	142,059	88,818	15,124	8,039	362,342
Additions	2,564	6,784	17,404	29,143	1,709	57,605
Depreciation	(5,165)	(26,013)	(23,070)	—	(1,993)	(56,243)
Impairment losses	(16)	(181)	—	—	(0)	(198)
Reversal of impairment losses	—	65	—	—	—	65
Sales or disposals	(45)	(1,591)	(2,711)	—	(88)	(4,437)
Reclassified as assets held for sale	(2,302)	(4,413)	(132)	—	—	(6,848)
Reclassifications	6,809	24,950	2,475	(34,786)	133	(416)
Exchange differences	883	1,261	62	392	210	2,809
Other	452	(337)	(353)	(286)	63	(462)
BALANCE AT DECEMBER 31, 2017	111,478	142,581	82,494	9,587	8,073	354,216

Depreciation expense 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. Government grants that are deducted directly from the carrying value of property, plant and equipment were ¥1,702 million as at December 31, 2017 (¥1,764 million and ¥1,877 million as at December 31, 2016 and the transition date, respectively). These grants are primarily received in connection with the acquisition of production facilities (buildings and machinery) in Japan and Europe.

Cost

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Assets under construction	Other	Total
Balance at January 1, 2016	161,822	338,297	218,165	14,250	15,976	748,512
Balance at December 31, 2016	166,925	345,926	216,849	15,124	17,721	762,546
Balance at December 31, 2017	172,739	352,617	215,621	9,587	18,976	769,542

Accumulated depreciation and impairment losses

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Assets under construction	Other	Total
Balance at January 1, 2016	(54,352)	(189,400)	(122,010)	—	(8,313)	(374,076)
Balance at December 31, 2016	(58,625)	(203,867)	(128,030)	—	(9,681)	(400,204)
Balance at December 31, 2017	(61,260)	(210,035)	(133,126)	—	(10,903)	(415,325)

Leased assets

Leased assets included in property, plant and equipment was as follows:

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Total
Balance at January 1, 2016	2,178	11,208	15,717	29,104
Balance at December 31, 2016	1,482	9,431	11,066	21,980
Balance at December 31, 2017	2,066	7,309	6,869	16,245

Impairment

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are included in other expenses in the consolidated statement of profit and loss. The breakdown of impairment losses by segment was as follows.

Millions of yen

	2016	2017
Japan	(1,148)	(8)
Europe	(553)	—
Asia	(22)	(189)
Oceania	(44)	—
Total	(1,768)	(198)

Impairment losses were recognized for the years ended December 31, 2016 and 2017, by decreasing the carrying amount of assets to their recoverable amounts as a result of the decision to dispose of certain machinery and vehicles. The recoverable amount is primarily measured as the fair value less costs of disposal.

13. Goodwill and intangible assets

The movement of carrying amount, cost, and accumulated amortization and impairment losses for goodwill and intangible assets were as follows:

Carrying amount

Millions of yen

		Intangible assets				
	Goodwill	Trademarks	Franchises	Software	Other	Total
BALANCE AT JANUARY 1, 2016	253,142	376,212	48,062	8,339	36,790	469,404
Additions	—	3	1	839	1,872	2,717
Acquisitions through business combinations	1,201	—	—	-	1,331	1,331
Amortization	—	(2,766)	—	(2,597)	(1,837)	(7,201)
Impairment losses	—	(1,345)	—	(301)	—	(1,647)
Reversal of impairment losses	—	1,354	—	—	—	1,354
Sales or disposals	—	—	—	(298)	—	(298)
Exchange differences	(8,861)	(50,055)	(1,750)	(713)	(1,814)	(54,333)
Other	—	—	—	2,389	(2,361)	28
BALANCE AT DECEMBER 31, 2016	245,481	323,403	46,313	7,657	33,981	411,356
Additions	—	—	1	771	2,744	3,516
Acquisitions through business combinations	2,791	—	—	—	—	—
Amortization	—	(2,885)	—	(2,892)	(1,885)	(7,663)
Impairment losses	—	(1,096)	—	(70)	—	(1,167)
Reversal of impairment losses	—	1,110	—	—	—	1,110
Sales or disposals	—	—	—	(104)	(19)	(124)
Reclassified as assets held for sale	(2,725)	—	—	—	—	—
Exchange differences	8,599	26,391	(1,401)	454	356	25,801
Other	(121)	—	—	1,584	(1,599)	(15)
BALANCE AT DECEMBER 31, 2017	254,025	346,924	44,914	7,398	33,577	432,814

Amortization costs are included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss. Expenditures for research and development activities recognized, as expenses were ¥9,488 million for the year ended December 31, 2017 (¥9,420 million for the year ended December 31, 2016) and are included in selling, general and administrative expenses in the consolidated statement of profit or loss. There were no significant internally generated intangible assets recorded at each year end.

Cost

Millions of yen

		Intangible assets				
	Goodwill	Trademarks	Franchises	Software	Other	Total
Balance at January 1, 2016	387,049	419,308	48,062	19,368	39,083	525,822
Balance at December 31, 2016	371,424	366,412	46,313	21,187	39,435	473,349
Balance at December 31, 2017	388,700	397,408	44,914	24,215	39,287	505,825

Accumulated amortization and impairment losses

Millions of yen

	Goodwill	Intangible assets: Trademarks	Franchises	Software	Other	Total
Balance at January 1, 2016	(133,907)	(43,095)	—	(11,029)	(2,292)	(56,417)
Balance at December 31, 2016	(125,942)	(43,009)	—	(13,530)	(5,454)	(61,993)
Balance at December 31, 2017	(134,674)	(50,484)	—	(16,816)	(5,709)	(73,011)

The breakdown of goodwill and intangible assets with indefinite useful lives was as follows:

Goodwill

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Japan business	130,680	130,680	130,680
Orangina Schweppes Group	87,977	83,223	91,099
Other	34,484	31,577	32,245
Total	253,142	245,481	254,025

Goodwill for the Japan business mainly consists of those recognized through the acquisition of Japan Beverage Holdings Inc., carried out on July 31, 2015. Goodwill for Orangina Schweppes Group was recognized through the acquisition of Orangina Shweppes Holding B.V. on November 12, 2009. Goodwill attributable to business combinations is allocated to cash-generating units or cash-generating groups at the acquisition date.

Intangible assets with indefinite useful lives

Millions of yen

		Transition date (January 1, 2016)	2016	2017
Trademarks:	Lucozade and Ribena	184,357	147,461	156,690
	Schweppes	79,114	73,669	81,017
Franchises:	Orangina	22,238	20,708	22,773
	Oasis	21,381	19,909	21,895
	La Casera	8,278	9,086	11,175
	Other	20,710	17,965	18,475
	North Carolina, U.S.A.	36,688	35,437	34,377
	Vietnam	11,373	10,876	10,537
Other		17	16	16
	Total	384,161	335,131	356,960

Trademarks of Lucozade and Ribena is related to the acquisition of the business in Lucozade Ribena Suntory Limited on December 31, 2013. Trademarks of Shweppes, Orangina, Oasis and La Casera were acquired through the aforementioned acquisition of Orangina Schweppes Holding B.V. Franchises recognized for some areas in the U.S. and Vietnam are the intangible assets recognized for area franchising contracts with PepsiCo, Inc. These trademarks and franchises are expected to contribute to the Group as far as the business continues. Therefore, those are deemed appropriate to treat as having indefinite lives for accounting purposes, thus are not amortized.

Impairment tests of goodwill and intangible assets are performed for the above units. The value in use is calculated as the discounted future cash flows which are estimated based on the business plan for 1–3 years, which have been approved by management and discount rates which are determined with reference to the pre-tax weighted-average cost of capital (WACC) (3.8%–17.7% for the transition date, and 4.7%–16.4% and 3.9%–20.1% for the years ended December 31, 2016 and 2017 respectively) of the cash-generating units or cash-generating groups.

The business plans are made to reflect past experience of business and external information for 5 years or less. The growth rate has been determined with reference to long-term average growth rates in the markets or countries to which the cash-generating units or cash-generating groups belong. Discount rates are determined with reference to the weighted-average cost of capital of cash-generating units or cash-generating groups.

The Group recorded impairment losses for intangible assets of ¥1,647 million during the year ended December 31, 2016, which was primarily for certain trademarks in the Europe business, such as "Sunny Delight." The impairment was recognized due to deterioration in profitability of those trademarks in the most updated business plan, compared to the initial business plan. These expenses are included in other expenses in the consolidated statement of profit and loss. During the year ended December 31, 2016, the Group reversed impairment losses previously recorded for intangible assets of ¥1,354 million for some trademarks, such as "La Casera." These losses were recognized in previous period; however, these intangible assets were assessed to have a higher recoverable amount as a result of an annual impairment review carried out for the year ended December 31, 2016 based on the most updated business plan. The income from the reversal of these impairment losses are included in other income in the consolidated statement of profit and loss.

The Group recorded impairment losses for intangible assets of ¥1,167 million for the year ended December 31, 2017, which is primarily for certain trademarks in the Europe business, such as "Trina." The impairment was recognized due to deterioration in profitability of those trademarks in the most updated business plan, compared to the initial business plan. These expenses are included in other expenses in the consolidated statement of profit and loss. During the year ended December 31, 2017, the Group reversed impairment losses previously recorded for intangible assets of ¥1,110 million for some trademarks, such as "La Casera." These losses were recognized in previous period; however, these intangible assets were assessed to have a higher recoverable amount as a result of an annual impairment review carried out during the year ended December 31, 2017, based on the most updated business plan. The income from the reversal of these impairment losses are included in other income in the consolidated statement of profit and loss.

The value in use of the remaining intangible assets recorded on the consolidated statement of financial position exceeds the carrying amount of all of the cash-generating units or cash-generating groups. The Group assessed that the value in use would exceed the carrying amount even though the discount rate and the growth rate may fluctuate in reasonably assumable level.

14. Investments accounted for using the equity method

Total of investments (as a result of applying equity method by the Group) for associates and joint ventures were as follows. There were no individually material associates and joint ventures.

