Never Changing Ever Changing

ANNUAL REPORT 2018

SUNTORY
SUNTORY BEVERAGE & FOOD

Life is connected through water.

Water

Earth is the water planet. Water covers over 70% of our planet's surface and was essential to the emergence of life and the development of the natural environment. It is the most fundamental resource for existence in this world and will remain vital to both humanity and the Earth in the future, just as it has in the past.

Life

We live on the water planet, and water makes up around 60% of our bodies. For that reason, the role of beverages in everyday hydration is of the utmost importance. In what some are calling the era of 100-year life spans, we will aim to continue providing new value that supports everyone who wants to live a healthy, positive, and distinctive life. That commitment is the basis for our efforts to find solutions to social problems.

Promise

Consumer needs constantly change with the flow of time and those needs vary by country and region. We will continue to respond to these shifting needs through our unwavering commitment to water. While respecting the natural environment, we will keep adding value to water and use nature's gifts to create beverages that will enrich people's lives. That is our unchanging promise.

Water is the key to a positive future.

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SECTION

01

Our Promise—*Mizu To Ikiru*

In this section, we will describe the commitment to water that defines Suntory Beverage & Food (SBF), and role of the *Mizu To Ikiru*—Living with Water—philosophy in our past growth and in our vision for future growth.

SECTION

02

Global Implementation of *Mizu To Ikiru*

Our businesses in five regions outside of Japan are all dedicated to the same promise and vision. In this section, we will describe each of our regional operations and the directions in which they are progressing.

SECTION

03

Making *Mizu To Ikiru* a Continuing Reality

As we move forward, there will constantly be obstacles to overcome so that we can live sustainably with water. In this section, we will describe the specific initiatives based on our current activities.

Basic Information

Here we provide a basic profile of SBF, including our history, corporate data, the corporate governance framework, and other management infrastructure that form the foundation for the realization of our promise and vision.

01 SECTION

Our Promise — *Mizu To Ikiru*

Our promise, as expressed in the words *Mizu To Ikiru*, reflects our role as a company that both depends on water and will ensure its benefit for people, nature, and society as we reach toward new frontiers of value creation. Our vision expresses the goal of providing drinking experiences that customers always value, despite a changing world. Section 01 examines the foundations of our *Mizu To Ikiru* philosophy. It also includes statements about the future of Suntory Beverage & Food (SBF) by our new chairman and president.

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.

Vision

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

Milestones of Value Creation

MAKING HISTORY WITH WATER

A History of *Mizu To Ikiru*

Suntory Group was founded on the threshold of the 20th century in 1899.
In the 120 years since then, Suntory has continually created products to enrich people's lives.
Each of these products has provided added value based on our commitment to water.

《 Milestones in the History of SBF 》

● : Events in various countries before SBF began business in that region

- ● 1835 Launch of *BRAND'S® Essence of Chicken*
- 1899 Opening of Torii Shoten, a precursor of Suntory
- 1921 Establishment of Kotobukiya Limited
- ● 1929 Launch of *Lucozade* in the UK
- 1932 Launch of Suntory's first concentrated juice, *Kōrin*
- ● 1936 Launch of *Orangina* in Europe
- ● 1938 Launch of *Ribena* in the UK
- 1963 Company name changes from Kotobukiya to Suntory Limited

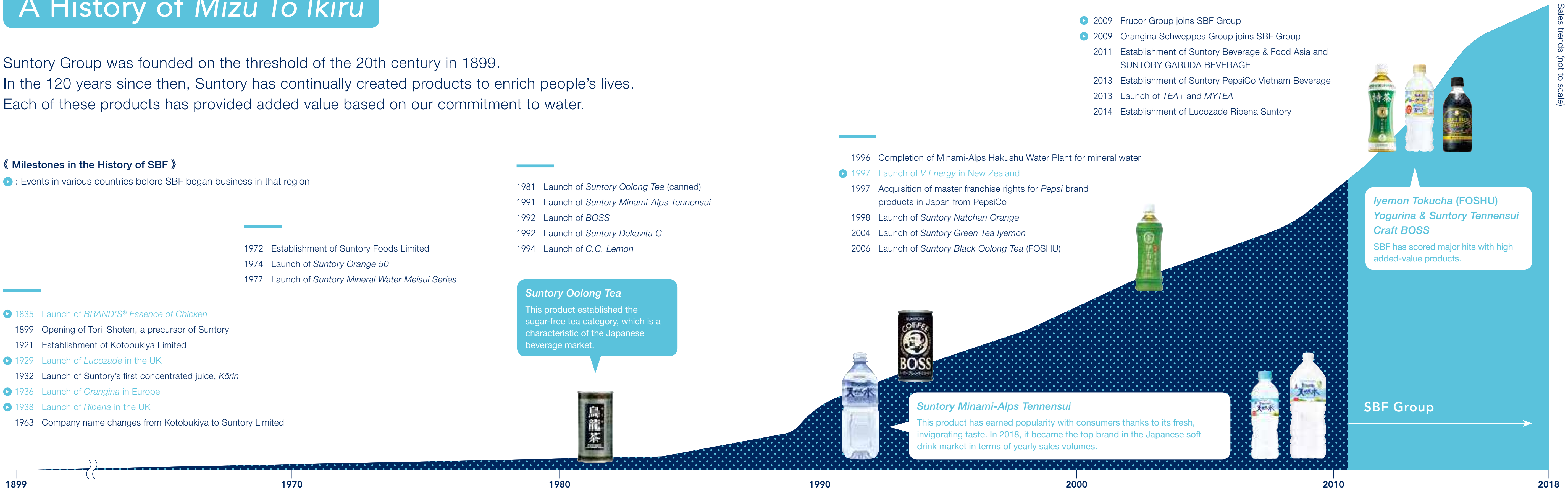
- 1972 Establishment of Suntory Foods Limited
- 1974 Launch of *Suntory Orange 50*
- 1977 Launch of *Suntory Mineral Water Meisui Series*

- 1981 Launch of *Suntory Oolong Tea* (canned)
- 1991 Launch of *Suntory Minami-Alps Tennensui*
- 1992 Launch of *BOSS*
- 1992 Launch of *Suntory Dekavita C*
- 1994 Launch of *C.C. Lemon*

- 1996 Completion of Minami-Alps Hakushu Water Plant for mineral water
- ● 1997 Launch of *V Energy* in New Zealand
- 1997 Acquisition of master franchise rights for *Pepsi* brand products in Japan from PepsiCo
- 1998 Launch of *Suntory Natchan Orange*
- 2004 Launch of *Suntory Green Tea Iyemon*
- 2006 Launch of *Suntory Black Oolong Tea* (FOSHU)

- ● 2009 Frucor Group joins SBF Group
- ● 2009 Orangina Schweppes Group joins SBF Group
- 2011 Establishment of Suntory Beverage & Food Asia and SUNTORY GARUDA BEVERAGE
- 2013 Establishment of Suntory PepsiCo Vietnam Beverage
- 2013 Launch of *TEA+* and *MYTEA*
- 2014 Establishment of Lucozade Ribena Suntory

- 2011 Company name changes to Suntory Beverage & Food Limited
- 2012 Launch of *Orangina* in Japan
- 2013 Listing of SBF on the first section of the Tokyo Stock Exchange
- 2013 Launch of *Suntory Iyemon Tokucha* (FOSHU)
- 2015 Launch of *Yogurina & Suntory Tennensui*
- 2015 Japan Beverage Holdings Group joins SBF Group
- 2016 Establishment of Suntory Beverage Solution Limited
- 2017 Launch of *Craft BOSS*



《 Social Changes 》

- ● Rapid economic growth
- ● Lifestyle diversification
- ● Further shift to RTD products with the expansion of PET bottles
- ● Growing health awareness
- ● Trend toward functional beverages and FOSHU

1899 — The Beverage Business in the Early Days of Suntory

In 1932, the Suntory Group began to manufacture and sell the concentrated apple juice product *Kōrin*, which is believed to be the first soft drink created by Suntory. The in-house development of *Kōrin* shows how, even in that era, Suntory was already creating a variety of new products through technological innovation and the application of its production technology.

1972 — Official Establishment of the Beverage Business in Japan

Suntory Orange 50, a product free of artificial coloring or preservatives, was launched in 1974 at a time when Japanese consumers were becoming more focused on natural foods. Suntory actively adopted new technologies for the product, including the first returnable bottle in the Japanese beverage industry, and a new type of paper-sealed packaging.

1981 — Brand Establishment and Expanding Categories: the Origin of Suntory's Long-selling Brands

Rapid diversification of products, containers, and sales channels led to the continual emergence of competing products during the 1980s and 1990s. This was also the period when SBF launched many of its current long-selling brands, including *Suntory Oolong Tea* and the canned *BOSS* range.

1996 — Brand Growth and Accelerating Business Expansion

Sourced only from specific locations and bottled by dedicated plants, *Suntory Tennensui* mineral water earned continuing popularity as a safe and reliable product backed by strict quality control. SBF also expanded into the market for foods for specified health uses (FOSHU) in response to the growing health-consciousness of consumers.

2009 — Development of a Global Beverage Business

SBF is building global business structures centering on local brands that have been loved for many years in Europe, Asia, Oceania, and the Americas, and works to provide beverages to customers around the world.

2011 — Expanding Our Portfolio of Health-oriented and High Added-value Products

In addition to supplying safe, reliable, and delicious products, SBF is also evolving its portfolio in step with changing consumer preferences and health needs. We offer the convenience of beverages that are available whenever and wherever people want a drink, and we adapt to change through the creation of new added value.

CREATING VALUE WITH WATER

With diverse human resources, the blessings of water and nature, high-quality MONOZUKURI (manufacturing) capabilities developed over many years, and brands that enjoy strong, local popularity in each country and region, SBF is able to create and supply products that provide high added value.

Our Strengths and Assets

Natural assets
- Water as the source of value creation
- Natural ingredients based on the blessings of nature

Intellectual assets
- Long-selling brands that are loved by consumers in each region
- Foundational expertise and R&D technology that enable us to continually meet consumer needs

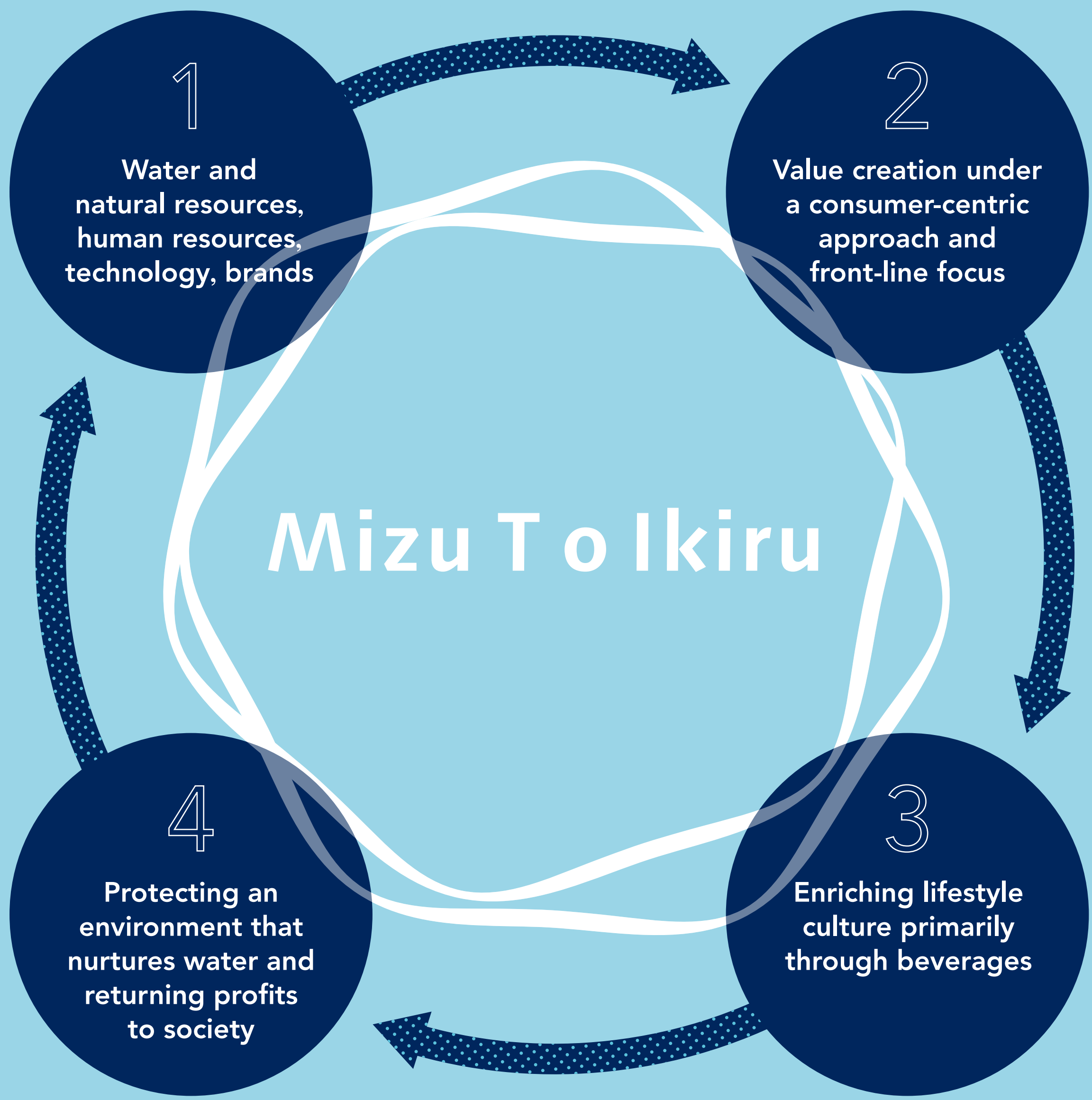
Manufacturing assets
- High-quality MONOZUKURI capabilities (manufacturing plants, technologies)
- Quality assurance capabilities to ensure safe and reliable products

Human assets
- People with the *Yatte Minahare** spirit who can boldly take up new challenges
- Global diversity

Returning Profit to Society

In addition to the reinvestment of profit in our business, we are also committed to sharing value with our stakeholders and society. Giving back to society* is an unchanging value of SBF and the Suntory Group. As expressed in *Mizu To Ikiru*, we see the conservation of water resources and the global environment as our priority. We view water as a precious resource, and are constantly working to ensure its sustainability. Our goal is to maintain a virtuous circle of value creation through conserving and adding value to water in order to benefit society.