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Carrying amount:			
Associates	995	1,283	1,233
Joint ventures	2,726	2,462	—
Total	3,721	3,745	1,233

Comprehensive income for the year using equity method from investments for associates and joint ventures were as follows:

Millions of yen

	2016	2017
Profit for the year:		
Associates	399	276
Joint ventures	266	170
Total	665	447
Other comprehensive income:		
Associates	(49)	47
Joint ventures	(151)	18
Total	(200)	66
Comprehensive income for the year:		
Associates	349	324
Joint ventures	114	189
Total	464	513

15. Income tax expense

The balances and movement of deferred tax assets and deferred tax liabilities by nature were as follows:

Year ended December 31, 2016

Millions of yen

	Transition date (January 1, 2016)	Recognized in profit or loss	Recognized in other compre-hensive income	Other	As at December 31, 2016
Deferred tax assets:					
Other payables	5,967	(369)	—	(143)	5,454
Unrealized gain	5,090	(645)	—	(57)	4,387
Post-employment benefit liabilities	2,959	(38)	430	(45)	3,306
Other	9,661	985	(4)	(330)	10,312
Total	23,678	(67)	425	(576)	23,460
Deferred tax liabilities:					
Intangible assets	(47,189)	308	—	3,045	(43,835)
Property, plant and equipment	(13,387)	1,093	—	252	(12,041)
Temporary differences associated with investments in associates	(9,718)	(2,519)	—	151	(12,086)
Other	(5,699)	(559)	243	36	(5,978)
Total	(75,995)	(1,677)	243	3,486	(73,942)

Other in above schedule primarily comprise of foreign exchange movement.

Year ended December 31, 2017

Millions of yen

	As at January 1, 2017	Recognized in profit or loss	Recognized in other compre-hensive income	Other	As at December 31, 2017
Deferred tax assets:					
Other payables	5,454	641	—	10	6,106
Unrealized gain	4,387	943	—	55	5,386
Post-employment benefit liabilities	3,306	752	(372)	181	3,867
Other	10,312	(1,689)	428	131	9,182
Total	23,460	648	55	377	24,542
Deferred tax liabilities:					
Intangible assets	(43,835)	(3,220)	—	(3,314)	(50,370)
Property, plant and equipment	(12,041)	13	—	(151)	(12,179)
Temporary differences associated with investments in associates	(12,086)	3,691	—	390	(8,005)
Other	(5,978)	(317)	(889)	(101)	(7,287)
Total	(73,942)	166	(889)	(3,177)	(77,843)

“Other” included in the above table primarily comprised of foreign exchange movement.

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

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Unused tax losses	22,977	19,055	20,491
Unused tax credits	1,654	1,790	2,195
Deductible temporary differences	68,347	81,663	49,845
Total	92,979	102,509	72,532

Expiration schedule of unused tax losses and unused tax credits for which no deferred tax asset is recognized was as follows:

Millions of yen

Unused tax losses	Transition date (January 1, 2016)	2016	2017
Expires within 1 year	1,518	584	516
Expires between 1 and 2 years	1,132	3,373	2,425
Expires between 2 and 3 years	739	2,442	4,291
Expires between 3 and 4 years	1,817	4,352	3,581
Expire after 4 years	17,769	8,302	9,676
Total	22,977	19,055	20,491

Millions of yen

Deferred tax credits	Transition date (January 1, 2016)	2016	2017
Expires within 1 year	—	—	—
Expires between 1 and 2 years	—	—	—
Expires between 2 and 3 years	—	—	—
Expires between 3 and 4 years	—	—	—
Expire after 4 years	1,654	1,790	2,195
Total	1,654	1,790	2,195

Taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized were ¥91,388 million (¥79,547 million and ¥94,073 million as at transition date and December 31, 2016, respectively). Deferred tax liabilities were not recognized since the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference is not expected to be reversed in the foreseeable future.

Income tax expense was as follows:

Millions of yen

	2016	2017
Current tax expense	27,509	29,083
Deferred tax expense	1,745	(815)
Total	29,254	28,267

The effective statutory tax rate and the average effective tax rate were reconciled as follows:

%

	2016	2017
Effective statutory tax rate	33.06	30.84
Tax rate change	(1.08)	(3.76)
Differences in overseas tax rates	(4.07)	(2.40)
Special tax deductions from income tax	(1.68)	(2.32)
Other	0.91	2.34
Average effective tax rate	27.14	24.70

Income tax, inhabitant tax and business tax are the main components of income tax expense imposed on the Group, and the effective statutory tax rate based on those taxes was 33.06% for the year ended December 31, 2016 and 30.84% for the year ended December 31, 2017. Foreign subsidiaries are subject to income tax expense in the tax jurisdiction that they are located.

Due to the enactment of the new U.S. tax legislation on December 22, 2017, federal corporate income tax rate in the U.S. is to be reduced from 35% to 21%. According to this change in effective tax rate, the Group reversed certain deferred tax assets and liabilities, and credited deferred tax expense by ¥4,298 million.

16. Bonds and borrowings

Bonds and borrowings were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017	Average interest rate (%)	Maturity date
Short-term borrowings	16,327	10,415	21,819	0.62	—
Current portion of long-term borrowings	97,321	61,824	73,834	1.09	—
Long-term borrowings	258,743	199,283	171,453	0.97	2019–2025
Bonds	40,000	40,000	39,921	0.42	2019–2024
Total	412,392	311,522	307,029		
Current liabilities	113,649	72,239	95,654		
Non-current liabilities	298,743	239,283	211,375		
Total	412,392	311,522	307,029		

Bonds and borrowings are classified as financial liabilities measured at amortized cost under IFRS 9, which was adopted to financial instruments on January 1, 2017. The average interest rate is calculated as the weighted-average interest rate as at the end of the reporting period. The Group has applied the exemption provisions under IFRS 1 for IFRS 7 and IFRS 9. Therefore, the previous accounting standard (Japanese GAAP) has been applied for financial instruments that existed as at December 31, 2016 and the transition date.

Summary of terms of bonds were as follows:

Millions of yen

Issuer	Type	Issue date	Transition date (January 1, 2016)	2016	2017	Interest rate (%)	Collateral	Maturity date
Suntory Beverage & Food Limited	The 1st issue of unsecured corporate bonds	June 26, 2014	25,000	25,000	24,969	0.26	None	June 26, 2019
	The 2nd issue of unsecured corporate bonds	June 26, 2014	15,000	15,000	14,952	0.70	None	June 26, 2024
	Total		40,000	40,000	39,921			

Secured borrowings and assets pledged as collateral were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Land	4,768	—	—
Buildings and structures	1,368	—	—
Total	6,136	—	—

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Current portion of long-term borrowings	250	—	—
Total	250	—	—

17. Leases

(1) Finance leases

The Group leases vending machines, vehicles and other assets as a lessor. Certain contracts have terms with renewal options. There are no significant variable lease payments, purchase options, escalation clauses or any other restrictions associated with these lease contracts.

Minimum lease payments for finance leases and their present value were as follows:

Millions of yen

	Total minimum lease payments			Total minimum lease payments, at present value		
	Transition date (January 1, 2016)	2016	2017	Transition date (January 1, 2016)	2016	2017
Within 1 year	9,704	9,882	7,978	9,209	9,548	7,765
Between 1 and 5 years	19,722	12,602	8,251	19,181	12,296	8,099
More than 5 years	492	462	688	490	459	686
Total	29,919	22,947	16,918	28,882	22,304	16,550
Future finance charge	(1,037)	(642)	(367)			
The present value of lease liabilities	28,882	22,304	16,550			

(2) Non-cancellable operating leases

The Group leases building, vehicle and other assets as a lessor. Certain contracts have terms with renewal options or escalation clauses. There are no significant variable lease payments, purchase options or any other restrictions associated with these lease contracts.

Minimum lease payments under non-cancellable operating leases were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Within 1 year	5,752	6,068	6,767
Between 1 and 5 years	14,737	15,788	16,050
More than 5 years	8,020	6,479	4,722
Total	28,510	28,336	27,539

Minimum lease payments associated with operating leases recognized as expenses were as follows:

Millions of yen

	2016	2017
Total minimum lease payments	6,812	7,699

18. Trade and other payables

Trade and other payables were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Trade payables	121,831	116,580	118,832
Accrued expenses	132,811	144,028	148,123
Accrued employee benefits	21,871	20,935	22,565
Total	276,515	281,545	289,521

Accrued employee benefits are comprised of various employee-related accruals, such as salaries, bonuses and paid vacation.

19. Other financial liabilities

Other financial liabilities as at the transition date and December 31, 2016 were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016
Lease obligations	28,882	22,304
Deposit received	28,835	32,276
Other	1,352	899
Total	59,069	55,479
Current liabilities	28,720	31,802
Non-current liabilities	30,349	23,677
Total	59,069	55,479

Other financial liabilities as at December 31, 2017 were as follows:

Millions of yen

	2017
Financial liabilities measured at amortized cost:	
Lease obligations	16,550
Deposit received	34,743
Other	649
Financial liabilities designated as heading instruments:	
Derivative liabilities	5,918
Financial liabilities measured at FVTPL:	
Derivative liabilities	122
Total	57,984
Current liabilities	32,678
Non-current liabilities	25,306
Total	57,984

20. Post-employment benefit plans

(1) Defined benefit plans

The Company and some of its subsidiaries established post-employment benefit plans, such as a defined benefit corporate pension plan and a lump-sum employment benefit plan. Certain subsidiaries also provide defined contribution pension plans. These plans are exposed to a variety of risks, such as general investment risk, interest rate risk and inflation risk.

The defined benefit plans are administered by a separate fund that is legally isolated from the Group. The board of the pension fund and pension property management trust institutions are obliged by law to act in the interest of the members in the scheme and to manage the plan assets in accordance with designated management policies.

The liability recorded in the consolidated statement of financial position and with defined benefit obligation and plan assets was reconciled as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Present value of funded defined benefit obligations	28,973	32,397	33,294
Fair value of plan assets	(29,872)	(31,124)	(32,764)
Subtotal	(898)	1,273	529
Present value of unfunded defined benefit obligation	8,366	9,232	10,114
Net defined benefit liability	7,467	10,505	10,644
Balance in consolidated statement of financial position:			
Post-employment benefit liabilities	8,920	11,214	11,888
Post-employment benefit assets	(1,452)	(708)	(1,244)
Net of liabilities and assets	7,467	10,505	10,644

Changes in the present value of the defined benefit obligation during the years ended December 31, 2016 and 2017 were as follows:

Millions of yen

	2016	2017
Balance at beginning of the year	37,339	41,629
Current service cost	2,711	3,065
Interest expense	398	325
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	(36)	(78)
Actuarial gains and losses arising from changes in financial assumptions	2,513	(296)
Benefits paid	(1,148)	(1,212)
Other	(149)	(24)
Balance at end of the year	41,629	43,408

The weighted-average duration of the defined benefit obligation is 15.5 years (15.2 years and 15.6 years as at transition date and December 31, 2016, respectively).

Changes in the fair value of plan assets during the years ended December 31, 2016 and 2017 were as follows:

Millions of yen

	2016	2017
Balance at beginning of the year	29,872	31,124
Interest income	297	231
Remeasurements:		
Return on plan assets	155	751
Employer contributions	1,629	1,487
Benefits paid	(783)	(937)
Other	(46)	107
Balance at end of the year	31,124	32,764

The contribution by the Group to defined benefit plans in the subsequent annual reporting period is expected to be ¥1,507 million.

Fair value of plan assets were as follows:

Millions of yen

	Transition date (January 1, 2016)			2016			2017		
	Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total
Cash and cash equivalents	690	—	690	658	—	658	871	—	871
Equity instruments	—	5,692	5,692	—	5,530	5,530	—	6,353	6,353
Domestic	—	2,463	2,463	—	2,486	2,486	—	2,419	2,419
Overseas	—	3,229	3,229	—	3,044	3,044	—	3,934	3,934
Debt instruments	—	12,060	12,060	—	11,698	11,698	—	12,021	12,021
Domestic	—	6,840	6,840	—	5,839	5,839	—	5,358	5,358
Overseas	—	5,219	5,219	—	5,858	5,858	—	6,663	6,663
Life insurance—General accounts	—	4,885	4,885	—	5,073	5,073	—	5,306	5,306
Other	—	6,543	6,543	—	8,163	8,163	—	8,211	8,211
Total	690	29,181	29,872	658	30,465	31,124	871	31,892	32,764

Plan assets invested in joint investment trusts in trust banks are deemed as plan assets that do not have a quoted market price in an active market. Life insurance general accounts represent the pension assets managed by the general accounts of life insurance companies, which usually guarantee principal amounts and interest.

The Group's plan asset management policy aims to maintain sustainable earnings over the medium to long term in order to secure payment for future defined benefit liabilities, as prescribed by corporate rules. Assets are managed so as to maintain a predetermined return rate and asset composition, accepting a certain level of tolerable risk which is reviewed every year. Asset compositions are determined by category of investment assets. Investments in assets which have a higher degree of correlation with fluctuations in the value of the defined benefit obligation are considered when reviewing the asset compositions. The policy allows to adjust the weight of risk assets as a temporary solution by following corporate rules, when unexpected situations occur in the market environment.

Significant actuarial assumptions were as follows:

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Discount rate	1.0–1.3	0.6–0.9	0.5–0.9

The sensitivity analysis below illustrates the impact on defined benefit obligations when key actuarial assumptions changes. This analysis holds all other assumptions constant; however, in practice, changes in some other assumptions may affect this analysis.

Change in assumption

Millions of yen

		Transition date (January 1, 2016)	2016	2017
Discount rate:	Increase by 0.5%	(2,060)	(2,438)	(2,480)
	Decrease by 0.5%	2,315	2,705	2,732

Defined benefit costs were as follows:

Millions of yen

	2016	2017
Current service cost	2,711	3,065
Interest expense	398	325
Other	(297)	(231)
Total	2,813	3,159

The Group's contribution to the plans was ¥12,916 million (¥13,644 million for the year ended December 31, 2016), and it is not included in defined benefit costs analyzed above.

(2) Employee benefit expenses

Employee benefit expenses of ¥167,523 million (¥164,844 million for the year ended December 31, 2016) are primarily composed of salaries, bonuses, legal welfare costs, welfare expense and post-employment costs. They are included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

21. Provisions

Changes of provisions were as follows:

Millions of yen

	Asset retirement obligations	Provision for restructuring	Other	Total
BALANCE AT JANUARY 1, 2016	1,749	3,215	769	5,734
Additional provisions recognized	212	1,545	262	2,021
Interest expense	30	—	—	30
Utilized during the period	(64)	(1,676)	(105)	(1,846)
Reversed during the period	(92)	(125)	(279)	(497)
Other	(30)	(212)	(96)	(339)
BALANCE AT DECEMBER 31, 2016	1,805	2,747	549	5,101
Additional provisions recognized	30	1,459	249	1,739
Interest expense	46	—	—	46
Utilized during the period	—	(1,912)	(144)	(2,057)
Reversed during the period	(17)	(531)	(197)	(746)
Other	8	153	53	215
BALANCE AT DECEMBER 31, 2017	1,872	1,916	510	4,299

Asset retirement obligations are provided for the obligation to restore a site to its original condition. Asset retirement obligations are measured as the estimated cost to be incurred in the future period based on historical transactions. These costs are generally expected to be disbursed after more than one year; however, it will be affected by the execution of the Group's business plan in the future.

The restructuring provision primarily relates to business integration and rationalization measures in overseas businesses. Disbursement of such expense will be affected by the execution of the Group's business plan in the future as well.

Provisions are included in the consolidated statement of financial position in the following accounts.

Millions of yen

	Transition date (January 1, 2016)	2016	2017
Current liabilities	2,542	2,147	1,385
Non-current liabilities	3,191	2,954	2,913
Total	5,734	5,101	4,299

22. Equity

(1) Share capital

The number of shares authorized and shares issued were as follows:

Shares

	Shares authorized	Shares issued
Balance at January 1, 2016	480,000,000	309,000,000
Increase (decrease)	—	—
Balance at December 31, 2016	480,000,000	309,000,000
Increase (decrease)	—	—
Balance at December 31, 2017	480,000,000	309,000,000

The Company only issues ordinary shares and the issued shares are fully paid in.

(2) Share premium

The Companies Act of Japan (the "Act") requires the Company to recognize one-half or more of the proceeds from issuing as share capital, and the remaining amount as capital reserve which is comprised of share premium. Under the Act, capital reserve can be reclassified to share capital subsequently by a resolution at the shareholders meeting.

(3) Retained earnings

Under the Act, if the Company pays dividends of surplus, it shall record an amount equivalent to one-tenth of the amount of the deduction from surplus as a capital reserve or legal retained earnings reserve. This requirement continues until the balance of these reserves reaches one fourth of the share capital. The legal retained earnings reserve can be utilized to make up for the loss carried forward, and can be reversed without limitation by a resolution at the shareholders meeting.

(4) Other components of equity

Other components of equity were as follows:

Millions of yen

	Other components of equity					
	Translation adjustments of foreign operations	Changes in the fair value of cash flow hedges	Unrealized gain on available-for-sale securities	Changes in the fair value of financial assets	Remeasurement of defined benefit obligation	Total
BALANCE AT JANUARY 1, 2016	—	376	1,894	—	(3,635)	(1,365)
Other comprehensive income	(48,358)	(245)	126	—	(1,664)	(50,142)
BALANCE AT DECEMBER 31, 2016	(48,358)	130	2,020	—	(5,299)	(51,507)
Cumulative impact of the adoption of new accounting standard	—	(1,378)	(2,020)	2,682	—	(716)
BALANCE AT JANUARY 1, 2017	(48,358)	(1,248)	—	2,682	(5,299)	(52,224)
Other comprehensive income	26,105	512	—	383	661	27,663
Transferred to retained earnings	—	—	—	(64)	—	(64)
BALANCE AT DECEMBER 31, 2017	(22,252)	(735)	—	3,002	(4,638)	(24,625)

23. Dividends

Dividends paid were as follows:

Year ended December 31, 2016

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on March 30, 2016	10,815	35.00	December 31, 2015	March 31, 2016
Board of Directors meeting held on August 4, 2016	10,506	34.00	June 30, 2016	September 1, 2016

Year ended December 31, 2017

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on March 30, 2017	12,051	39.00	December 31, 2016	March 31, 2017
Board of Directors meeting held on August 7, 2017	11,433	37.00	June 30, 2017	September 1, 2017

Dividends that will be effective in the following year of the record date were as follows:

Year ended December 31, 2016

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on March 30, 2017	12,051	39.00	December 31, 2016	March 31, 2017

Year ended December 31, 2017

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Proposed at the annual general meeting of shareholders held on March 29, 2018	11,742	38.00	December 31, 2017	March 31, 2018

24. Selling, general and administrative expenses

Selling, general and administrative expenses were as follows:

Millions of yen

	2016	2017
Advertising and sales promotions	159,371	155,416
Brand royalty	19,726	20,815
Employee benefits expenses	130,541	134,733
Rental expenses	12,335	12,741
Depreciation and amortization	36,957	35,881
Other	53,279	52,855
Total	412,210	412,444

25. Other income

Other income were as follows:

Millions of yen

	2016	2017
Gain on sale of associated companies	—	1,876
Reversal of impairment losses	1,445	1,175
Gain on sale of property, plant and equipment and intangible asset	1,307	260
Other	1,206	2,550
Total	3,959	5,862

26. Other expenses

Other expenses were as follows:

Millions of yen

	2016	2017
Loss on disposal of property, plant and equipment and intangible assets	4,137	4,097
Restructuring charges	5,420	4,217
Impairment losses	1,983	1,360
Other	791	2,454
Total	12,332	12,129

Restructuring charges for the year ended December 31, 2016 are expenses incurred in association to reorganization of subsidiaries carried out in Europe business. Restructuring charges recognized during the year ended December 31, 2017 were for professional advisory fees related to the reorganization of subsidiaries in Asia business, and restructuring costs related to the reorganization of subsidiaries carried out in Europe business. Impairment losses recognized during the year ended December 31, 2016 was offset by the insurance claims received for the Kumamoto Earthquake.