*See page 62 to learn more about the Suntory spirit (*Yatte Minahare* and giving back to society).



Business Model

In the beverages industry, it is vital to supply the products that people want to drink whenever they want and in the locations they want. The three keys to achieve this goal are a diverse product portfolio, widespread product availability, and the MONOZUKURI (manufacturing) capabilities and supply chains needed to create the products that are supplied through a wide range of sales channels. Our ability to respond to consumer needs in each region also reflects our consumer-centric and hands-on approach, which encourages local staff to think independently based on their proximity to consumers. Businesses in each region operate on their own initiative but are also part of an organic global network.

Output / Outcome

In this time of continual change in beverage markets and society, our strategy is to create products with great flavors that match the preferences of local consumers in each region. Our products not only provide people with a healthier and more natural way to quench their thirst, namely “enjoyable wellness,” but also help to enrich lifestyles by providing “enjoyable pleasure.” Our goal is to enrich society through beverages.

FOCUS

The Driving Force of *Mizu To Ikiru*

Mizu To Ikiru is the promise SBF has made to society to live sustainably with water.
It is based on a philosophy that has evolved through the long history of Suntory.

Why Water is Precious to Us

The Origin of the Suntory *Mizu To Ikiru* Philosophy

Suntory's intense focus on the quality of water can be traced back to 1923, when the company's founder, Shinjiro Torii, began his efforts to create the first Japanese-made whisky. In other words, the ultimate starting point was whisky. The word "whiskey" is derived from the Gaelic word *uisge beatha*, which means "water of life." With water making up 60% of the human body, that connection is clear, but it is perhaps an odd twist that SBF's search for water to sustain human life began with whisky.

Good water is essential for good whisky. Shinjiro Torii's nationwide search for water eventually led him to the Yamazaki area of Kyoto. Japan's first whisky distillery, the Yamazaki Distillery, was completed in 1924. Among the many Japanese whiskies developed at this distillery was *Yamazaki*, which is still enjoyed by whisky drinkers around the world today.

SOURCE

GROWTH

Growth Fueled by Water

When *Suntory Mineral Water* first went on sale in 1970, the custom of buying and drinking mineral water was almost unknown in Japan. This is because the country is endowed with many natural water sources and the tap water is safe to drink. The mineral water market was extremely small, and the product was initially introduced for use in *mizuwari* (whisky with water on the rocks). However, a press release issued at the time stated the product was intended to be a health-promoting mineral water for regular consumption. Suntory's determination to enrich people's lives by supplying safe, clean water abundant with minerals was present from the start.

In 1973, Suntory launched a project to find a source for the most delicious water in Japan. After exploring many candidate locations, we eventually chose Hakushu in Yamanashi Prefecture, where a second distillery was built. Hakushu was selected because of the strong flow of pure-tasting water spilling from the area's granite layer, and because of the excellent natural environment. In addition, the water had a light, fresh taste.

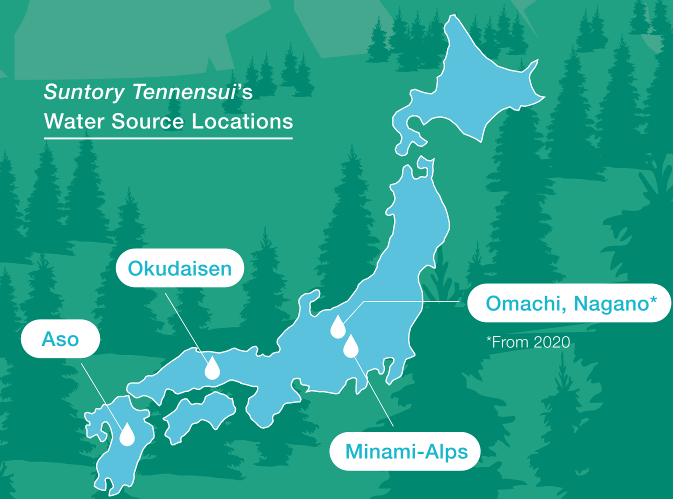
The discovery of this water in Japan's Southern Alps provided the impetus for the subsequent growth of the mineral water business.

In 1977, we launched a series of bottled mineral water products made using famous mineral water varieties from seven locations around Japan. Then the mineral water *Suntory Minami-Alps Tennensui*, which was sourced from Hakushu, was launched in 1991.

Suntory has a long history of studying water and searching for ideal water sources for use in its whisky and beer products. This strong commitment to water quality and taste has driven the growth of the *Suntory Tennensui* brand in step with the increasing demand for mineral water in Japan. We have expanded the brand through the addition of water from Aso in Kumamoto Prefecture and Okudaisen in Tottori Prefecture, as well as creating sparkling and flavored varieties. Our focus on quality control has helped to build a reputation for the *Suntory Tennensui* brand as a range of products that combine the values of safety and reliability with a delicious, fresh, clean taste. As a result of these efforts, *Suntory Tennensui* has grown to become Japan's leading brand in the soft drink market in terms of sales volumes—reaching sales of over 100 million cases* in 2018. A commitment to water quality has been the foundation for the growth of SBF's beverage business.

*Source: Japan beverage research institute Inryou Souken

***Suntory Tennensui*'s Water Source Locations**



Developing Markets through Taking Up New Challenges

Achievements Made Possible by the *Yatte Minahare* Spirit

Suntory's founder, Shinjiro Torii, was a pioneer of the Western wine and liquor culture in Japan. His indomitable spirit was encapsulated in the phrase *Yatte Minahare*. Passed down via successive generations as part of the DNA of the Suntory Group, this phrase continues to inspire us to boldly take up new challenges.

First launched in 1981, *Suntory Oolong Tea* made a key contribution to the establishment of the non-sugar ready-to-drink (RTD) tea market. At a time when Japanese consumers never thought of purchasing RTD tea, we helped to change consumer behavior in Japan by developing products, and implementing promotions and marketing activities that were in tune with rising health-consciousness. Today *Suntory Oolong Tea* continues to deliver growth as a long-selling product.

After building the popularity of oolong tea as a new addition to Japan's tea culture, we next turned to green tea. Our attempts to develop green tea products repeatedly ended in failure, but we remained determined to create a drink that would deliver the unique flavor achieved by brewing the tea in a teapot. These efforts culminated in the development of *Suntory Green Tea Iyemon*, which went on sale in 2004.

Our long-selling *BOSS* range of coffee drinks was originally launched in 1994 as the "coffee of working people." In response to changing work styles and to expand the range of situations in which RTD coffee drinks could be consumed, we developed the *Craft BOSS* series, which is packaged in PET bottles. In 2018, yearly sales of *BOSS* coffee exceeded 100 million cases.

In addition to our focus on product development, we have also continually enhanced services designed to bring our products closer to consumers and to situations where they want to enjoy them. We have actively built our vending machine business with the aim of improving the availability of our products whenever and wherever people want to obtain beverages. Today we offer a wide variety of channels, including vending machines, tea dispensers, water servers, and Smart Cafés® (automatic and self-serving coffee machines). SBF is continually working to provide the optimal product line-up for every location, including the development of specialty products.

SBF has dramatically expanded its business by continually opening up new markets, creating long-selling brands, and developing distribution networks. The keys to success are our commitment to water quality, our determination to discover consumer needs, and our unchanging commitment to our founding spirit expressed in the words *Yatte Minahare*.

Taking SBF Technology and Know-how Overseas

We began to target international expansion in earnest in the second half of the 2000s. While our business operations in Europe, Asia, Oceania, and North America center on popular local brands, we have also combined technology developed in Japan with SBF know-how to create products that are in tune with the culture and preferences of each market.

In Vietnam, a shift to richer diets has been paralleled by an increase in various health issues. In 2013, we responded by launching *TEA+*. This product contains oolong tea polymerized polyphenols (OTPPs), which inhibit the absorption of fat. By 2018, *TEA+* had grown into a major product with annual sales in excess of 10 million cases.

In 2016, we launched the *MayTea* range of low-sugar premium iced tea drinks. Based on our "natural & healthy" concept, these delicious drinks have been extremely popular with health-conscious consumers and have gained the second largest share of the French RTD tea market. In Indonesia, we used our flavored water development technology to create the *goodmood* range of products, which first went on sale in 2017. After establishing ourselves as the pioneer of the flavored water market in Indonesia, we also began to market *goodmood* products in Thailand and Vietnam in March 2019.

Using knowledge and technology developed in Japan, SBF has begun to offer new value that matches local consumer needs and lifestyles in markets around the world.

In the Future, As In the past, Water Will Continue to Be the Driving Force for Our Growth

Suntory Mizuiku in Vietnam

Corporate Belief in Commitment to Water

Access to Japan's abundant water resources has allowed SBF to create its many products. However, if Japan's forests are depleted, we will also lose the water and natural beauty that we enjoy today. That is why Suntory has pledged to protect the forests that are so vital to the conservation of water resources. This promise is the starting point for the many different forest conservation initiatives we undertake.

The Suntory Institute for Water Science plays a part in these initiatives through its comprehensive research activities relating to the protection of water and life. Areas of research range from the physiological role of water, including the relationship between water and health and the source of taste preferences, to the role of water in the natural environment, including the conservation of water for the future through sustainable groundwater utilization.

Under the *Suntory Mizuiku*—Education Program for Nature and Water, we are helping children to understand the importance of water and the role of forests within natural water systems. Since 2004, we have given children opportunities to experience nature for themselves through the Outdoor School of Forest and Water, which is held at Hakushu in Yamanashi Prefecture, Okudaisen in Tottori Prefecture, and Aso in Kumamoto Prefecture. Since 2006, we have also run courses with elementary schools.

Under our *Mizu To Ikiru* philosophy, what can we do as a company to contribute to living sustainably with water? We will always consider our environment and face any related challenges, whether it be over the next ten or even hundred years.

The Outdoor School of Forest and Water

Living More Sustainably with Water

Overseas SBF Group employees, who understand and share our *Mizu To Ikiru* philosophy, are implementing water conservation and environmental education activities that we initially established in Japan. In France, we have formed a water resource conservation partnership with the nature park Grand Parc Miribel Jonage. Activities include forest conservation initiatives in the park, and support for educational programs for children. In Spain, we have undertaken projects to improve water quality and restore low-lying riverbank environments in cooperation with the local people. We are also helping to build understanding about aquatic ecosystems and carrying out extensive educational activities for our employees and their families.

We are continuing to expand the *Suntory Mizuiku* environmental education program into areas such as Vietnam and Indonesia, and developing study activities designed to match local cultural and social backgrounds.

We are supporting initiatives to help supply drinking water in Kenya and have donated a 2,000-liter water tank to an orphanage in Nigeria. We also contribute to the improvement of sanitation infrastructure.

Through these activities in regions around the world, we are diffusing the SBF belief in water conservation as the basis for living with water. Our *Mizu To Ikiru* promise is one we will pass on to future generations, and through a diverse range of initiatives, SBF will continue to make these ideas a reality.

SUSTAINABILITY

The Japanese word MONOZUKURI literally means "making things," but it also implies craftsmanship and a commitment to quality. This word is used globally by the Suntory Group.

FOCUS

MONOZUKURI

Our Tradition of Quality Manufacturing

At every stage in our value chain, from research and development to procurement, production, quality assurance, and logistics, SBF's people work together as a single team across every department in order to deliver quality products to our consumers.

What is MONOZUKURI?

SBF defines MONOZUKURI as the process through which people cooperate across entire value chains to create value that exceeds consumer expectations by reliably supplying high-quality products that are safe, healthy, and delicious.

Research and Development

Through innovation, we turn water and other gifts of nature into beverages that surpass consumer expectations.

Production and Supply Chain Management

Supply chain management is the key to the reliable production of safe and dependable products. We are constantly working to raise front-line capabilities, and to share and apply our expertise and knowledge in every country where we have business operations.