27. Finance income and costs

Finance income and costs were as follows:

Millions of yen

Finance income	2016
Interest received	396
Dividends received	102
Gain on sale of securities	55
Other	4
Total	559

Millions of yen

Finance costs	2016
Interest paid	4,380
Loss on valuation of securities	0
Net foreign exchange losses	44
Other	194
Total	4,619

Millions of yen

Finance income	2017
Interest received:	
From financial assets measured at amortized cost	462
Dividends received:	
From financial assets measured at FVTOCI:	
From financial assets derecognized during the year	282
From financial assets held at the end of the year	126
Total	871

Millions of yen

Finance costs	2017
Interest paid:	
From financial liabilities measured at amortized cost	2,724
Fair value losses:	
From financial assets (liabilities) measured at FVTPL	47
Net foreign exchange losses	1,512
Other	100
Total	4,384

28. Other comprehensive income

Detail of amount arising during the year, reclassifications, and tax effects for other comprehensive income were as follows:

Year ended December 31, 2016

Millions of yen

	Other components of equity				
	Amount arising during the year	Reclassifications	Before tax	Tax effects	Net of tax
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit plans	(2,322)	—	(2,322)	586	(1,735)
Total	(2,322)	—	(2,322)	586	(1,735)
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	(49,224)	—	(49,224)	—	(49,224)
Changes in the fair value of cash flow hedges	(484)	227	(256)	56	(200)
Changes in the fair value of available-for-sale securities	151	(55)	95	28	123
Changes in comprehensive income of investments accounted for using the equity method	(200)	—	(200)	—	(200)
Total	(49,758)	172	(49,586)	84	(49,501)
Grand total	(52,081)	172	(51,908)	670	(51,237)

Year ended December 31, 2017

Millions of yen

	Other components of equity				
	Amount arising during the year	Reclassifications	Before tax	Tax effects	After tax
Items that will not be reclassified to profit or loss:					
Changes in the fair value of financial assets	565	—	565	(176)	388
Remeasurement of post-employment benefit plans	1,126	—	1,126	(370)	755
Total	1,691	—	1,691	(546)	1,144
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	24,906	6	24,913	—	24,913
Changes in the fair value of cash flow hedges	1,389	(590)	799	(287)	512
Changes in comprehensive income of investments accounted for using the equity method	(8)	75	66	—	66
Total	26,286	(507)	25,779	(287)	25,492
Grand total	27,978	(507)	27,470	(833)	26,637

29. Earnings per share

Earnings per share were calculated as follows. There were no dilutive shares.

Millions of yen

	2016	2017
Profit for the year attributable to owners of the Company	71,501	78,112
Profit for the year not attributable to ordinary shareholders of the Company	—	—
Profit for the year used in the calculation of earnings per share	71,501	78,112
Weighted-average number of ordinary shares (shares)	309,000,000	309,000,000
Earnings per share (Yen)	231.40	252.79

30. Cash flow information

Cash and cash equivalents comprise cash on hand and cash in banks.

(1) Liabilities for financing activities

Liabilities for financing activities were as follows:

Millions of yen

	Transition date (January 1, 2016)	Cash flows	Non-cash movements: Foreign exchange adjustments	Non-cash movements: Changes in fair value	Non-cash movements: New leases	December 31, 2016
Bonds and borrowings	412,392	(78,629)	(22,241)	—	—	311,522
Lease liabilities	28,882	(9,509)	(76)	—	3,009	22,304

Cash flows associated with the bonds and borrowings presented above reconciles to the net amount of increases (decreases) in short-term borrowings, proceeds from long-term borrowings and repayment of long-term borrowings presented in the consolidated statement of cash flows.

Millions of yen

	December 31, 2016	Effect of IFRS 9	January 1, 2017	Cash flows	Non-cash movements: Foreign exchange adjustments	Non-cash movements: Changes in fair value	Non-cash movements: New leases	Non-cash movements: Other	Other movements	December 31, 2017
Bonds and borrowings	311,522	25,818	337,341	(30,805)	1,395	—	—	(901)	—	307,029
Derivatives	—	(24,503)	(24,503)	4,293	—	9,144	—	—	935	(10,130)
Lease liabilities	22,304	—	22,304	(8,404)	7	—	2,705	(61)	—	16,550

Cash flows associated with the bonds and borrowings and derivatives presented above reconciles to the net amount of increases (decreases) in short-term borrowings, proceeds from long-term borrowings and repayment of long-term borrowings presented in the consolidated statement of cash flows. “Other” in the above table includes the receipt and payment of interests. Derivatives are used to hedge bonds and borrowings.

(2) Non-cash transactions

Non-cash transactions were mainly as follows:

Millions of yen

	2016	2017
Assets acquired through finance leases	2,829	2,627

31. Financial instruments

(1) Capital management

The Group manages its capital with the goal of maximizing its corporate value through sustainable growth.

The key index the Company uses for its capital management is the net debt-to-equity ratio. The net debt-to-equity ratio is determined as net interest-bearing liabilities, i.e., interest-bearing liabilities less cash and cash equivalents, divided by total equity.

The net interest-bearing liabilities are determined considering the net valuation gain (loss) arising from derivative transactions under hedge accounting. The computation of the net debt-to-equity ratio for the Group is shown below.

Millions of yen

	2017
Interest-bearing liabilities	307,029
Net valuation loss arising from derivative transactions	(10,804)
Interest-bearing liabilities (adjusted)	296,225
Cash and cash equivalents	(113,883)
Net interest-bearing liabilities	182,341
Total equity	746,201
Net debt-to-equity ratio (Times)	0.2

The Board of Directors of the Company monitors the Group’s financial indices. There has been no significant restrictions on the Group’s capital imposed by regulation authorities.

(2) Risk management for financial instruments

The Group is exposed to financial risks, e.g., risks of changes in credit, liquidity, foreign exchange rates, interest rates and market prices in the course of its business activities. The Group performs risk management activities to mitigate such financial risks. The Group utilizes derivative transactions to avoid foreign exchange or interest rate fluctuation risks, and has a policy in place not to engage in speculative transactions. The finance department monitors performance and balances of derivative transactions based on the Group’s risk management policies and reports derivative transaction records as necessary to the head of the finance function.

a. Credit risk management

Credit risk is the risk that a counterparty to financial assets held by the Group is unable to fulfil its contractual obligations, resulting in a financial loss for the Group. The Group is also exposed to credit risks from financial institutions. Financial institutions are counterparties with whom the Group enters into derivative transactions to hedge foreign exchange and interest rate fluctuation risks and with whom deposit surplus capital. However, since the Group controls the impact from credit risks of such financial institutions by entering into transactions only with highly credible financial institutions, the impact on credit risks is immaterial. The Group sets credit lines for each business counterparty based on internal guidelines for credit management by business and country or region, focusing on management of overdue debtors and outstanding balances. The Group’s receivables are due from many business counterparties which reside in a wide range of countries and regions. The Group does not have any excessively concentrated credit risk for a single counterparty or the group to which such a counterparty belongs.

A loss allowance is determined by classifying receivables based on credit risk characteristics. A loss allowance for trade receivables is always measured at an amount equal to the lifetime expected credit losses. A loss allowance for other than trade receivables is principally measured at an amount equal to 12-month expected credit losses. If, however, other receivables become overdue, a loss allowance for such receivables is recognized at an amount equal to the lifetime expected credit losses on the basis that the credit risk on such receivables has increased significantly since initial recognition. All receivables other than trade receivables, for which a loss allowance is measured at 12-month expected credit losses, are measured collectively. The amount of expected credit losses is calculated as follows.

Trade receivables

Trade receivables are classified by credit risk characteristics of customers based on the simplified approach. The lifetime expected credit losses for trade receivables are determined by multiplying their carrying amount by an allowance percentage that is based on historical credit loss experience determined for each classification adjusted for projected future economic conditions and other factors.

Receivables other than trade receivables

Unless the credit risk assessed on other receivables has not increased significantly since initial recognition, the 12-month expected credit losses for other receivables are determined based on the principle approach by multiplying their carrying amount by an allowance percentage that is based on historical credit loss experience adjusted for projected future economic conditions and other factors.

For an asset or credit-impaired financial asset that is assessed to have increased its credit risks significantly since initial recognition, the lifetime expected credit losses for such an asset are determined as the difference between its carrying amount and the present value of its estimated future cash flows discounted using its original effective interest rate.

The carrying amounts of trade and other receivables subject to establishing loss allowances were as follows:

Trade and other receivables

Millions of yen

Carrying amount	Financial assets measured at 12-month expected credit losses	Financial assets measured at lifetime expected credit losses	Financial assets applying the simplified approach
Beginning balance at January 1, 2017	23,446	27	159,922
Ending balance at December 31, 2017	24,845	532	159,141

Financial assets measured at an amount equal to the lifetime expected credit losses are principally credit-impaired financial assets.

Credit risk ratings

The credit risk ratings of financial assets measured at an amount equal to the lifetime expected credit losses are relatively low, compared with those of financial assets measured at an amount equal to the 12-month expected credit losses. The credit risk ratings for financial assets to which the simplified approach is applied are equivalent to credit risk ratings of financial assets principally measured at an amount equal to 12-month expected credit losses. The credit risk ratings of financial assets classified in the same categories are relatively similar.

The collectability of trade and other receivables is determined based on the credit status of each business counterparty and a loss allowance is recognized as needed. The following table shows increases (decreases) in loss allowances:

Loss allowance

Millions of yen

	Allowance measured at 12-month expected credit losses	Allowance measured at lifetime expected credit losses	Allowance for financial assets applying the simplified approach
BALANCE AT JANUARY 1, 2017	7	27	632
Increased (decreased) due to financial assets incurred or collected	(15)	433	202
Direct amortization	—	—	(18)
Exchange differences	22	—	68
BALANCE AT DECEMBER 31, 2017	15	460	885

There was no significant change in the carrying amount of financial instruments in total during the prior and current years that may affect changes in loss allowances.

b. Liquidity risk management

Liquidity risk is the risk that an entity is unable to make a payment by its due date in performing its repayment obligations for financial liabilities that become due.

The Group diversifies its means of financing to prevent or mitigate its liquidity risks, considering the market environment and balancing short-term and long-term financing, such as utilizing indirect financing through bank borrowings and direct financing through issuance of bonds and commercial papers. Temporary excess funds are invested in highly secure financial assets, such as short-term deposits.