Quality Assurance

We are determined to provide the "best quality in each country" and in line with this commitment, we use advanced quality assurance technology developed over many years to maintain safe, dependable production operations wherever our products are manufactured.

—— Customer Perspectives and Empowering Local Employees ——

SBF supplies soft drinks to meet a wide spectrum of consumer preferences and needs in many different locations. That is why we always think and act from the consumer's perspective and let our local employees take the lead. These principles guide every aspect of our MONOZUKURI activities.

Nozomu Toyomura

Development Executive
Product Development Department
Japan Business Division

Discovering Delicious Tastes to Bring Joy to Consumers

SBF has long used water and other gifts of nature to cultivate delicious flavors and make them available to consumers. I have been involved in the development of coffee products for many years. Our value chain starts with the growing of coffee beans on plantations and encompasses a variety of processes, including the selection, roasting, and blending of beans, and the extraction and compounding of flavors. The people responsible for these various processes all work together as a team to ensure optimal taste and quality.

An example of a product that resulted from this commitment is *Craft BOSS*, which was launched in Japan in 2016 and soon gained popularity. Our focus during the development of these products was to create a delicious and subtly flavored coffee that could be sold in PET bottles. To realize that goal, we needed to use a wide variety of raw materials and complex manufacturing processes. The factors that made this achievement possible were the close communication and reciprocal trust that we have built across our value chain over many years.

We also place great importance on the idea that tiny variations can add up to major change. We are constantly working to improve our processes and products in order to achieve the perfect flavor. With this commitment, we are gaining diverse knowledge and are continuing to evolve.

I have now been given responsibility for product development for Asia and Africa. My aim is to provide new value to consumers by building on my past experience and knowledge and working with colleagues in new markets, while also maintaining cooperation with our team in Japan. I believe that Japan's advanced RTD technology can be used to enrich beverage markets around the world.

Kazuhisa Hosoda

General Manager
Production SCM Department
MONOZUKURI Division

Processes to Support the Reliable Supply of Products

In the Production SCM Department, we are responsible for all processes leading to the supply of safe products to consumers, from the formulation of manufacturing plans based on demand forecasts, and the procurement of raw materials and packaging, to production and logistics.

My team is also responsible for the improvement of production and SCM systems in overseas SBF Group companies. Group companies in various countries are currently engaged in improvement initiatives at all levels. For example, when creating new production lines, we form joint teams of experts from overseas regions and use engineering technology accumulated from different countries and plants. This knowledge is reflected in production line designs. We also collaborate in other areas, such as the exploration of new technologies as the basis for future process innovation.

One of the benefits of collaboration among employees in different regions is the opportunity to absorb expertise developed in various environments from whichever facility is the most advanced in a particular area. This approach allows us to accelerate progress throughout the Group.

As part of our efforts to achieve sustainable MONOZUKURI, we have recently accelerated initiatives toward the reduction of environmental impact over our whole supply chain and across the entire Group. Specifically, we are working toward the achievement of the 2030 environmental targets adopted in 2018 by visualizing water use and energy consumption in manufacturing processes, and by formulating and implementing plans to reduce losses.

We will continue to drive MONOZUKURI evolution in order to create strong front-line operations capable of supplying better products to consumers for the next 20 and 30 years into the future.

Yoshihiro Masu

Quality Assurance Department
MONOZUKURI Division

Nurturing Employees Possessing Quality Assurance Expertise

Quality assurance units in overseas SBF Group companies utilize advanced quality assurance expertise developed to meet the safety and dependability expectations of Japanese consumers, while developing effective mechanisms and systems that match market needs in each country.

One of the strengths of the SBF approach to MONOZUKURI is the knowledge developed in the green tea and coffee categories. In these areas, quality assurance is absolutely vital from the manufacturing stage onwards. I am confident that our knowledge will help to ensure that we can supply safe, high-quality products to consumers when beverages in these categories are launched in the markets of Europe, North America, and emerging countries, where demand is expanding.

Another priority for MONOZUKURI is employee development. We need to train people to be capable of utilizing our technology and expertise. We continually reinforce the Suntory Group's "all for quality" philosophy by bringing overseas managers and key persons in manufacturing operations together for training.

I place great importance on direct dialogue with local staff as a way of ensuring that people thoroughly understand and assimilate the SBF approach. I will continue to work toward our goal of improving quality by sharing knowledge, so that we can maintain and further enhance our top-class quality assurance systems.

*All job titles current as of the time of writing

CEO MESSAGE

With our promise to society, *Mizu To Ikiru*, we will continue to create enjoyable drinking experiences for consumers all over the world.

Mizu To Ikiru

Since the founder of Suntory established the first Japanese whisky distillery in Yamazaki, Kyoto, water has been a core value of our business. We have been affectionately nurturing our symbolic water brand, *Suntory Tennensui* (natural mineral water), and it finally achieved No.1 selling brand in Japan. *Mizu To Ikiru* is the promise to our stakeholders, which we will pass to next generations.

The world is changing rapidly. Advances in technologies and ideas will have significant impacts to our business. It is indeed a challenging period, but we will always remember the basics, pay attention to what is happening in each market, and move forward with agility.

By blending *mizu* (water) with cutting-edge innovations, we will continue to create enjoyable drinking experiences, surprises, and delights for consumers all over the world.

We look forward to your continued support and guidance.

President & Chief Executive Officer
Kazuhiro Saito
齋藤 和弘

TOP INTERVIEW

Mizu To Ikiru and Embarking on the Second Stage of Global Management

Saburo Kogo
Representative Director
Chairman of the Board
Suntory Beverage & Food Limited

Kazuhiro Saito
Representative Director
President & Chief Executive Officer
Suntory Beverage & Food Limited

"SBF has built Japan's top brands by creating new value through trial and error. This experience will be the driving force for our global expansion."

SABURO KOGO

"We have been able to develop new markets by continually taking up challenges in the face of difficulty. Looking ahead, we now have a clear vision of what needs to be done and the direction of future innovation."

KAZUHIRO SAITO

"The many issues facing SBF amount to simply business as usual for the beverage industry."

—In spring 2019, SBF entered a new era with Saburo Kogo becoming Chairman of the Board and Kazuhiro Saito becoming President and CEO. To start, please share your thoughts about the beverage industry's current environment.

Kogo: It would be no exaggeration to say that our business environment is currently under pressure from many directions. In addition to abnormal weather patterns, falling birthrates, demographic aging, and a deflationary trend, the industry also needs to respond to the anti-sugar trend and address the problem of plastic waste in the ocean. Manufacturers face further pressure from labor shortages, soaring production and logistics costs, the limited scope of traditional cost reduction strategies, deteriorating returns from vending machines, escalating competition, and changes in the situations in which people buy beverages and drink them. We will adapt to these changes by implementing new management reforms, but based on past experience, I think we can say this is not an unusual business environment.

Saito: Mr. Kogo and I first began to work together as junior and senior colleagues in 1981, when SBF's beverage business was still newly formed. As a team, we worked to capture new markets through a process of trial and error. At that time, the food business accounted for a loss of ¥5 billion on sales of ¥50 billion. Our product line-up, sales channels, and production and distribution structures were all undeveloped, and there were numerous competitors. Even the weather added to our difficulties, with record low summer temperatures.

Kogo: Our approach in that environment was to focus on the availability of our products so that consumers could enjoy drinks anywhere and anytime at affordable prices, and to develop a product portfolio to meet a wide range of needs. We supported the availability and choice of our portfolio by working to enhance our manufacturing capabilities and supply chains. What we need to focus on going forward is the fact that the strategies we have implemented on a small scale in the past will also be the source of growth for SBF in the future.

Saito: We started to build our vending machine business from a market share of just a few percent. We also saw the potential of water and launched *Suntory Mineral Water* at a time when drinking plain water had not yet become popular in Japan. This product was followed by the introduction of a health-oriented beverage, *Suntory Oolong Tea*, as well as *BOSS* brand coffee drinks, which we developed by essentially adding extra value to water, and *Suntory Tennensui*, which is today Japan's top-selling beverage brand.

Kogo: Our philosophy expressed in the phrase *Mizu To Ikiru*, which literally means "living with water," actually has its roots in the Suntory Group's efforts to obtain pure-tasting, high-quality water for use in the production of whisky. Our efforts to offer new value through continual trial and error have resulted in *Suntory Tennensui* becoming the number one brand* in the Japanese mineral water market for 23 straight years, and the bestselling soft drink brand in 2018. Also, sales of *BOSS* coffee exceeded 100 million cases. I am confident that these two products will emerge as the two top-selling products in the Japanese beverage market in the near future.

Saito: Since that time, nearly 40 years ago, when every aspect of our business was undeveloped, continual innovation has driven our growth as a company that can enrich customers' everyday drinking experiences. It just so happens that a number of difficulties have arisen at the same time, but as veterans in this long struggle, we see the many issues facing SBF amount to simply business as usual for the beverage industry. We know what to do and we can see a way forward to new innovation.

Kogo: We will use our extensive resources of knowledge and technology to expand worldwide and implement growth strategies through global management.

*Source: Japan beverage research institute Inryou Souken

Growth strategies must combine global best practices with a focus on front-line operations.

—What are your views on the outlook for your global growth strategies?

Kogo: Currently SBF is active in around 50 countries, but there is still plenty of blank space on the map. While taking care to control risks, we will be proactive about moving into high potential markets.
Saito: As in Japan, we will pursue both the "natural & healthy" development theme represented in Suntory's health-oriented water and tea products, and also a "unique & premium" product theme that is designed to build our products into category leaders. Health-consciousness is on the rise, including in the Asian markets. This is a major opportunity for us, since we already have a strong portfolio of health-focused products.
Kogo: *TEA+*, an oolong tea product that we launched in Vietnam, has already grown into a strong brand with sales in excess of 10 million cases. Since its initial launch, in Indonesia, we have expanded our *goodmood* range of pioneering flavored water products into markets throughout Asia. In Europe, our *MayTea* brand has become the second-biggest brand in the French bottled tea market only two years after its launch. We plan to introduce it throughout Europe.
Saito: As someone with experience in developing overseas markets, I am very excited about the current situation. I believe that trends in Japan will be echoed in Southeast Asia. However, we also need to be aware of the extremely rapid pace of technological progress and social change in Asia. There is much that we can learn on the Japan side about IT-based information networks, cashless retailing, the rapid dissemination of information, and high-speed product distribution.
Kogo: SBF already has its own intellectual assets, such as proprietary technology and knowledge. However, we also need to actively pursue cutting-edge technologies, such as digital systems, AI, robotics, and the IoT. As high-quality ready-to-drink (RTD) products become increasingly commonplace, we will need to move into non-RTD categories, while also expanding our BtoC business to get closer to consumers.
Saito: The combination of our intellectual assets with new technologies will also be the key to success in European markets, which are becoming more health-focused. By working in close partnership with local distributors, we aim to ensure that our products are always available to enjoy whenever people want.
Kogo: The beverage business could also be considered part of the infrastructure business because of its essential nature. After all, water makes up 60% of the human body. As a manufacturer, we have a responsibility to dependably supply our products, and a mission to support good health by providing safe, high-quality beverages. We will search for unique ways in which SBF can support health in what some call the era of 100-year life spans.

/ SABURO KOGO /

We will build the "One Suntory" culture in all regions through greater understanding of *Mizu To Ikiru* and initiatives based on that philosophy.

—You have identified a focus on empowering local employees as another key requirement for growth. How will this focus be reflected in future initiatives?

Kogo: Our consumers live in many different regions, all of which are continually changing. To succeed in this environment, we need to monitor front-line changes and respond with quick decisions and actions. Our management team and head office exist to support front-line operations, and ultimately to carry the burden of risk-taking.
Saito: I became aware of the importance of going out into the front lines through my experience in the development of the Asian market. There are national and regional differences in the situations in which people consume our products. For example, in Indonesia, RTD cup drinks with straws are common. We want people working in our head office to see this for themselves. That sort of experience is the source of our ability to respond quickly to demand for new value around the world.

One of SBF's strengths is the fact that we have turned the traditional top-down style relationship among management, the front line, and markets into an inverse pyramid. We respond to consumer needs by creating products based on front-line ideas and decisions, with support from management.
Kogo: The expansion of our operations in Asia can be seen as the start of a second phase of globalization for SBF, but we have already created brands that span multiple countries. Our companies in each region deliberately use "Suntory" in their corporate names and promote themselves with pride as members of One Suntory.
Kogo: The SBF Group companies also share our value of giving back to society. We have implemented *Suntory Mizuiku* environmental education programs in multiple countries. As a beverage company that relies on the blessings of nature, providing value-added products while conserving the environment is one of our most important missions. Today, global society faces challenges such as climate change and a shortage of water resources. By actively contributing to the SDGs*, we hope to raise the value of the Suntory brand worldwide.
Saito: Our beverage business is closely linked to people's lifestyles and exists only because individual consumers choose to buy our products. The cumulative result of all those individual purchases is net sales totaling ¥1.3 trillion, as well as the potential for further growth.
Kogo: There is a Japanese proverb stating that one should always be open to both positive and negative experiences as part of living life to the fullest. I want each of our employees to take that message to heart and take an interest in everything around them, while continuing to embrace new challenges in the spirit of *Yatte Minahare*. Our goal now is to maximize our front-line strength and open up a new growth phase under the leadership of President Saito.