The Group develops its financing plans based on its annual business plan, and manages its liquidity risks by continuous monitoring of the actual performance of financing against the plan. Further, these credit lines are secured and are available at any time with credible financial institutions. Liquidity on hand, including these credit lines and interest-bearing liabilities, are periodically reviewed and reported to the President & Chief Executive Officer and the Board of Directors of the Company.

The balances of financial liabilities (including derivative financial instruments) by payment due date were as follows: Net receivables or payables from derivative transactions are presented at their net amount.

As at December 31, 2017

Millions of yen

	Carrying amount	Contractual amount	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Non-derivative financial liabilities:								
Trade and other payables	289,521	289,521	289,521	—	—	—	—	—
Borrowings	267,108	273,102	96,401	31,873	63,912	18,946	36,577	25,390
Bonds	39,921	40,779	169	25,137	105	105	105	15,157
Lease obligations	16,550	16,917	7,978	4,603	2,159	1,056	431	688
Derivative financial liabilities:								
Currency derivatives	60	65	54	10	—	—	—	—
Interest rate derivatives	(9,847)	(13,135)	(11,936)	149	(3,243)	718	1,177	—
Total	603,314	607,251	382,189	61,774	62,932	20,826	38,291	41,237

c. Foreign currency risk management

The Group engages in business activities globally and is exposed to risks of changes in foreign exchange rates related to business activities contracted in foreign currencies, such as the purchase of raw materials and packing materials, trading transactions including import and export of goods, financing and investments.

The Group avoids or contains risks of changes in foreign exchange markets for cash flows denominated in non-functional currencies by utilizing foreign exchange contracts, currency options and other instruments after considering netting effects of assets denominated in foreign currencies with liabilities or unrecognized firm commitments, as well as future forecasted transactions that can be determined reasonably. Accordingly, the Group assessed exposures to risks of changes in foreign exchange rates as immaterial to the Group.

d. Interest rate risk

The Group finances its operating and investing activities through bonds and borrowings. Floating-rate borrowings are exposed to risks of changes in future cash flows, while fixed rate borrowings are exposed to risks of changes in their fair values. To mitigate the risk of changes in future interest rates, changes in foreign currency exchange rates, and changes in fair value, the Group uses interest rate swaps, interest rate currency swap and interest rate option contracts (i.e., interest rate caps and swaptions) as its hedging instruments.

The Group's exposures to interest rate risk are limited, and the amount of interest rate risks affect to profit for the year is minor.

e. Management of market price fluctuation risks

The Group is exposed to risks of changes in market prices arising on equity financial instruments (shares). For investment securities, the Group manages such risks by periodically monitoring market quotes and financial conditions of issuers (i.e., business counterparties). The effect of one percent increase or decrease in the market value of equity instruments on the Group's other comprehensive income (before tax effects) was as follows. This analysis, however, is based on the assumption that all other variable factors remain the same.

Millions of yen

	2017
Other comprehensive income (before tax effects)	87

(3) Hedge accounting

Please refer to "(2) Risk management for financial instruments" for the Group's risk management policy over hedge accounting, determined for each class of risk exposures. Foreign currency exchange risks is managed by focusing on to control risk exposures according to foreign currency risk management policy and hedge policy. Exposure of interest rate risk is managed considering financial market trends, asset-liability composition, interest rate fluctuation risks, and other factors.

The effect of hedge accounting on the consolidated statements of financial position and comprehensive income

Details of hedging instruments designated as cash flow hedges

Millions of yen

2017	Contractual amounts	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Foreign exchange risks:				
Foreign exchange contracts:				
Long- U.S. Dollar	9,743	—	121	9
Short- Australian Dollar	5,692	—	15	1
Currency swap contracts:				
Payment in Yen	1,844	—	—	33
Receive in New Zealand Dollar (Hedged item)				
Interest rate risks:				
Interest rate swap contracts:				
Receiving on a floating interest and paying on a fixed interest	18,234	18,234	—	282
Currency swap contracts:				
Receiving on a floating rate and paying on a fixed rate	19,561	—	7,558	45
Payment in U.S. Dollar (Hedged item)				
Receive in Yen				
Receiving on a floating rate and paying on a fixed rate	34,948	18,234	8,013	650
Payment in U.S. Dollar (Hedged item)				
Receive in Pound Sterling				
Receiving on a floating rate and paying on a fixed rate	53,628	53,628	111	4,858
Payment in U.S. Dollar (Hedged item)				
Receive in Euro				

The carrying amounts of derivatives are presented in other financial assets or other financial liabilities in the consolidated statement of financial position.

Increases (decreases) in net valuation gain (loss) on hedging instruments designated as cash flow hedges

Millions of yen

	Effective portion of changes in fair value of cash flow hedges		
	Foreign exchange risks	Interest rate risks	Total
Balance at January 1, 2017	174	(1,423)	(1,248)
Other comprehensive income:			
Incurred for the period	(401)	1,791	1,389
Reclassified	165	(756)	(590)
Tax effect	33	(320)	(287)
Balance at December 31, 2017	(28)	(708)	(736)

Changes in the value of hedged items used as a basis for recognizing the ineffective hedge portion approximates the changes in the fair value of the hedging instruments. "Reclassified" in above schedule represent the amounts reclassified to profit or loss when the hedged items affected net profit or loss, which are recognized as finance income or costs in the consolidated statement of profit or loss. The amount of the ineffective hedge portions is insignificant.

(4) Fair value of financial instruments

a. Classification by the fair value hierarchy level

For financial instruments measured at fair value, their fair values are classified into Levels 1 through 3 based on the observability of inputs used for measurement and their materiality.

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Fair value determined using observable prices other than Level 1 for the asset or liability directly or indirectly

Level 3: Fair value determined using the valuation technique including unobservable inputs for the asset or liability

b. Financial instruments measured at fair value

The fair value measurement methods for major financial instruments are as follows.

Derivative assets and liabilities

The fair value of derivative instruments—e.g., foreign exchange contracts, currency options, interest rate swaps, interest rate currency swaps, interest rate options—are determined based on the prices presented by financial institutions that are counterparties. For example, the fair value of a foreign exchange contract is measured at fair value based on quoted prices of forward foreign exchange markets. The fair value of an interest rate swap is measured at fair value as the present value of future cash flows, discounted using an interest rate swap rate as of the reporting date over a period to its maturity.

Equity instruments

The fair value of listed shares is measured based on the quoted prices available at the reporting date. Unlisted shares are principally measured at fair value using the valuation model primarily based on net assets approach (i.e., a method to determine corporate values based on net assets of issuing companies).

The fair value hierarchy of financial instruments measured at fair value at each reporting date was as follows:

As at December 31, 2017

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets designated as hedging instruments:				
Derivative assets	—	15,828	—	15,828
Financial assets measured at FVTPL:				
Other	968	184	2	1,155
Financial assets measured at FVTOCI:				
Equity instruments	5,566	—	3,158	8,724
Other	—	—	8	8
Liabilities:				
Financial liabilities designated as hedging instruments:				
Derivative liabilities	—	5,918	—	5,918
Financial liabilities measured at FVTPL:				
Derivative liabilities	—	122	—	122

There were no transfers among Levels 1, 2 and 3 for the year ended December 31, 2017.

c. Changes in financial instruments classified with Level 3 during the period

Changes in financial instruments classified as Level 3 during the period were as follows:

As at December 31, 2017

Millions of yen

	Financial assets measured at FVTPL	Financial assets measured at FVTOCI
Balance at January 1, 2017	2	2,481
Total gains and losses	—	29
Other comprehensive income	—	29
Purchases	—	655
Sales	—	(0)
Balance at December 31, 2017	2	3,167

Gains and losses included in profit or loss relate to financial assets measured at FVTPL at the reporting date, which are included in finance income or finance costs in the consolidated statement of profit or loss.

Gains and losses included in other comprehensive income relate to financial assets measured at FVTOCI at the reporting date, which are included in financial assets measured at fair value through other comprehensive income in the consolidated statement of comprehensive income.

Financial instruments classified as Level 3 are measured at fair value based on related internal policies. In performing the fair value measurement, the Group applies the valuation techniques and the inputs that best reflect the nature, characteristics and risks of financial instruments subject to fair value measurement. The result of fair value measurements is reviewed by supervising managers.

d. Financial instruments measured at amortized cost

The fair value measurement methods for major financial instruments measured at amortized cost are described below. Financial instruments whose fair value reasonably approximates their carrying amounts and immaterial financial instruments are excluded from the table below.

Cash and cash equivalents, trade and other receivables and trade and other payables

The carrying amount of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair value due to their short-term maturity.

The Group has adopted IFRS 9 from the current reporting period. Accordingly, trade and other receivables are classified into financial assets measured at amortized cost, while trade and other payables are classified into financial liabilities measured at amortized cost.

Bonds and borrowings

Fair values of bonds are determined as the present value of the obligations, discounted by credit-risk adjusted interest rates over periods to their maturity. The following table shows the carrying amount and the fair value hierarchy of major financial instruments measured at amortized cost at each reporting date.

As at December 31, 2017

Millions of yen

	Carrying amount	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities measured at amortized cost:					
Bonds	39,921	—	40,575	—	40,575
Borrowings	267,108	—	268,228	—	268,228

32. Principle subsidiaries

The Group's principle subsidiaries at the end of the reporting period were as follows:

Name of subsidiary	Place of incorporation and operation	Reportable segment	Proportion of ownership interest and voting power held by the Group: Transition date (January 1, 2016)	2016	2017
Suntory Foods Limited	Japan	Japan	100.0	100.0	100.0
Suntory Beverage Solution Limited	Japan	Japan	—	100.0	100.0
Suntory Beverage Service Limited	Japan	Japan	99.0	99.0	99.0
Japan Beverage Holdings Inc.	Japan	Japan	82.6	82.6	82.6
A-star Co., Ltd.	Japan	Japan	100.0	100.0	100.0
Suntory Foods Okinawa Limited	Japan	Japan	100.0	100.0	100.0
Suntory Products Limited	Japan	Japan	100.0	100.0	100.0
Orangina Schweppes Holding B.V.	Netherlands	Europe	100.0	100.0	100.0
Lucozade Ribena Suntory Limited	United Kingdom	Europe	100.0	100.0	100.0
Suntory Beverage & Food Asia Pte. Ltd.	Singapore	Asia	100.0	100.0	100.0
Cerebos Pacific Limited	Singapore	Asia	100.0	100.0	100.0
BRAND'S SUNTORY INTERNATIONAL Co., Ltd.	Thailand	Asia	100.0	100.0	100.0
PT SUNTORY GARUDA BEVERAGE	Indonesia	Asia	51.0	75.0	75.0
Suntory PepsiCo Vietnam Beverage Co., Ltd.	Vietnam	Asia	100.0	100.0	100.0
FRUCOR SUNTORY NEW ZEALAND LIMITED	New Zealand	Oceania	100.0	100.0	100.0
FRUCOR SUNTORY AUSTRALIA PTY LIMITED	Australia	Oceania	100.0	100.0	100.0
Pepsi Bottling Ventures LLC	United States of America	Americas	65.0	65.0	65.0
Other 85 companies					

33. Related party transactions

Related party transactions and balances were as follows:

Year ended December 31, 2016

Millions of yen

Nature of relationship	Name	Nature of the related party transaction	Amount of transaction	Balance at period end
Parent company	Suntory Holdings Limited	Payment of brand royalty	19,726	1,674
Company owned by the same parent company	Suntory Business Expert Limited	Advance payment of raw materials and other	—	67,069

Year ended December 31, 2017

Millions of yen

Nature of relationship	Name	Nature of the related party transaction	Amount of transaction	Balance at period end
Parent company	Suntory Holdings Limited	Payment of brand royalty	20,815	1,802
Company owned by the same parent company	Suntory MONOZUKURI Expert Limited	Advance payment of raw materials and other	—	60,233

The rate of brand royalty is negotiated considering brand values and determined rational as payment for usage. Suntory Business Expert Limited lease the Group's payment to 3rd party suppliers and do not have substantive transactions with the Group. The amounts above of balance at period end includes consumption tax. Suntory Business Expert Limited was renamed to Suntory MONOZUKURI Expert Limited on April 1, 2017.

Remuneration for principle executives was as follows:

Millions of yen

	2016	2017
Basic remuneration and bonus	434	439

34. Commitments

Commitments related to expenditures in the subsequent periods were as follows:

Millions of yen

	2016	2017
Acquisition of property, plant and equipment	7,710	366

Commitments for the year ended December 31, 2016 are mainly for restoration of factory from Kumamoto Earthquake happened in 2016 and line expansion of Okudaisen Bunanomori Water Plant.

35. Contingent liabilities

The Group provides a guarantee for a bank loans of a third party.

Millions of yen

	2016	2017
Oulmès Drink Developpement SA	306	337

36. Subsequent events

(Sale of the subsidiaries in food and instant coffee operations)

As at March 9, 2018, Cerebos Pacific Limited ("CPL"), a subsidiary of Suntory Beverage & Food Asia Pte. Ltd., (a subsidiary of the Company) transferred all of its shares in three subsidiaries operating food and instant coffee businesses to The Kraft Heinz Company, aiming to optimize its business in the Singapore, Australia and New Zealand area. Considerations of 306 million Australian Dollar was received in cash as at the closing date, however, the transfer price is subject to adjustment pursuant to the share purchase agreement and gain from the sale of the business has not been determined. The adjustment process was not completed as at the approval date of the Group's consolidated financial statements and it is expected to be finalized during the second quarter of the year ending December 31, 2018.

(Acquisition of beverage business in Thailand)

As at March 5, 2018, Suntory Beverage & Food Asia Pte. Ltd., a subsidiary of the Company acquired a 51% share of International Refreshment (Thailand) Co., Ltd., soft drinks operation of Pepsi-Cola (Thai) Trading Co., Ltd. (a subsidiary of PepsiCo, Inc.) in Thailand, aiming to expand the Group's soft drinks business in Thailand. The name of the company became Suntory PepsiCo Beverage (Thailand) Co., Ltd. subsequent to the acquisition.

Consideration of 302 million U.S. Dollar was paid in cash as at the closing date, however, the acquisition cost is subject to adjustment pursuant to the share purchase agreement. The adjustment process was not completed as at the approval date of the Group's consolidated financial statements and it is expected to be finalized during the second quarter of the year ending December 31, 2018.

The fair value of the assets acquired and liabilities assumed at the acquisition date are not disclosed since the fair value adjustment process is ongoing. Accordingly, intangible assets arising from this acquisition has not been determined since the allocation of the purchase price has not been completed as at the approval date of the consolidated financial statements.

37. First-time adoption

The Group prepares its consolidated financial statements in accordance with IFRSs starting with the year ended December 31, 2017. The latest consolidated financial statements prepared in accordance with Japanese GAAP (the previously applied GAAP) are for the year ended December 31, 2016. The date of transition is January 1, 2016.

IFRS 1 requires a first-time adopter to retrospectively apply the standards required under IFRSs in principle except for "estimates," "derecognition of financial assets and liabilities," "hedge accounting," "non-controlling interests" and "classification and measurement of financial assets." IFRS 1 also prescribes exemption provisions which could be voluntarily applied. The effect of applying those exemption provisions as at the date of transition from Japanese GAAP to IFRSs was as follows.

Business combinations - A first-time adopter may elect not to retrospectively apply IFRS 3 *Business Combinations* ("IFRS 3") for business combinations that occurred before the date of transition to IFRSs. The Group has applied this exemption provision and elected not to retrospectively apply IFRS 3 for business combinations that occurred before the date of transition to IFRSs. As a result, goodwill arising from business combinations that occurred before the date of transition to IFRSs are stated at the carrying amount as at the date of transition to IFRSs in accordance with Japanese GAAP. Goodwill is tested for impairment as at the date of transition to IFRSs, regardless of whether there is any indication that goodwill may be impaired.

Deemed cost - IFRS 1 allows a first-time adopter to elect to measure an item of property, plant and equipment, investment properties and intangible assets at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. Fair value of certain items of property, plant and equipment at the date of transition to IFRSs are measured as their deemed costs at that date.

Translation adjustments of foreign operations—IFRS 1 allows a first-time adopter to elect to deem cumulative translation adjustments of all foreign operations to be zero as at the date of transition to IFRSs. The Group has applied this exemption provision.

Leases—IFRS 1 allows a first-time adopter to assess whether a contract existing at the date of transition to IFRSs contains a lease. The Group has applied this exemption provision, and assessed whether contracts existing at the date of transition to IFRSs contain a lease on the basis of facts and circumstances existing at that date.

Financial instruments—IFRS 1 allows a first-time adopter to elect not to restate the comparative information in the initial IFRSs consolidated financial statements in accordance with IFRS 9, but to choose to present it in accordance with the previous GAAP. This may be applicable only if the first IFRSs reporting period begins before January 1, 2019 and if IFRS 9 is applied. The Group has applied this exemption provision, thus, the comparative information for the year ended December 31, 2016 was presented based on the recognition and measurement in accordance with Japanese GAAP.

Reconciliation required to disclose on first-time adoption of IFRSs

Reconciliation of equity as at January 1, 2016 (Transition date)

Millions of yen

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
ASSETS					Assets
Current assets:					Current assets:
Cash and deposits	97,746	(27)	97,718	(1)	Cash and cash equivalents
Notes and accounts receivable	156,918	17,616	174,535	(2), (4), (5)	Trade and other receivables
Finished products	47,844	33,797	81,642	(5)	Inventories
Work in process	6,753	(6,753)	—	(5)	
Raw materials and supplies	27,992	(27,992)	—	(5)	
Deferred tax assets	12,269	(12,269)	—	(7)	
	—	629	629	(1), (4), (6)	Other financial assets
Other current assets	41,379	(20,218)	21,161	(2), (6)	Other current assets
Allowance for doubtful accounts	(352)	352	—	(4)	
	390,553	(14,865)	375,687		Subtotal
	—	96	96	(8)	Assets held for sale
Total current assets	390,553	(14,769)	375,783		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment	347,850	26,584	374,435	(8), (9)	Property, plant and equipment
Goodwill	452,241	(199,098)	253,142	(10)	Goodwill
Trademarks	188,517	280,887	469,404	(10)	Intangible assets
Other intangible assets	68,697	(68,697)	—	(10)	
Investment securities	9,929	(6,207)	3,721	(6), (11)	Investments accounted for using the equity method
	—	12,820	12,820	(4), (6)	Other financial assets
Asset for employment benefits	1,101	(1,101)	—		
Other	20,139	(3,085)	17,053	(6)	Other non-current assets
Deferred tax assets	3,632	6,570	10,202	(7)	Deferred tax assets
Allowance for doubtful accounts	(547)	547	—	(4)	
Total non-current assets	1,091,561	49,219	1,140,781		Total non-current assets
Deferred assets	348	(348)	—	(12)	
Total	1,482,462	34,102	1,516,565		Total assets

Millions of yen

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
					LIABILITIES AND EQUITY
LIABILITIES					Liabilities
Current liabilities:					Current liabilities:
Short-term bank loans	113,649	—	113,649		Bonds and borrowings
Notes and accounts payable	119,831	156,683	276,515	(3)	Trade and other payables
	—	28,720	28,720	(6)	Other financial liabilities
Electronically recorded debt	13,619	(13,619)	—	(3)	
Consumption tax payable	6,471	(6,471)	—	(14)	
Accrued income taxes	13,138	—	13,138		Accrued income taxes
Allowance for bonus	7,255	(7,255)	—	(3)	
	—	2,542	2,542	(15)	Provisions
Accounts payable	87,508	(87,508)	—	(3)	
Accrued expenses	47,661	(47,661)	—	(3)	Other current liabilities
Lease liabilities	7,646	(7,646)	—	(6), (9)	Liabilities directly associated with assets held for sale
Other current liabilities	22,096	(14,766)	7,330	(6), (7)	
				(14), (15)	
Total current liabilities	438,881	3,015	441,896		Total current liabilities
Long-term liabilities:					Non-current liabilities:
Bonds	40,000	258,743	298,743	(13)	Bonds and borrowings
Long-term bank loans	258,743	(258,743)	—	(13)	
	—	30,349	30,349	(6)	Other financial liabilities
Liability for employee's retirement benefits	6,887	2,032	8,920	(16)	Post-employment benefit liabilities
Retirement allowance for directors and Audit and Supervisory Board members	321	(321)	—		
	—	3,191	3,191	(15)	Provisions
Lease liabilities	16,593	(16,593)	—	(6), (9)	
Other	19,294	(12,995)	6,298	(6), (15)	Other non-current liabilities
Deferred tax liabilities	76,821	(14,302)	62,519	(7)	Deferred tax liabilities
Total long-term liabilities	418,662	(8,639)	410,023		Total non-current liabilities
Total liabilities	857,543	(5,624)	851,919		Total liabilities
Equity					Equity
Common stock	168,384	—	168,384		Share capital
Capital surplus	192,535	(1,302)	191,233	(12)	Share premium
Retained earnings	174,380	85,021	259,401	(18)	Retained earnings
Accumulated other comprehensive income	46,223	(47,588)	(1,365)	(17)	Other components of equity
	581,523	36,129	617,653		Total equity attributable to owners of the Company
Non-controlling interests	43,395	3,596	46,991		Non-controlling interests
Total equity	624,918	39,726	664,645		Total equity
Total	1,482,462	34,102	1,516,565		Total liabilities and equity