/ KAZUHIRO SAITO /

SBF combines knowledge and insights with cutting-edge technology. We will create new value on a global scale by ensuring that all employees possess and share knowledge of the front-line operations.

*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

Global Implementation of *Mizu To Ikiru*

SECTION 02

Suntory Beverage & Food (SBF) operates businesses developed in five regions. Under the customer-centric principle, the regional businesses respond to local customers, while sharing the SBF Group's overall vision and exchanging ideas on the best use of each one's expertise. Each company strives to expand its portfolio of products to match consumer preferences and needs in its country or region, while continuing to develop local brands that people love. Section 02 provides an overview of SBF today and introduces initiatives in individual regions.

Jonathan Moss
Chief Executive Officer
Frucor Suntory Group

Shekhar Mundlay
Chief Executive Officer
Suntory Beverage & Food Asia

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

Saburo Kogo
Representative Director
Chairman of the Board
Suntory Beverage & Food Limited

Kazuhiro Saito
Representative Director
President & Chief Executive Officer
Suntory Beverage & Food Limited

Paul Finney
President and Chief Executive Officer
Pepsi Bottling Ventures

Peter Harding
Chief Executive Officer
Suntory Beverage & Food Europe

FINANCIAL INFORMATION

Net Sales (IFRS) 3-year CAGR*

3.5%

*Compound Annual Growth Rate

Share of Revenue from Regions Outside of Japan

45% in 2018

Share of Segment Profit from Regions Outside of Japan

58% in 2018

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

17.3 billion bottles

Results of 2018, 500 ml bottle equivalent

Number of Participants in Water and Hygiene Education Programs (Japan and Vietnam)

180 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

Number of Brands on Sale for more than **10** years

50

Time Spent on Global Talent Review*

over **100** hours in 2018

*Global human resource management meeting

SBF Overview

We are developing our five regional businesses by focusing on the needs of customers in each country and market.

Suntory Holdings

Suntory Beverage & Food (SBF)*

	Business overview	Main products	Number of employees (as of December 31, 2018)	Main company name (start year)
JAPAN	We are strengthening the position of long-selling brands like *Suntory Tennensui* and *BOSS*, while offering a wide portfolio that includes tea, juice drinks, and carbonated beverages. We also develop integrated beverage services such as vending machines, cup vending machines, and water dispensers.		9,682	Suntory Foods Limited (1972) Suntory Beverage Solution Limited (2016) Suntory Beverage Service Limited (2013) Japan Beverage Holdings Inc. (2015) Suntory Foods Okinawa Limited (1997) Suntory Products Limited (2009)
EUROPE	Our business in Europe focuses on brands that have been locally loved for many years. Alongside core brands like *Orangina* in France, and *Lucozade* and *Ribena* in the UK, we are also developing *Schweppes* carbonated beverages and a wide range of other products.		3,798	Orangina Schweppes Holding B.V. (2009) Lucozade Ribena Suntory Limited (2014)
ASIA	Our business in Asia consists of soft drinks and health supplements. We have established joint venture companies that manage the soft drink businesses in Vietnam, Thailand, and Indonesia in a way that fits the specific needs of each market. The health supplement business focuses on the manufacture and sale of the nutritional drink, *BRAND'S Essence of Chicken*, mainly in Thailand.		6,963	Suntory Beverage & Food Asia Pte. Ltd. (2011) BRAND'S SUNTORY INTERNATIONAL Co., Ltd. (2011) PT SUNTORY GARUDA BEVERAGE (2011) Suntory PepsiCo Vietnam Beverage Co., Ltd. (2013) Suntory PepsiCo Beverage (Thailand) Co., Ltd. (2018)
OCEANIA	Our business in Oceania consists of soft drinks and fresh coffee. Frucor Suntory operates the soft drink business, featuring products like the *V* brand energy drink. Suntory Coffee manages the fresh coffee business, which involves the complete process of selection, purchase, roasting, and sale of coffee beans.		1,208	FRUCOR SUNTORY NEW ZEALAND LIMITED (2009) FRUCOR SUNTORY AUSTRALIA PTY. LIMITED (2009) SUNTORY COFFEE INTERNATIONAL (2018)
AMERICAS	Through Pepsi Bottling Ventures, a joint venture company with PepsiCo, we oversee the bottling of products for North Carolina and other locations in North America. We are also exploring new business options mainly in North America.		2,324	Pepsi Bottling Ventures LLC (1999)

*Number of employees: 167 (as of December 31, 2018)

We are a soft drink company with a globally integrated platform in five key regions.

2018 Financial Digest

Revenue

¥1,294.3 billion

+4.9% YoY

Operating income

¥113.6 billion

-3.7% YoY

Profit for the year attributable to owners of the Company

¥80.0 billion

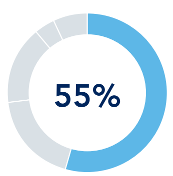
+2.4% YoY

JAPAN

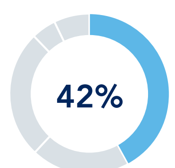
Revenue

¥708.7 billion

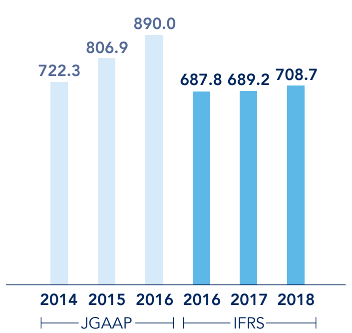
Revenue



Segment profit



Revenue
(¥ billion)



Major country for sales

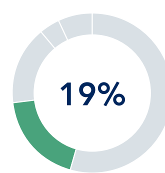
- Japan

EUROPE

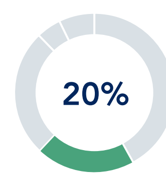
Revenue

¥245.2 billion

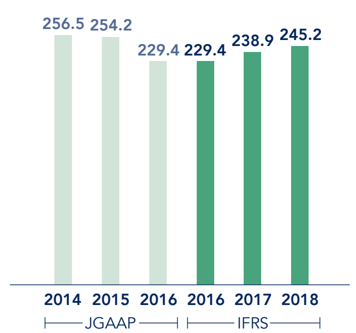
Revenue



Segment profit



Revenue
(¥ billion)



Major country for sales

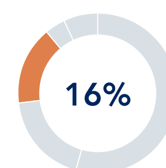
- France
- UK
- Spain
- Africa

ASIA

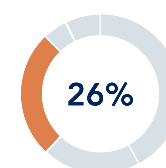
Revenue

¥201.1 billion

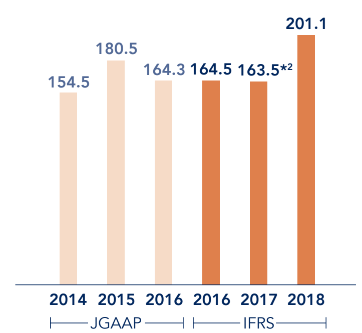
Revenue



Segment profit*1



Revenue
(¥ billion)



Major country for sales

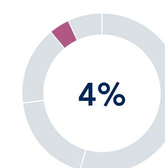
- Thailand
- Vietnam
- Indonesia

OCEANIA

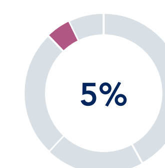
Revenue

¥54.2 billion

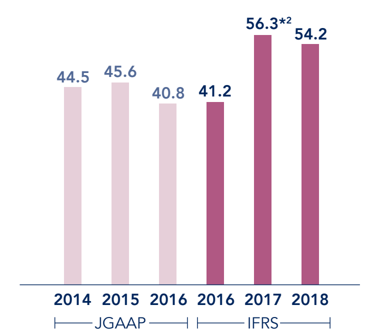
Revenue



Segment profit



Revenue
(¥ billion)



Major country for sales

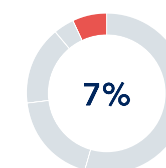
- New Zealand
- Australia

AMERICAS

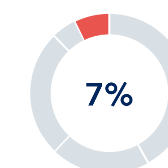
Revenue

¥85.0 billion

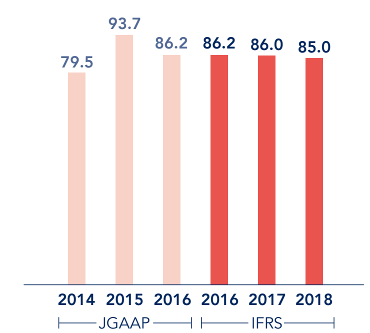
Revenue



Segment profit



Revenue
(¥ billion)



Major country for sales

- U.S.

*1 Including the effect of gain on sale of businesses
*2 Following the organizational changes, the fresh coffee business, which was previously included in "Asia business," was reclassified from "Asia business" into "Oceania business" starting in 2018

Segment Activities

JAPAN

Josuke Kimura

Division CEO
Japan Business Division

木村 穣介

TOP MESSAGE

I began working in the beverage business almost 30 years ago in 1992. There have been many dramatic changes in the market since then, including the explosive growth of small PET bottle products, a rapid increase in sales of non-sugar and health category products, and rising environmental awareness.

Throughout this period, those at SBF have always considered their customers' perspectives and spent years developing long-selling products and expanding the portfolio by offering beverages that provide new value.

We have also continued to respond to consumer needs 24/7 through our vending machine business. Our 670,000 vending machines provide immediate access to our products wherever people live and work, including communities and offices.

We will continue to take up the challenge of using new ideas and technologies to create added value that exceeds customer expectations. We will also continue to support the growth of SBF as one of Japan's leading integrated beverage manufacturers.

OUR BRANDS

Suntory Tennensui | *BOSS* | *Suntory Green Tea Iyemon* | *Suntory Oolong Tea* | *Green DAKARA* | *Pepsi*

Overview of 2018

Sales volumes increased year on year as a result of efforts to strengthen core brands, especially in the water, coffee, and sugar-free tea categories, while also generating new demand by offering products with new value.

Our core brands performed well, especially in the water and coffee categories. For example, *Suntory Tennensui* became the No. 1 brand*1 in the domestic soft drink market in terms of sales volume, while *BOSS* achieved yearly sales of 100 million cases for the first time since its launch.

Profit was lower year on year because of increased supply chain costs, adverse product mix, and other factors. However, we will continue our efforts to improve profitability through medium-term structural reform.

*1 Source: Japan beverage research institutes Inryou Souken

Key Measures for 2019

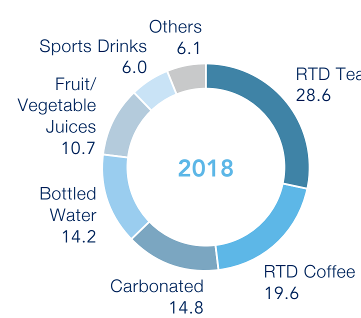
Consumer trends affecting the beverage industry are expected to accelerate. In addition to work style and lifestyle changes driven by new technologies, values are also changing, and consumers are becoming more health conscious. Other factors that are likely to impact the business environment include abnormal weather, escalating price competition, and fluctuations in raw material and logistics costs. We will respond to these challenges through medium-term structural reform designed to improve our profitability.

First, we will work to establish a high added-value and profitability business model. Our priorities are the recovery and expansion of sales of high-margin products, such as the *Iyemon Tokucha* (FOSHU) range, and accelerated innovation, including in product and container development, and the creation of additional consumer contact points.

Second, we will restructure our supply chain management. In addition to the expansion of our production capacity, we will increase the use of technology such as AI to create reliable product supply structures.

Third, we will reform our vending machine business structure. Our marketing activities in 2019 will again focus primarily on *Suntory Tennensui*, *BOSS*, and the sugar-free tea category.

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



*2 Source: Japan beverage research institute Inryou Souken

PRODUCT HIGHLIGHT

Tokucha Ranked First in the FOSHU Tea Drink Market for the Fifth Straight Year*3

We launched the *Iyemon* brand FOSHU (a Food for Specified Health Uses) tea, *Suntory Green Tea Iyemon Tokucha*, in October 2013, as a product that could help with the reduction of body fat.

By targeting mechanisms that assist in the breakdown of body fat, *Tokucha*'s innovative health benefits led to the expansion of the FOSHU tea market. The brand's popularity also reflects its excellent flavor, which combines the rich, sweet fragrance of tea with just the right touch of bitterness. *Tokucha* is the perfect accompaniment to meals, with a flavor that could be enjoyed every day without tiring of it.

In 2018, we adopted a marketing strategy focusing on support for lifestyle improvement. We will continue to develop this FOSHU brand to closely match consumer health needs.

*3 INTAGE SRI research: sales of *Iyemon Tokucha* in the FOSHU tea drink market, January 2014–December 2018 (total for supermarkets, convenience stores, and drug stores)

History of Japan Business

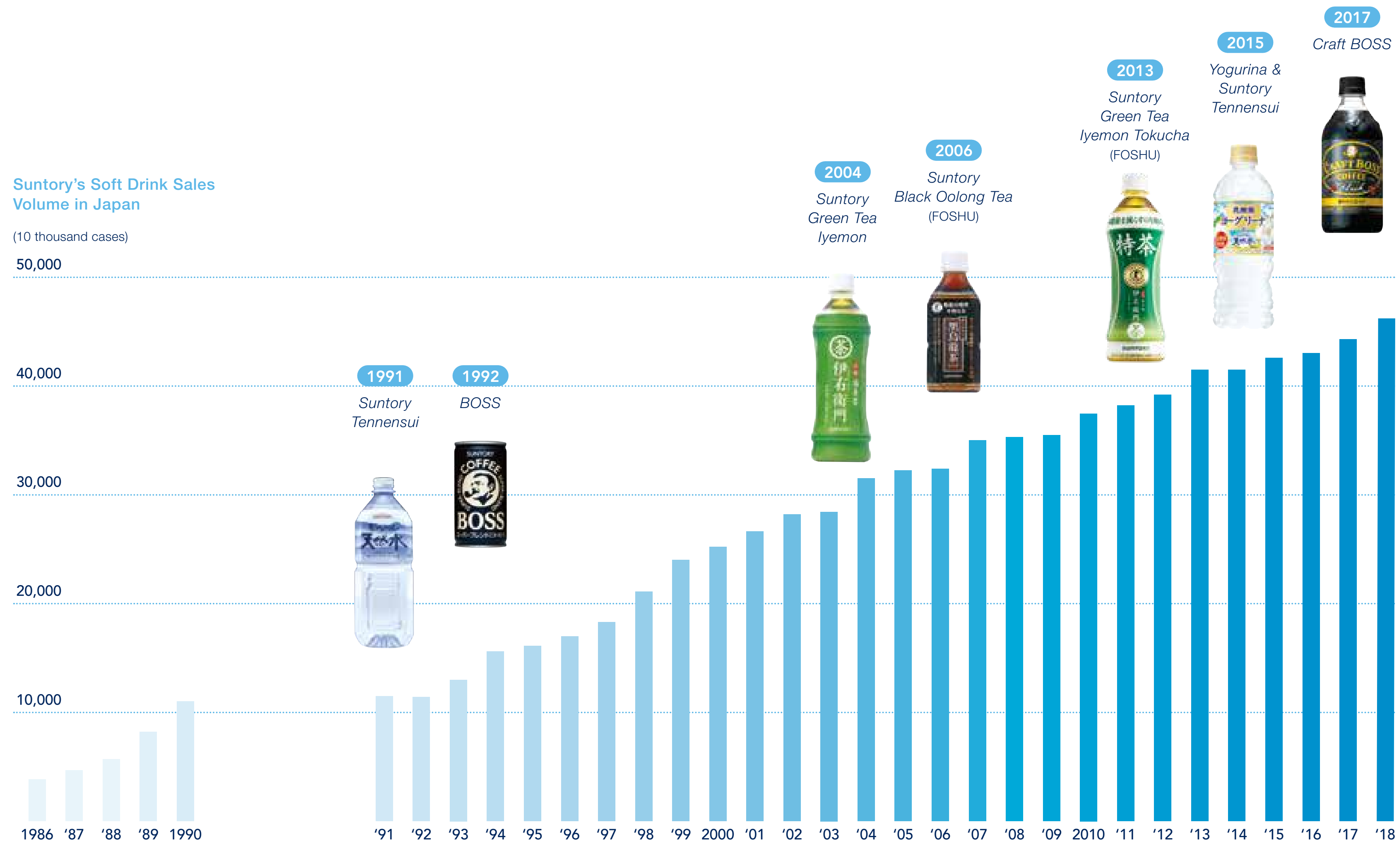
SBF has delivered ongoing growth in Japan's beverage market for more than 20 years. Driving this growth are our core brands, carefully created and nurtured. These brands respond to changing consumer needs and uncover new needs, providing innovative choices across a variety of beverage categories. As we continue to build our brands, we will strive to deliver new value inspired by the needs of the consumer.

1998 – 2018
Sales Volume Compound Annual Growth Rate (CAGR*)

Japan Soft Drink Market **1.2%** < SBF **4.0%**

*Source: Internal data

Suntory's Soft Drink Sales Volume in Japan



Two Major Brands that are Widely Popular

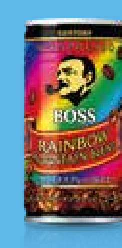
1 *Suntory Tennensui* Attains Highest Sales Volume in the Japanese Soft Drink Market in 2018

The *Suntory Tennensui* brand has continued to grow ever since its launch in 1991. Consumer support can be attributed to the care taken over water sources, the fresh, clean taste, and product safety and dependability based on our total commitment to quality control. Over the past few years, we have created new market areas by introducing products with high added value, such as *Yogurina & Suntory Tennensui* flavored water, which has a delicious yogurt flavor despite remaining clear, and the *Suntory Minami-Alps Tennensui* series of strongly carbonated mineral water drinks.

These innovations helped *Suntory Tennensui* to become the top brand of 2018 in the Japanese soft drink market in terms of sales volumes.

*Source: Japan beverage research institutes Inryou Souken

2 Yearly *BOSS* Sales Exceed 100 Million Cases



First launched in 1992, *BOSS* coffee has become a long-selling brand enjoyed by people across a wide range of occupations and age groups as the "coffee of working people."

We have expanded the range to meet a variety of consumer preferences and needs. For frequent coffee drinkers who enjoy a quick coffee break to invigorate them during work, the *BOSS* range includes canned products, such as *BOSS Rainbow Mountain Blend*, while PET bottle versions with caps, such as *Craft BOSS*, are ideal for sipping while working at an office desk. The *Craft BOSS* series has been especially popular with young women, who had a lower affinity for canned coffee.

In addition to the expansion of the *BOSS* brand to accommodate a wide range of consumer needs, we have also promoted the products through innovative and TV commercials and consumer campaigns. As a result of these strategies, yearly sales in 2018 exceeded 100 million cases for the first time.

EUROPE

Peter Harding
CEO
Suntory Beverage & Food Europe

Peter Harding

TOP MESSAGE

I joined Suntory in 2014 to lead the integration of Lucozade, Ribena, and SBF. In 2018, I moved to the role of CEO for Suntory Beverage & Food Europe (SBFE). Europe is a mature market for soft drinks but is now undergoing structural changes that offer many new opportunities. Consumers are rapidly moving to healthy, natural, low-sugar drinks and expecting a more sustainable environmental footprint, particularly on PET. SBFE has successfully launched new healthier propositions such as *MayTea* and reformulated core brands like *Lucozade* to create low-sugar options. Our opportunity is now to come together as One Suntory to accelerate our innovation on healthy drinks and sustainable packaging formats.

OUR BRANDS

Orangina *Oasis* *Lucozade* *Ribena* *Schweppes* *MayTea*

Overview of 2018

Aggressive investment in marketing, especially for core brands and the premium, low-sugar iced tea *MayTea* resulted in sales performing well. However, adverse weather conditions in Spain caused a downturn in the on-premise market, with resulting sales revenue similar to the previous year's level.

In France, there were year-on-year increases in sales volumes for the carbonated fruit drink *Orangina* and the fruit juice *Oasis*. *MayTea* sales were also strong.

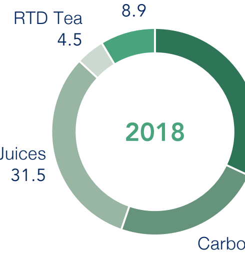
In the UK, *Lucozade Energy* started to recover its sales trend.

Segment profit declined due to supply chain cost increases in France and the sales decline in Spain, as well as one-off impairment losses.

Key Measures for 2019

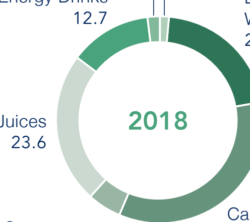
We anticipate continuing expansion of the demand for natural and healthy drinks in the European market. We will respond to this trend by strengthening our core brands, and by implementing structural reforms designed to enhance our systems in such areas as sales and supply chain management. Our focus in France will be further reinforcement of core brands, such as *Orangina*, *Oasis*, and the low-sugar product *MayTea*. We will also target supply chain improvements. In the UK, we will further expand our marketing efforts, especially for the flagship *Lucozade* brand. In Spain, we will step up our marketing activities for *Schweppes* products, which are mainly sold via commercial channels, with the aim of halting a downward sales trend.

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



*Source: Euromonitor 2019, Off-trade Value RSP

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



*Source: Euromonitor 2019, Off-trade Value RSP

PRODUCT HIGHLIGHT

MayTea—Pursuing Flavors Local Customers Love through Japanese Beverage Technology

MayTea was first launched in France in 2016 as a premium, low-sugar iced tea available in a wide variety of flavors. We created the product line by combining highly developed Japanese infusion technology with a deep knowledge of water—the product's base—while also exploring flavors that appeal to local consumers. In 2018, we achieved the second biggest share of the French RTD tea market and we will continue to develop the *MayTea* brand.

ASIA

Shekhar Mundlay
CEO
Suntory Beverage & Food Asia

TOP MESSAGE

I have more than 32 years of work experience, out of which over 27 years are in the beverage industry across various functions in emerging markets. Since 2016, I have been managing the Asia Beverage business. Our new region is broad and very diverse. Most countries in our region are emerging or developing markets and hence provide significant opportunity for growth across both the health supplement and beverage portfolio.

Our focus in 2019 and beyond is to be the growth engine for SBF both in revenue and profits. We will focus on our own Suntory low-sugar, premium portfolio to leverage the changing consumer trends in the beverage industry toward such offerings. We will apply our emerging market learning and experience to new areas to establish a sustainable growth model there.

OUR BRANDS

TEA+ *Sting* *Okky* *goodmood* *BRAND'S Essence of Chicken*

Overview of 2018

We took steps to expand sales of core products in key regions, and we achieved substantial growth in both soft drink sales and profit. This was partly attributable to the launch of Suntory PepsiCo Beverage (Thailand), our joint venture with PepsiCo, Inc., which made good progress after the start-up of its business operations in March 2018.

Our business in Vietnam continued to grow, with sales of the ready-to-drink (RTD) tea *TEA+* exceeding 10 million cases*. Sales of the bottled water *Aquafina*, carbonated drinks, and other products also expanded. In Indonesia, we recorded strong sales of the cup jelly drink *Okky*.

We expanded our marketing efforts for the health supplement business. Our priority was to achieve a recovery in sales of *BRAND'S Essence of Chicken*, especially in Thailand, which is a key market for this product.

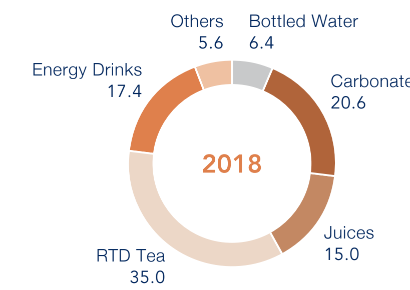
*This figure is based on 24-bottle cases. The local count was over 20 million cases.

Key Measures for 2019

We anticipate continuing growth in Asian markets. Our priority in Vietnam will be the expansion of sales of core products, such as the energy drink *Sting* and the RTD tea drink *TEA+*. In Thailand, we will strengthen our core brands, further improve production efficiency, and enhance our range of low-sugar products, including *goodmood*. In Indonesia, we will target growth in sales of *Okky* cup drinks.

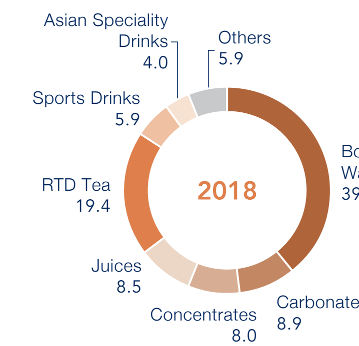
In the health supplement category, we will work toward recovering sales through aggressive marketing of *BRAND'S Essence of Chicken*. We will also step up our efforts in growing markets, such as Myanmar.

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



*Source: Euromonitor 2019, Off-trade Value RSP

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



*Source: Euromonitor 2019, Off-trade Value RSP

PRODUCT HIGHLIGHT

TEA+—Using Oolong Tea Technology to Respond to a Growing Focus on Health

TEA+ was first launched in Vietnam in 2013 as a Suntory brand product. It was created using technology refined in Japan over many years through the development of *Suntory Oolong Tea*. *TEA+* offers a unique flavor that reflects the preferences of local consumers. Sales have expanded in step with the growing focus on health and *TEA+ Oolong Lemon* has been especially popular in northern Vietnam.

OCEANIA

Jonathan Moss
CEO
Frucor Suntory Group

TOP MESSAGE

"Hungry to make drinks better" is our purpose and it shapes everything we do as a team. We are passionate about bringing our purpose to life. We are making a better range of low- and non-sugar beverages. We are pursuing better sustainability, with an ambitious range of initiatives, including the use of recycled PET plastic packaging and a focus on reducing our use of water and energy. Our *V Energy* portfolio also continues to get better with new and exciting flavors and our all-natural product, *V Pure*.