Reconciliation of equity as at December 31, 2016 (The latest financial statements under Japanese GAAP)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
			Millions of yen		
ASSETS					Assets
Current assets:					Current assets:
Cash and deposits	84,127	(31)	84,096	(1)	Cash and cash equivalents
Notes and accounts receivable	161,037	15,744	176,781	(2), (4), (5)	Trade and other receivables
Finished products	46,378	27,607	73,985	(5)	Inventories
Work in process	4,406	(4,406)	—	(5)	
Raw materials and supplies	23,953	(23,953)	—	(5)	
Deferred tax assets	11,605	(11,605)	—	(7)	
	—	376	376	(1), (4), (6)	Other financial assets
Other current assets	43,253	(19,435)	23,818	(2), (6)	Other current assets
Allowance for doubtful accounts	(217)	217	—	(4)	
Total current assets	374,544	(15,486)	359,057		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment	338,775	23,566	362,342	(9)	Property, plant and equipment
Goodwill	407,283	(161,802)	245,481	(10)	Goodwill
Trademarks	150,827	260,528	411,356	(10)	Intangible assets
Other intangible assets	64,204	(64,204)	—	(10)	Investments accounted for using the equity method
Investment securities	10,290	(6,544)	3,745	(6), (11)	
	—	13,531	13,531	(4), (6)	Other financial assets
Long-term receivable	708	(708)	—		
Other	17,129	(3,451)	13,677	(6)	Other non-current assets
Deferred tax assets	2,714	9,491	12,206	(7)	Deferred tax assets
Allowance for doubtful accounts	(582)	582	—	(4)	
Total non-current assets	991,353	70,987	1,062,340		Total non-current assets
Deferred assets	103	(103)	—	(12)	
Total	1,366,000	55,397	1,421,398		Total assets

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
			Millions of yen		
					LIABILITIES AND EQUITY
LIABILITIES					Liabilities
Current liabilities:					Current liabilities:
Short-term bank loans	72,239	—	72,239		Bonds and borrowings
Notes and accounts payable	116,081	165,463	281,545	(3)	Trade and other payables
	—	31,802	31,802	(6)	Other financial liabilities
Electronically recorded debt	12,742	(12,742)	—	(3)	
Consumption tax payable	8,143	(8,143)	—	(14)	
Accrued income taxes	15,849	—	15,849		Accrued income taxes
Allowance for bonus	8,002	(8,002)	—	(3)	
	—	2,147	2,147	(15)	Provisions
Accounts payable	94,558	(94,558)	—	(3)	
Accrued expenses	50,331	(50,331)	—	(3)	
Lease liabilities	7,074	(7,074)	—	(6), (9)	
Other	25,356	(15,469)	9,886	(6), (7)	Other current liabilities
				(14), (15)	
Total current liabilities	410,378	3,092	413,470		Total current liabilities
Long-term liabilities:					Non-current liabilities:
Bonds	40,000	199,283	239,283	(13)	Bonds and borrowings
Long-term bank loans	199,283	(199,283)	-	(13)	
	—	23,677	23,677	(6)	Other financial liabilities
Liability for employee's retirement benefits	8,784	2,429	11,214	(16)	Post-employment benefit liabilities
Retirement allowance for directors and Audit and Supervisory Board members	246	(246)	—		
	—	2,954	2,954	(15)	Provisions
Lease liabilities	11,670	(11,670)	—	(6), (9)	
Other	18,392	(13,097)	5,294	(6), (15)	Other non-current liabilities
Deferred tax liabilities	74,796	(12,107)	62,688	(7)	Deferred tax liabilities
Total long-term liabilities	353,174	(8,061)	345,112		Total non-current liabilities
Total liabilities	763,552	(4,969)	758,583		Total liabilities
Equity					Equity
Common stock	168,384	—	168,384		Share capital
Capital surplus	183,628	(1,302)	182,326	(12)	Share premium
Retained earnings	199,116	110,465	309,582	(18)	Retained earnings
Accumulated other comprehensive income	1,100	(52,607)	(51,507)	(17)	Other components of equity
	552,229	56,555	608,784		Total equity attributable to owners of the Company
Non-controlling interests	50,218	3,811	54,030		Non-controlling interests
Total equity	602,447	60,367	662,815		Total equity
Total	1,366,000	55,397	1,421,398		Total liabilities and equity

Notes to reconciliation of equity

1. Presentational reclassification of cash and deposits
Time deposits in bank with a maturity of more than three months from the acquisition date that were included in cash and deposits under Japanese GAAP were reclassified to other financial assets (current) in the IFRSs financial statements.

2. Presentational reclassification of trade and other receivables
Accounts receivable-other that were included in other of current assets under Japanese GAAP were reclassified to and are presented as trade and other receivables in the IFRSs financial statements.

3. Presentational reclassification of trade and other payables
Electronically recorded obligations-operating, provision for bonuses, accounts payable-other and accrued expenses that were presented in separate lines of current liabilities under Japanese GAAP were reclassified to and are presented as trade and other payables in the IFRSs financial statements.

Unused paid absences that were not previously accounted for under Japanese GAAP were recognized as liabilities and are included in trade and other payables in the IFRSs financial statements.

4. Presentational reclassification of allowance for doubtful accounts
Allowance for doubtful accounts (current) that was presented in a separate line of current assets under Japanese GAAP was directly netted off against trade and other receivables or other financial assets (current) under the IFRSs. Allowance for doubtful accounts (non-current) was also directly netted off against other financial assets (non-current) in the IFRSs financial statements.

5. Adjustment made for trade receivables and inventories associated with a change in the timing of revenue recognition
Revenue from certain sales of goods transactions was recognized on a shipping basis under Japanese GAAP. Timing of revenue recognition for such transactions was changed to delivery basis, which resulted in an adjustment to associated trade receivables and inventories.

6. Presentational reclassification of other financial assets and liabilities
Derivatives and other receivables that were included in other of current assets under Japanese GAAP were reclassified to and are presented as other financial assets (current) under IFRSs. Guarantee deposits that were included in other of non-current assets under Japanese GAAP were reclassified to and are presented as other financial assets (non-current) under IFRSs. Investment securities that were presented in a separate line under Japanese GAAP were reclassified to and are presented as other financial assets (non-current) under IFRSs.

Short-term deposits received that were included in other of current liabilities under Japanese GAAP were reclassified to and are presented as other financial liabilities (current) under IFRSs. Long-term deposits received that were included in other of long-term liabilities under Japanese GAAP were reclassified to and are presented as other financial liabilities (non-current) under IFRSs. Lease obligations that were presented in a separate line of current liabilities and long-term liabilities under Japanese GAAP were reclassified to and are presented as other financial liabilities (current) or other financial liabilities (non-current) respectively in the IFRSs financial statements.

7. Presentational reclassifications of deferred tax assets and liabilities and reassessment of the recoverability of deferred tax assets
Under IFRSs, all deferred tax assets and liabilities are classified as non-current and not distinguished between current and non-current. Therefore, deferred tax assets and deferred tax liabilities that were presented as current items under Japanese GAAP were reclassified to deferred tax assets (non-current) or deferred tax liabilities (non-current) in the IFRSs financial statements.

Upon the transition to IFRS, recoverability of deferred tax assets and temporary differences associated with investments in associates were reassessed resulting in changes in the amount of deferred tax assets and liabilities recorded.

8. Presentational reclassifications of assets held for sale
Assets held for sale are presented in a separate line in the IFRSs financial statements.

9. Adjustments made for the carrying amount of property, plant and equipment
The Group reassessed the useful lives of certain items of property, plant and equipment as part of the adoption of IFRSs. Finance lease transactions that were entered into on or before December 31, 2008 and were off-balanced under Japanese GAAP, are stated as assets in the IFRSs financial statements. The fair value of certain items of property, plant and equipment as at the date of transition to IFRSs was used as their deemed cost. The fair value of such items of property, plant and equipment as at the date of transition to IFRSs was \8,576 million and decreased by \4,936 million compared with the carrying amount under Japanese GAAP.

10. Adjustments made for goodwill and intangible assets
Intangible assets included in goodwill arising from business combinations executed before April 1, 2010 under Japanese GAAP were reclassified to intangible assets in the IFRSs financial statements to the extent that they are recognized separately from goodwill in the local IFRSs financial statements of subsidiaries.

Certain intangible assets described above were previously amortized over 20 years; however, since these assets meet the definition of intangible assets with indefinite useful lives, cumulative amortization from the date of acquisition were reversed retrospectively in the IFRSs financial statements. Certain goodwill denominated in foreign currencies was translated into the Japanese yen at the exchange rates as at the acquisition date under Japanese GAAP, while such amounts are translated into the Japanese yen at the exchange rates as at the reporting date of the IFRSs financial statements.

11. Presentational reclassification of the amount recognized for investments accounted for using the equity method
Investments accounted for using the equity method that were included in investment securities under Japanese GAAP are presented in a separate line in the IFRSs financial statements.

12. Reclassification of deferred assets
The stock issuance expenses presented as deferred assets under Japanese GAAP are netted against share premium in the IFRSs financial statements.