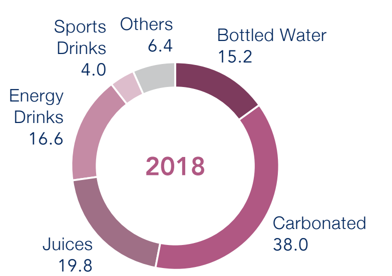
Overview of 2018 and Key Measures for 2019

Our results for 2018 were impacted by sharply higher raw material costs and other factors. However, sales were roughly equal to the previous year's level on a currency-neutral basis, while profit was higher. We continued to strengthen our core brands. In addition to strong sales of our *V* range of energy drinks, we also launched the fermented tea (kombucha) product *Amplify*.

Our priority for the fresh coffee business, which was transferred to the Oceania segment in 2018, was to strengthen our core brands, including *Toby's Estate*, *L'Affare*, and *Mocopan*.

We anticipate steady market growth in 2019. In the soft drink category, we will continue to focus on our core brands, such as the *V* range of energy drinks, and *Maximus* sports drinks. We will also continue to strengthen brands in the fresh coffee segment.

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



*Source: Euromonitor 2019, Off-trade Value RSP

OUR BRANDS

V Energy

Maximus

Just Juice

Toby's Estate

AMERICAS

Paul Finney
President and CEO
Pepsi Bottling Ventures

TOP MESSAGE

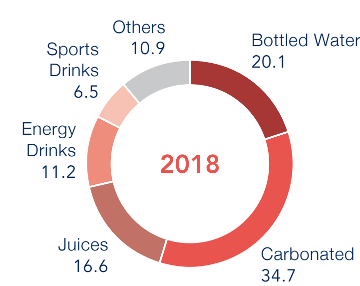
We are a Pepsi bottler who does the majority of our business along the East Coast of the United States. We sell a broad range of drinks including carbonated soft drinks, coffee, tea, and water. In 2019, we will execute our plan and achieve our profit targets as we launch new innovative products from Pepsi and our own products, including *Nature's Twist*. *Yatte Minahare*!

Overview of 2018 and Key Measures for 2019

Our core carbonated drink brands continued to struggle in 2018, but there were signs of recovery, and sales matched the previous year's level on a currency-neutral basis. However, performance was impacted by sharply higher costs for raw materials, labor, and other factors, with the resulting profit lower year on year.

In 2019, we will focus our efforts toward a recovery in the carbonated drink category and the achievement of further expansion in the growing non-carbonated drink category. We will also continue our efforts to reduce costs.

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



*Source: Euromonitor 2019, Off-trade Value RSP

OUR BRANDS

Pepsi

Mountain Dew

Nature's Twist

Aquafina

FEATURE: JAPAN

01

Providing Drinks to Meet Needs in a Variety of Locations

Vending machines are a unique sales channel in Japan. SBF has advantages due to a highly diverse product line-up and a large number of vending machines in offices and other prime locations. We focus on providing a fine-tuned response to consumer needs through this channel.

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.

The TAKU-BEN™ boxed lunch delivery service launched in 2018 allows people working in offices and factories to order lunches through nearby Suntory vending machines. This service is helping to expand meal choices for busy working people, while also enhancing the workplace environment. Customers place orders in the morning through a vending machine in their workplace and the service delivers hot, boxed lunches to the office at noon. In addition to allowing more effective use of their time, the service provides workers with access to freshly cooked meals so adoption of the service has been expanding.

We are also improving our ability to supply beverages to meet a variety of needs. For example, our water service business allows people to enjoy *Suntory Tennensui* from a cooler or dispenser at any time and in a variety of locations, such as homes and offices.

FEATURE: COFFEE

02

SUNTORY COFFEE

SUNTORY COFFEE INTERNATIONAL

Providing for a Rich Coffee Cultures

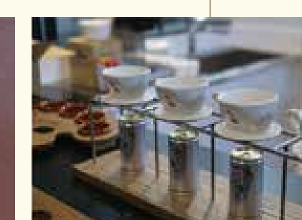
As a pioneering coffee roastery, Suntory Coffee in Australia supplies products and services for a rich coffee culture, starting with the development and roasting of uniquely flavorful coffee beans. In 2018, our assistance with the launch of a new McCafé brand resulted in selection as McDonald's "2018 supplier of the year."

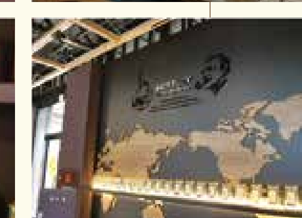
We will continue to expand our coffee business through innovative coffee-related projects in the future.

JAPAN

03

New Coffee Bean Roastery to Meet Diverse Needs





In 2018, we opened Suntory Coffee Roastery Ltd.'s new Ebina Plant in Japan. In recent years, the coffee market has seen an expansion and diversification in drinking styles. In addition to consumers purchasing canned coffee, cafés have grown in popularity, convenience stores sell take-out coffee, and many people enjoy brewing coffee at home.

This new plant will further expand Suntory's production capacity while allowing us to produce roasted beans with flavors that can meet various consumer preferences.

Our coffee beverage business, including the *BOSS* brand, will continue to evolve in the future.

Making *Mizu To Ikiru* a Continuing Reality

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*.
Section 03 introduces sustainability activities based on these concepts.

Our Sustainability Activities

Water
We will work to find solutions for the water problems in each region.

Environment
We will implement environmental management.

Health & Wellness
We will help people to enjoy healthy lifestyles.

People
We will create a corporate culture in which diverse people can thrive.

SECTION 03

Factors Expected to Impact Business Activities

Based on its analysis of the external environment, SBF has identified the following as the main factors that are likely to have positive or negative impacts on its business activities.

FACTOR 1

Global Environmental Changes

- Climate change and abnormal weather
- Water resource shortages
- Plastic waste

We consider environmental change on a global scale a long-term concern because of the effect it has on the sustainability of water resources and other blessing of nature, on which our business activities depend.

The increasing frequency of abnormal weather events that are triggered by climate change and the problem caused by plastic waste have rapidly become issues in recent years. These have direct or indirect impacts on our business model.

FACTOR 2

Social Infrastructure Changes

- Tighter regulations
- Supply chain restructuring
- Technological innovation

Medium- to long-term concerns linked to changes in the social environment for the beverage industry include restrictions imposed on sugary drinks in various countries and rising raw material and supply chain costs, especially in developed countries. At the same time, a shift in consumer preferences toward sugar-free or low-sugar drinks is creating new business opportunities, while technological innovations in various fields, such as AI and ICT, can be seen as opportunities to create new business models, improve the stability of manufacturing and supply-demand management, and improve productivity.

FACTOR 3

Lifestyle Changes

- Declining birthrate and aging population
- Increasing emphasis on health
- Diversification of locations for drinking and shopping

Declining birthrate and aging population are starting to cause structural changes in the beverage industry. In developed countries in particular, average life expectancies have risen to a level that some are calling this the era of the "100-Year Life." Increasing life spans have been accompanied by a growing focus on health. We believe there will be expanding opportunities for SBF to use its knowledge and technology to develop related products, such as low-sugar and sugar-free beverages, FOSHU beverages, and functional beverages. In addition, more diverse lifestyles and the accompanying changes to when and where consumers buy and drink our products are expected to create opportunities to offer new 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* "Promise," our most important priority is the conservation of water, 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

* 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

SBF's Main Priority

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

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 Collaboration with local communities in water resource conservation	p48–p49
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	p52
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	p53
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 CSR procurement Reduction of waste and promotion of reuse	p51
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	p50

Sustainability

WATER

Conserving Water Resources for Future Generations

SBF has made a promise to society, expressed in the Japanese words, *Mizu To Ikiru*, to use water sustainably. We recognize water sustainability as an important priority for our business activities, and we will continue to contribute to finding solutions to water problems in regions around the world.

6 CLEAN WATER AND SANITATION

Conserving Nature that Fosters Water

Since 2003, Suntory has signed medium- to long-term agreements with local governments and forest owners throughout Japan. Under these agreements, which cover periods of several decades, Suntory develops forests as Natural Water Sanctuaries. By March 2019, we had developed forests covering a total area of approximately 12,000 hectares at 21 locations in 15 prefectures and the groundwater these forests accumulate exceeds the water intake at our production facilities.

In France, Orangina Suntory France entered into a 20-year water resource conservation partnership with Grand Parc Miribel Jonage, a natural park located near its Meyzieu Plant. Under this partnership, the company supports forest conservation activities in the park and educational programs for children.

In Spain, Schweppes Suntory España is helping to conserve nature near its plant in Carcaixent. The company is also contributing to the conservation of fire-damaged forests.

Japan: SBF employees helping to conserve water resources

France: The Grand Parc Miribel Jonage

Environmental Education Initiatives Around the World

Suntory Mizuiku—Education Program for Nature and Water will enter its 16th year in 2019. This unique Suntory program helps 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.

We also began to implement the program in Vietnam in 2015. By the end of 2018, around 18,000 children had participated in the cities of Hanoi, Ho Chi Minh, Bắc Ninh and Bến Tre, and in the Quang Nam, Lang Son provinces. In 2019, we plan to extend the program to other parts of the world, especially Indonesia and other Asian countries.

Vietnam: Activities for the *Suntory Mizuiku* environmental education program

Access to Safe Water

In Nairobi, Kenya, SBF Group is helping to provide access to safe, hygienic drinking water in schools through the Kangemi Resource Centre, a local community support group that aids education and efforts to overcome water shortages.

In 2018, we donated a tank with the capacity for 2,000 liters of safe water to an orphanage in Lagos, Nigeria.

In Vietnam, we helped the main schools involved in the *Suntory Mizuiku* educational program to improve their sanitation environment by repairing and installing toilets, washrooms, and other facilities.

Nigeria: A 2,000-liter water tank donated by SBF in Lagos

Reducing Water Consumption through "3R" Activities

Suntory Group factories use large quantities of water as a raw material, to clean equipment, and as a coolant. Water is a valuable and finite resource that needs to be used as efficiently as possible. We achieve that by reducing the amount of water used, by repeatedly treating and reusing it, and then recycling the water back to nature. We ensure that any waste water we discharge is as close as possible to its natural state and that it is carefully managed under our own standards, which are more rigorous than those mandated by law.

Global Activities Based on the *Mizu To Ikiru* Philosophy

SBF Group companies in various countries are responding to local water-related problems through *Mizu To Ikiru* activities.

Spain: Drawing competition for all Suntory employee children

Spain: SBF Group employees are given hourglasses to measure time spent showering

Vietnam: *Mizuiku* training for executives

Topics

Harmony with Nature that Fosters Water —Initiatives at the *Suntory Tennensui* Plants

Suntory Tennensui is currently produced at the Minami-Alps Plant in Yamanashi Prefecture, the Aso Plant in Kumamoto Prefecture, and the Okudaisen Plant in Tottori Prefecture. At the end of 2020, a new production plant will become operational in Omachi City, Nagano Prefecture, providing a new source of water for *Suntory Tennensui*. In addition to using environment-friendly equipment, we will also work with local communities to protect the regional environment. The new plant will be a totally new kind of experience-based facility where people will be able to enjoy the wonders of nature and water through all five senses.

We will continue to work through various initiatives to achieve harmony with nature that fosters water.

Image of the new Omachi plant

SBF Selected for the CDP Water Security A List in Three Consecutive Years

CDP is an international non-profit organization dedicated to the measurement, disclosure, management, and sharing of environmental data about businesses and cities. SBF has earned recognition from the CDP for its water resource conservation initiatives and efforts to reduce water consumption in its factories.

First Company in Japan to gain the Alliance for Water Stewardship (AWS) Certification.

The Okudaisen Bunanomori Water Plant, which produces *Suntory Tennensui*, has achieved AWS certification as a sustainable water user.

ENVIRONMENT

Responding to the Environmental Challenges Facing Society

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

2030 Environmental Goals

We have set two goals for the reduction of the environmental impact 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.

*1 Reduction per unit of production based on business segments in 2015

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.

*2 Reduction of total emissions volume based on business segments in 2015

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Certification of Science Based Target (SBTs)

One of our 2030 Environmental Goals is to reduce greenhouse gas emissions. Our reduction goal has been certified, on the basis of scientific evidence, as the level required to achieve the target set by the Paris Agreement, which aims to keep the global temperature rise of this century below 2°C.

Reducing CO_2 Emissions

We are converting facilities at our plants to use fuels with low CO_2 emission levels, such as liquefied natural gas (LNG). We are also using various renewable energy resources, such as sunlight, snow/ice, biomass, and micro-hydro systems.

In 2014, we began to install "Eco Active" ultra-energy efficient vending machines with the aim of further contributing to the reduction of environmental impact. These machines operate on just 420 kWh per year, or about half of the power consumed by conventional vending machines, which is the lowest power consumption of any vending machine in Japan.

A snow chamber at the Okudaisen Bunanomori Water Plant

Energy efficient vending machine

Responding to the Plastic Waste Problem

SBF has adopted a "2R+B" strategy that calls for the reduction of the quantities of plastic used, the recycling of plastic waste, and the use of bio-derived materials obtained from plants. We have undertaken a variety of innovations, including the development of lightweight container materials, the reduction of container thicknesses, and the introduction of PET bottles made from plant-derived materials.

We have been contributing to Japan's transition into a recycling-based society for many years. For example, in 2011, we became the first manufacturer in Japan to introduce mechanical recycling on a bottle-to-bottle (BtoB) basis.

In 2018 we made a significant step forward in the area of PET bottle recycling with the introduction of the world's first flake to preform (FtoP) direct recycling system. Developed in collaboration with Kyoei Sangyo Co., Ltd, this highly efficient BtoB technology reduces environmental impact by producing bottles from recycled PET. We will continue to use advanced technology such as this as we work toward our medium-term target of using recycled PET bottles for over half of the soft drink products we sell in Japan by 2025.

SBF Group companies around the world are also pursuing initiatives in response to local priorities, including the improvement of recycling rates, the creation of social infrastructure, and consumer education.

In Europe, the introduction of recycled PET bottles has been a priority for Lucozade Ribena Suntory for many years. It is also supporting the development of a circular economy society through the UK Plastics Pact, a framework for government-industry collaboration.

In Oceania, Frucor Suntory has pledged its support for the New Zealand Plastic Packaging Declaration and is working to raise recycling rates.

FtoP direct recycling system

Reducing the Environmental Footprint of PET Bottles

(As of February 2019)

Uses 100% plant-based materials*3

Thinnest labels in the Japan market: 12 micrometers
(Using 80% recycled PET resin)

Lightest PET bottles in Japan*4
(Using 30% plant-derived materials)

Cardboard packaging
(Using 100% FSC certified paper)

*3 Polyethylene cap made from 100% plant-based ethylene. This does not account for any trace amounts of petroleum-based materials left on machinery at the time of material conversion or plastic colorants

*4 For mineral water PET bottles (500 to 600 milliliters) manufactured in Japan

Supply Chain Sustainability Initiatives

At all stages in our supply chains, we work with our business partners to ensure not only product safety but also sustainability, through business activities guided by our consideration for the environment and society. The Suntory Group adopted The Suntory Group's Basic Policy on Supply Chain CSR in 2011, and the Suntory Group Supplier Guidelines in 2017. The Global Procurement Conference, in which overseas Group companies also participate, provides a forum for the discussion and sharing of the Suntory Group's global procurement philosophy and business practices under that philosophy.

To monitor the activities of our suppliers, we conduct yearly questionnaire surveys and visits to producers of raw materials, such as oolong tea and fruit juices. Our monitoring activities also include discussions about human rights issues, such as child labor and forced labor.

Suntory Group Supplier Guidelines

HEALTH & WELLNESS

Helping People to Enjoy Healthier Lifestyles

SBF uses knowledge accumulated through the development of natural and healthy products in Japan to provide consumers worldwide with products that bring enjoyable wellness to their lives.

3 GOOD HEALTH AND WELL-BEING

Expanding Our Portfolio of Natural and Healthy Products—SBF's Key Strength

For decades the expansion of the world beverage market has been driven by consumer demand for drinks, especially carbonated products, which contain large amounts of sugar. In recent years, there has been an accelerating shift in demand toward healthier and more natural drinks.

For many years SBF has developed sugar-free and low-sugar drinks, such as tea and water, for consumers in Japan, which has become a leading market for natural & healthy beverages. Today, we are using that knowledge to develop new drinks in other countries, such as *goodmood* in Indonesia and *MayTea* in France. *goodmood*, which was developed in Indonesia, was also launched in Vietnam and Thailand in 2019.

In Europe, we are actively reducing the amount of sugar in our products, especially in *Lucozade* and *Ribena*. Our goal for the future is to use the synergy of our global long-selling brands, our technology, and our expertise to help consumers worldwide to experience enjoyable wellness.

goodmood (Indonesia)

MayTea premium low-sugar iced tea (France)

Ideas for Healthier Lifestyles

We have aligned our vision for the future in Japan with that of consumers who want to continue to enjoy healthy and positive lifestyles. Our commitment to supporting the aspirations of these consumers is encapsulated in the "100-Year-Life Project," which we launched in the fall of 2018. Activities under this project include joint research with outside institutions, the development of beverages designed to combat lifestyle diseases, the reinforcement of our product portfolio, and the provision of lifestyle improvement programs.

In Europe, we issued a report entitled "Moving on Health and Wellbeing."

Activities include initiatives to encourage nearly one million people to do more exercise, halving the amount of sugar used in our main brands, restructuring office health programs with the cooperation of employees, and the promotion of physical and mental wellbeing at work. Focusing on beverage products, we will continue to contribute globally to solving health problems from the perspectives of both taste and health.

100-Year-Life Project

Moving on Health and Wellbeing

PEOPLE

Enhanced Growth for Employees and Society

One of the fundamental principles of the Suntory Group is the promotion of diversity through diversity management. Throughout the world, we aim to create energized working environments in which people with a wide variety of individual attributes can work productively in the Suntory culture of freedom and open-mindedness.

8 DECENT WORK AND ECONOMIC GROWTH

Sharing and Disseminating Our Philosophy —*Yatte Minahare*, Giving Back to Society, One Suntory

We use a variety of activities to foster understanding and acceptance of our founding philosophy, including the *Yatte Minahare* spirit, in all of our Group companies in Japan and overseas. Top management executives are actively involved in these efforts. For example, they personally visit offices and plants in Japan and other countries to hold town hall meetings at which they explain our founding spirit and vision in their own words.

Spain: Employees and *Yatte Minahare*

Global Human Resource Development, Promotion, and Exchange —Talent Management Encompassing All Employees

We conduct talent reviews across the entire SBF Group in order to discover, develop, and utilize people with the ability to succeed in the global arena. We also consider human resource exchanges across borders and business segments as a way of accelerating career development through the provision of a wide variety of growth opportunities.

The Suntory Group also implements talent management for all employees. For example, specialist advisers help employees to develop their careers independently through individual career consultations and workshops.

Thailand: "One Suntory Walk" event

Topics

Selection for the "White 500" List

2019 健康経営優良法人 Health and productivity ホワイト500

The Suntory Group recognizes healthy and energetic employees as the source of its competitiveness. In 2016 we began to introduce health management and implement work-style reform initiatives with the aim of maintaining and improving the health of our employees and their families. In recognition of these efforts, Suntory Holdings and Suntory Beverage & Food were selected for the large enterprise category of the "White 500" list in 2019. The Certified Health and Productivity Management Organization Recognition Program is jointly administered by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi to provide recognition for companies that have made outstanding progress with health and productivity management.

Selected as One of Vietnam's Top Three Sustainable Businesses in 2018 and for Asia Human Resources Development Awards 2018

Suntory PepsiCo Vietnam Beverage was selected by the Vietnam Chamber of Commerce and Industry (VCCI) as one of the top three sustainable businesses in Vietnam. This is the third time that the company has won the award.

In addition, for recognition of its positive impact on communities through human resource development in Asia, Suntory PepsiCo Vietnam Beverage was selected for the Asia Human Resources Development Awards.

Board of Directors

As of March 29, 2019

Representative Director
Chairman of the Board

Representative Director
President & Chief Executive Officer

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 Management Division

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

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 Position

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

Director, Member of the Audit and Supervisory Committee

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

Important Concurrent Position

Attorney of TMI Associates

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

Important Concurrent Position

President and Representative Partner of Masuyama & Company LLC.
Outside Director of KOKUYO Co., Ltd.

Q&A

Three Questions to Outside Directors

Q1: What do you consider SBF's unique strengths?
Q2: What kind of innovation do you think will lead to further growth for SBF?
Q3: How would you define your role as one of SBF's outside directors?

Yukari Inoue

Outside Director

A1 I think that the core strengths of SBF can be found in its clearly defined corporate mission, as expressed in the words *Mizu To Ikiru*, and its corporate DNA, including the *Yatte Minahare* spirit. SBF has a wonderful corporate culture in which every employee, regardless of their age and the area in which they work, can speak freely and try new ideas. I am also very impressed by the company's capacity for action; once a strategic direction has been decided, the entire organization perseveres as one toward that goal.

A2 However large SBF grows, I hope it never loses sight of its entrepreneurial spirit. Large corporations need to be alert to competition, not from other large corporations, but from entrepreneurs starting up new businesses in kitchens and warehouses. I believe that SBF has many employees who are driven by the desire to create new value. The company needs to provide an environment in which those people can turn their ideas into reality.

A3 As an independent outside director and a representative of the general shareholders, I believe that my role is to help SBF to enhance its corporate value, not only by participating in discussions as a kind of yardstick within the company, but also by using my own experience to provide input at meetings of the Board of Directors in order to broaden the scope of thinking within the company. I also hope to be a source of inspiration for career advancement by female employees of SBF.

Harumichi Uchida

Outside Director

A1 I believe that the strength of SBF comes from its strong attitude of freedom, open-mindedness, and willingness to take up new challenges, and from a shared culture based on respect for the individuality and collective diversity of its employees. From a business development perspective, the company is constantly driven by the spirit of innovation to discover and create market demand. Even more important is the fact that SBF is a group of people who really enjoy their work.

A2 To achieve further growth, SBF needs to strengthen the processes through which it modifies its action plans and other policies, while sharing clearly defined medium- and long-term plans, formulating and implementing specific action plans, and verifying the results. Another priority is the reinforcement of governance, compliance, and risk management systems in order to prevent the company's willingness to take up new challenges from slipping into recklessness.

A3 Making use of my experience consulting for businesses in making appropriate management decisions concerning various legal issues in Japan and overseas, my primary role is to provide SBF's executives with appropriate advice from risk management and compliance perspectives. I aim to support the company's business strategies by providing advice that is based on positive rather than passive or negative perspectives.

Mika Masuyama

Outside Director

A1 The primary source of SBF's strength is its people. My impression of SBF employees is that they think positively and optimistically, even when things do not go according to plan, and that they get things done quickly. I am particularly impressed by their proactiveness to express their own views clearly to their superiors and their colleagues, and by their strong-willed and self-disciplined approach to work. I hope that SBF will always be an organization in which people with these qualities are recognized and valued.

A2 It is challenging for SBF to deliver results continuously while expanding its business in Japan and overseas through organic growth as well as corporate acquisition and partnerships. As their workforce becomes larger and more diverse, the key to growth will be the way in which SBF strengthens its *Yatte Minahare* spirit and how it achieves results by putting it into practice.

A3 The talent on which I have based my career is the ability to achieve results with a diverse range of people in multinational corporations. As a representative of the general shareholders, I constantly anticipate future developments from an independent perspective. I also hope to use my experience to provide advice on how to achieve results by motivating diverse talents. In addition, I want to contribute to the global implementation of proactive governance in ways that align with the *Yatte Minahare* spirit.

Corporate Governance

Basic Stance on Corporate Governance

As a company dedicated to the *Mizu To Ikiru* philosophy, SBF has promised to respect nature, enrich society, and continually take up new challenges. Our vision, which reflects social changes and a growing consumer focus on health, is to be the first to create next-generation drinking experiences that are healthier, more natural, convenient, and enhance people's lives. We will also work to augment 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.

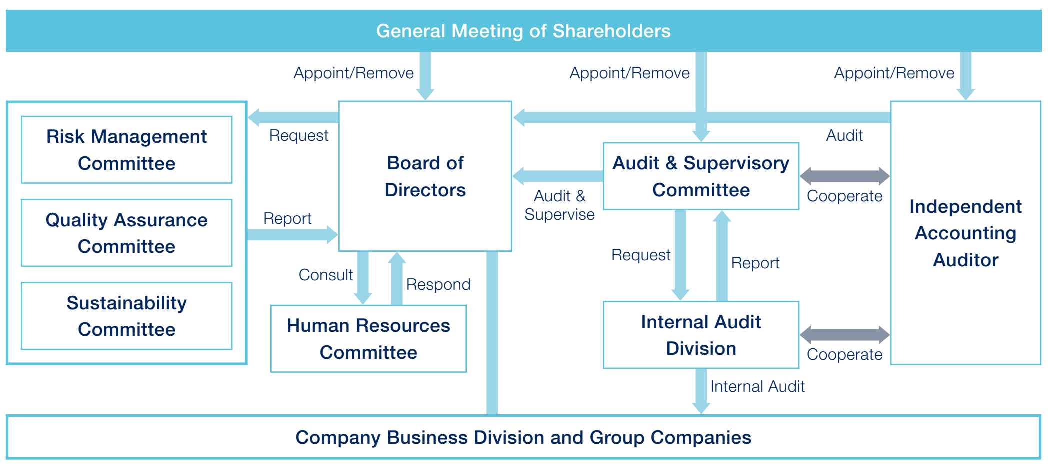
Overview of Corporate Governance Framework

Suntory Beverage & Food Limited (the "Company") has chosen to be incorporated as a company with an Audit & Supervisory Committee for its corporate governance structure. The aim of this decision is to improve the effectiveness of auditing and supervisory functions through the auditing performed by directors, who have the right to vote at Board meetings and serve on the Audit & Supervisory Committee, as well as to improve the effectiveness of internal controls through the implementation of auditing that utilizes the internal audit division.