13. Presentational reclassification of bonds and borrowings
Bonds payable and long-term debt separately presented in non-current liabilities under Japanese GAAP were reclassified to and are presented aggregately as bonds and borrowings (non-current) in the IFRSs financial statements.

14. Presentational reclassification of consumption tax payable
Consumption tax payable separately presented in current liabilities under Japanese GAAP was reclassified to and are presented as other liabilities (current) under IFRSs.

15. Presentational reclassification of other liabilities
Certain liabilities such as asset retirement obligations included in other under Japanese GAAP were reclassified and are presented as provisions in the IFRSs financial statements.

16. Recalculation of post-employment benefit assets and liabilities
The post-employment benefit obligations were recalculated based on IFRS requirements and any difference arising from this recalculation was charged to retained earnings as at the transition date.

17. Reclassification of cumulative translation adjustments of foreign operations
In adopting IFRSs for the first time, the Group has elected to adopt the exemption provision under IFRS 1 and deemed cumulative translation adjustments of all its foreign operations to be zero as at the date of transition to IFRSs.

18. Adjustments to retained earnings
Overall impact on retained earnings from transition to IFRSs was as follows:

Millions of yen

	Transition date (January 1, 2016)	2016
Deferred tax assets and deferred tax liabilities	14,635	14,852
Property, plant and equipment	15,638	15,746
Goodwill and intangible assets	9,028	35,057
Cumulative translation adjustments of foreign operations	46,993	46,993
Other	(1,273)	(2,184)
Total	85,021	110,465

Reconciliation of profit or loss and comprehensive income for the year ended December 31, 2016

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
			Millions of yen		
Revenue	1,410,765	(201,616)	1,209,149	(1)	Revenue
Cost of sales	(629,276)	(48,089)	(677,365)	(1), (2), (4)	Cost of sales
Gross profit	781,489	(249,705)	531,783		Gross profit
Selling, general and administrative expenses	(688,007)	275,796	(412,210)	(1), (2)	Selling, general and administrative expenses
				(3), (4)	
	—	665	665	(5)	Gain on investments accounted for using the equity method
	—	3,959	3,959	(5)	Other income
	—	(12,332)	(12,332)	(5)	Other expenses
Operating income	93,481	18,383	111,865		Operating income
Non-operating income	2,935	(2,935)	—	(5)	
Non-operating expenses	(5,193)	5,193	—	(5)	
Extraordinary income	4,613	(4,613)	—	(5)	
Extraordinary losses	(12,702)	12,702	—	(5)	
	—	559	559	(5)	Finance income
	—	(4,619)	(4,619)	(5)	Finance costs
Income before income tax	*83,135*	*24,669*	*107,804*		Profit before tax
Income taxes	(27,518)	(1,736)	(29,254)		Income tax expense
Income tax adjustments	(2,851)	2,851	—		
Net income	52,765	25,783	78,549		Profit for the year
Other comprehensive income					Other comprehensive income
					Items that will not be reclassified subsequently to profit or loss:
Defined retirement benefit plans	(1,042)	(693)	(1,735)	(4)	Remeasurement of post-employment benefit plans
	(1,042)	(693)	(1,735)		Total
					Items that may be reclassified subsequently to profit or loss:
Foreign currency translation adjustments	(44,799)	(4,424)	(49,224)		Translation adjustments of foreign operations
Deferred gain (loss) on derivatives under hedge accounting	(200)	—	(200)		Changes in fair value of cash flow hedges
Unrealized (loss) gain on available-for-sale securities	123	—	123		Changes in fair value of available-for-sale securities
Share of other comprehensive (loss) income in associates	(200)	—	(200)		Share of other comprehensive income of investments under the equity method
	(45,077)	(4,424)	(49,501)		Total
Comprehensive income	(46,119)	(5,118)	(51,237)		Other comprehensive income for the year, net of tax
Total comprehensive income	6,646	20,665	27,311		Comprehensive income for the year

Notes to reconciliation of profit or loss and comprehensive income

1. Changes in revenue recognition

Certain sales promotion costs with the feature of altering the transaction price (sales incentives, etc.) that were presented as selling, general and administrative expenses under Japanese GAAP are netted against revenue in the IFRSs financial statements.

Revenue from certain sales of goods transactions that was recognized on a shipping basis under Japanese GAAP is recognized on a delivery basis in the IFRSs financial statements. Accordingly, logistics costs presented as selling, general and administrative expenses under Japanese GAAP have been presented as cost of sales under IFRS.

2. Review of estimates relating to useful lives used in depreciation

Upon the adoption of IFRSs, the estimated useful lives of property, plant and equipment were reviewed and revised.

3. Abolishment of amortization of goodwill

Goodwill was amortized under Japanese GAAP over a reasonably estimated period in which the benefits of the investment were expected to be realized, while goodwill is not amortized in the IFRSs financial statements.

4. Changes in accounting for post-employment benefit assets and liabilities

Actuarial gains and losses recognized in other comprehensive income when incurred under Japanese GAAP were amortized on a straight-line basis over certain years within the average remaining service period of the employee when incurred, but these are not amortized under IFRS. In addition, post-employment benefit obligations are recalculated under IFRSs specifications as at the transition date.

5. Presentational reclassifications

Items presented as non-operating income, non-operating expenses, extraordinary income and extraordinary loss under Japanese GAAP are reclassified into the IFRS financial statements as finance income and finance costs for finance-related gains or losses, and as other income, other expenses or gain on investments accounted for using the equity-method.

Reconciliation of cash flows for the year ended December 31, 2016 (The latest financial statements under Japanese GAAP)

There are no material differences between the consolidated statement of cash flows that was disclosed in accordance with Japanese GAAP and that which was presented in accordance with IFRSs.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suntory Beverage & Food Limited:

We have audited the accompanying consolidated statement of financial position of Suntory Beverage & Food Limited and its subsidiaries as of December 31, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suntory Beverage & Food Limited and its subsidiaries as of December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

March 19, 2018

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

Company Name
Suntory Beverage & Food Limited

Head Office
3-1-1 Kyobashi, Chuo-ku,
Tokyo 104-0031, Japan

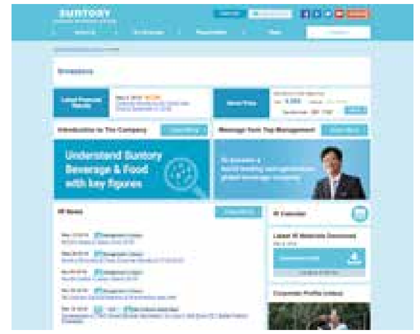
Established
January 2009

Capital
¥168,384 million

Employees
23,219
(as of December 31, 2017)

For further information, please access our website.

Website:
https://www.suntory.com/sbf/



Investor site:
http://www.suntory.com/softdrink/ir/

Group Companies

Name	Business
Japan	
Suntory Foods Limited	Sale of non-alcoholic beverages
Suntory Beverage Solution Limited	Sale of non-alcoholic beverages
Suntory Beverage Service Limited	Sale of non-alcoholic beverages
Japan Beverage Holdings Inc.	Sale of non-alcoholic beverages
Suntory Products Limited	Manufacture of non-alcoholic beverages
Europe	
Orangina Schweppes Holding B.V.	Manufacture and sale of non-alcoholic beverages
Lucozade Ribena Suntory Limited	Manufacture and sale of non-alcoholic beverages
Asia	
Suntory Beverage & Food Asia Pte. Ltd.	Strategic planning and group supervision for beverage and food businesses in Southeast Asia
Cerebos Pacific Limited	Manufacture and sale of health foods
BRAND'S SUNTORY INTERNATIONAL CO., LTD.	Manufacture and sale of health foods
PT SUNTORY GARUDA BEVERAGE	Manufacture and sale of non-alcoholic beverages
Suntory PepsiCo Vietnam Beverage Co., Ltd.	Manufacture and sale of non-alcoholic beverages
Suntory PepsiCo Beverage Thailand Co., Ltd.	Manufacture and sale of non-alcoholic beverages
Oceania	
FRUCOR SUNTORY NEW ZEALAND LIMITED	Manufacture and sale of non-alcoholic beverages
FRUCOR SUNTORY AUSTRALIA PTY. LIMITED	Sale of non-alcoholic beverages
Americas	
Pepsi Bottling Ventures LLC	Manufacture and sale of non-alcoholic beverages

Shareholders' Information

As of December 31, 2017

Stock Code
2587

Date of Listing
July 3, 2013

Stock Listing
First Section of
Tokyo Stock Exchange

Fiscal Year
January 1 – December 31

Authorized Shares
480,000,000 shares

Issued Shares
309,000,000 shares

Number of Shareholders
45,016

Ordinary General Meeting of Shareholders
March
(Record date: December 31)

Shareholder Registry Administrator
Sumitomo Mitsui Trust Bank, Limited
1-4-1 Marunouchi, Chiyoda-ku,
Tokyo

Major Shareholders

Shareholders	Number of shares held (Thousands)	Ratio of shareholding
Suntory Holdings Limited	183,800	59.4%
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	6,580	2.1%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,099	1.9%
Japan Trustee Services Bank, Ltd. (Trust Account)	5,362	1.7%
HSBC BANK PLC A/C ABU DHABI INVESTMENT AUTHORITY	4,196	1.3%
JP MORGAN CHASE BANK 385632	4,166	1.3%
STATE STREET BANK WEST CLIENT - TREATY 505234	3,811	1.2%
JPMorgan Securities Japan Co., Ltd.	3,117	1.0%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,926	0.9%
THE BANK OF NEW YORK 133522	2,810	0.9%

Ratings

Japan Credit Rating Agency, Ltd. (JCR) (As of June 29, 2017)

Long-Term Senior Debt Rating (Issuer Rating)	AA–
CP Rating	J–1+

Moody's (As of November 13, 2017)

Long-Term Senior Debt Rating (Issuer Rating)	A3

Stock Price and Trading Volume

External Evaluation

Suntory Beverage & Food Limited has been acknowledged as a CDP Water A List 2017 company after being highly regarded by the CDP (an international non-profit organization providing environmental information disclosure systems).

The company has been selected to be included in the JPX-Nikkei Index 400.

SUNTORY

SUNTORY BEVERAGE & FOOD

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