For further information on the overview of our corporate governance system, please visit our website.

https://www.suntory.com/softdrink/ir/management/governance02.html

Outline of Corporate Governance Framework



Reasons for Selection of Outside Directors

	Member of the Audit & Supervisory Committee	Independent officer	Reason for selection	FY2018 Attendance at the Board of Directors	FY2018 Attendance at the Audit & Supervisory Committee
Yukari Inoue		○	Ms. Inoue has an abundance of expertise and knowledge in corporate management through her many years of service, and keen insights derived mainly from her professional experience overseas.	12/15	
Harumichi Uchida	○	○	Mr. Uchida has an abundance of expertise and knowledge as an attorney, and keen insights in the field of corporate law.	15/15	14/14
Mika Masuyama	○	○	Ms. Masuyama has a wealth of consulting experience and keen insights in fields such as corporate governance, human resource management, and M&A.	15/15	14/14

Reason for Choosing the Current Corporate Governance System

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 the Company'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.

Evaluation of the Effectiveness of the Board of Directors

Once a year, the Company requires all directors to conduct a self-evaluation on the effectiveness of the Board of Directors. In 2018, a questionnaire, which required a signed response, was distributed to all directors regarding the awareness of current conditions and how discussions should proceed in the future concerning important Company management issues. The purpose of the questionnaire was to evaluate the effectiveness of the Board of Directors, including its role, composition, and suitability of operations, and to provide an opportunity to grasp each director's awareness of the issues involved. Based on the results of the questionnaire, at the Board meeting held in January 2019, the directors discussed the issues concerning the Board of Directors and the policies for responding to those issues that had been confirmed in 2018. It was also confirmed at that meeting, that improvement had been obtained regarding the enhancement of discussions relating to the management plan, which had been an issue in the 2017 evaluation. Also, the deliberations performed for medium- and long-term management strategies, management issues, etc. are being enhanced each year. In addition, discussions regarding the medium- and long-term management strategies and management issues deserving of prioritized deliberation in 2019 were also carried out. Looking forward, we will work on further improving the effectiveness of the Board of Directors.

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

By resolution of the Ordinary General Meeting of Shareholders held on March 27, 2015, remuneration for directors (excluding directors who are Audit & Supervisory Committee members) has been established as ¥1,000 million or less per year (not including the salaries earned by directors who are also employees). Remuneration for outside directors was established as ¥100 million or less per year. The limit for Audit & Supervisory Committee member remuneration was set at ¥150 million per year according to a resolution passed at the same meeting. The allocation of remuneration to individual directors (excluding directors who are Audit & Supervisory Committee members) is entrusted to the Board of Directors, while the allocation of remuneration to each Audit & Supervisory Committee member is entrusted to the Audit & Supervisory Committee.

(ii) Total compensation amounts for persons receiving total compensation of ¥100 million or more

Name	Title	Total compensation by type (millions of yen): Base compensation	Bonuses	Total compensation, etc. (millions of yen)
Saburo Kogo	Director	72	43	115

(iii) Policy on determining remuneration, etc. for the Company's directors

Remuneration, etc. for the Company's directors are structured to be at levels that correspond to their role and responsibilities in a manner that motivates them to improve the Company's performance and corporate value and gives consideration to securing outstanding personnel.

Remuneration, etc. for the executive directors consists of base compensation (monthly, fixed amount) and a bonus (annual, performance-based) and this level is set depending on responsibilities. Bonuses are primarily determined by a benchmark based on consolidated operating income (excluding one-time income and expenses).

Remuneration, etc. for non-executive directors shall in principle only consist of base compensation (monthly, fixed amount). Full-time Audit & Supervisory Committee members shall be paid, in addition to base compensation, a bonus (annual, performance-based) in consideration of the contribution to the Company's performance. Bonuses are mainly determined by a benchmark based on consolidated operating income (excluding one-time income and expenses).

In addition, the Company does not have a retirement allowance system or a stock option system.

Securing Independence from the Parent Company

The Company recognizes Suntory Holdings Co., Ltd. as its parent company.

The Company does not conduct business development based on the instructions and approval of the parent company, but carries out specific business execution based on its own decision-making centered on the Board of Directors including the independent outside directors.

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

https://www.suntory.com/softdrink/ir/management/governance.html

(i) Total amount of compensation, total amount by type of compensation, and number of recipients by director category

Title	Total compensation and other remuneration (millions of yen)	Total compensation by type (millions of yen): Base compensation	Bonuses	Number of eligible directors
Directors (excluding Audit & Supervisory Committee members and outside directors)	329	209	119	7
Outside directors (excluding Audit & Supervisory Committee members)	12	12	—	1
Directors (Audit & Supervisory Committee members, excluding outside directors)	46	28	18	1
Outside directors (Audit & Supervisory Committee members)	28	28	—	2

Note: Amounts do not include salaries earned as employees.

Performance Highlights

Suntory Beverage & Food Limited and Consolidated Subsidiaries

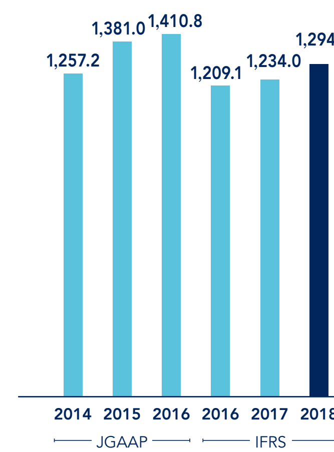
(¥ million)

	JGAAP			IFRS		
	2014	2015	2016	2016	2017	2018
For the year						
Revenue (net sales)	1,257,280	1,381,007	1,410,765	1,209,149	1,234,008	**1,294,256**
Operating income	85,950	92,007	93,481	111,865	117,955	**113,557**
Profit for the year attributable to owners of the Company (net income attributable to owners of the Company)	36,240	42,462	46,056	71,501	78,112	**80,024**
Depreciation and amortization	50,032	56,302	58,654	62,347	63,934	**63,319**
Amortization of goodwill	25,075	27,226	28,680	—	—	**—**
Net income before amortization of goodwill	61,315	69,688	74,737	—	—	**—**
EBITDA*2	161,057	175,535	180,816	182,585	188,157	**174,092**
Earnings per share (yen)	—	—	—	231.40	252.79	**258.98**
ROE (ratio of profit for the year to equity attributable to owners of the Company)	—	—	—	11.7%	12.0%	**11.4%**
Before amortization of goodwill						
EPS (yen)	198.43	225.53	241.87	—	—	**—**
ROE	10.6%	11.8%	13.2%	—	—	**—**
After amortization of goodwill						
EPS (yen)	117.28	137.42	149.05	—	—	**—**
ROE	6.3%	7.2%	8.1%	—	—	**—**
Cash flows						
Cash flows from operating activities	108,639	145,741	161,860	163,083	149,513	**146,354**
Cash flows from investing activities	(67,483)	(188,847)	(57,849)	(57,461)	(52,958)	**(58,543)**
Free cash flow	41,156	(43,106)*4	104,011	105,621	96,554	**87,811**
Cash flows from financing activities	13,671	38,504	(115,515)	(117,126)	(63,593)	**(56,868)**
Cash and cash equivalents at end of the year	105,505	97,718	84,096	84,096	113,883	**146,535**
At year–end						
Total assets	1,389,096	1,484,434	1,366,000	1,421,398	1,522,029	**1,539,416**
Total equity	635,624	626,890	602,447	662,815	746,201	**798,877**
Capital expenditures	69,141	63,535	60,172	60,734	59,068	**60,444**
D/E ratio (times)*3	0.4	0.5	0.4	0.3	0.2	**0.2**

*1 Adopted IFRS from the year ended December 31, 2017
*2 EBITDA: operating income + depreciation and amortization + amortization of goodwill
*3 D/E ratio: (interest-bearing debt – cash and cash equivalents) / total equity
*4 In 2015, the Company acquired shares of Japan Beverage Holdings Inc. (approx. ¥150 billion)

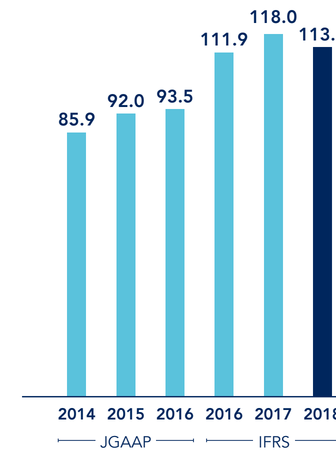
Revenue

(¥ billion)



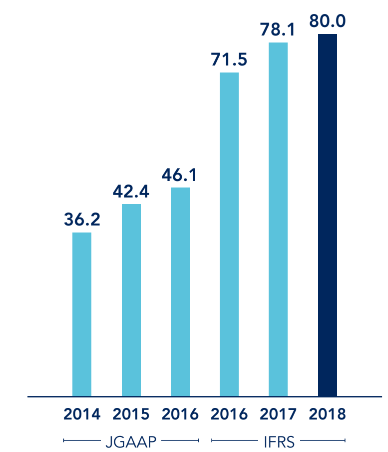
Operating income

(¥ billion)



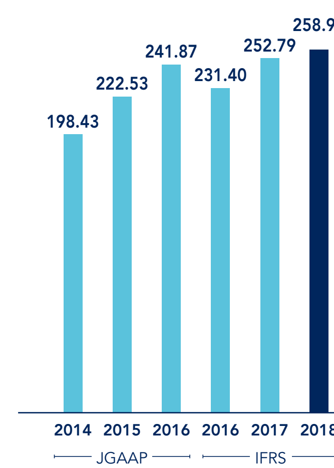
Profit for the year attributable to owners of the Company

(¥ billion)



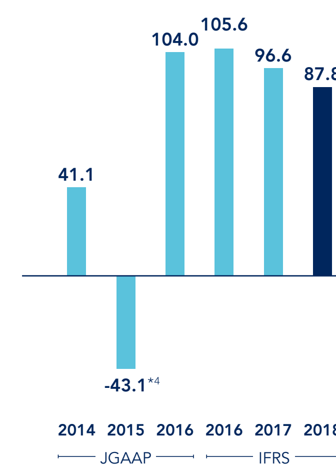
Earnings per share

(¥)



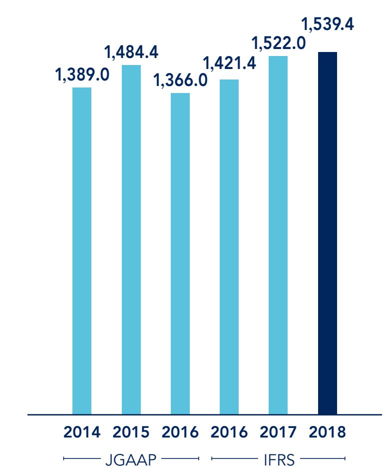
Free cash flow

(¥ billion)



Total assets

(¥ billion)



LOCALLY LOVED BRANDS

A major advantage for SBF is the enduring popularity of its brands in markets around the world. The following historical overview looks at some of our greatest long-sellers.

Drinks that have Remained Popular for Decades

BRAND'S® Essence of Chicken

Since 1835

This product was created in the early 19th century when Henderson William Brand, a chef to King George IV, suggested a chicken essence beverage with the aim of improving the King's health. In 1835, after Brand's retirement, *BRAND'S Essence of Chicken* was marketed to the general public as a nutritional drink. Further recognition of the product's quality came in 1897, when it was granted a royal warrant of appointment, which allowed the product to be supplied to the royal family.

The company began to expand into Asian markets in the 1920s, and by the 1970s, *BRAND'S Essence of Chicken* had become an Asian household staple and the product was familiar to family members of all ages. Economic development brought a rapid increase in demand as people in urban areas became focused on the need to maintain their health and stamina.

In 2015, we marked the 180th anniversary of the launch of this product. Through initiatives like proactive marketing and scientific research on health, we are continuing our efforts to achieve further growth.

Suntory Oolong Tea

Since 1981

Suntory Oolong Tea was first marketed as a canned oolong tea in 1981. At the time, non-sugar tea was something that people brewed and drank at home, and few consumers would have considered paying money to drink it. In addition, oolong, a Chinese variety of tea, was unfamiliar to Japanese consumers.

However, using "health" as the product's key word, we gradually expanded the opportunities for customers to enjoy the product by using our alcohol marketing channels to advertise it through bars and restaurants. We also ran campaigns focusing on the theme of oolong tea as a drink distilled from traditional Chinese wisdom. Eventually oolong tea became popular with people across a wide range of age groups.

The success of *Suntory Oolong Tea* heralded the growing popularity of RTD, non-sugar tea products with Japanese consumers, and it remains the best-selling product in the Japanese oolong tea market. The technology used to develop our oolong tea products has continued to improve, leading in 2006 to the creation of *Suntory Black Oolong Tea*, a product officially certified as a FOSHU. This product offers important added value, including the ability to inhibit fat absorption and reduce the body's tendency to accumulate fat.

Knowledge accumulated through the development of the *Suntory Oolong Tea* brand in Japan was applied to the development of *TEA+ Oolong Tea*, which was launched in Vietnam in 2013. Sales in the Vietnamese drink market have expanded to over 10 million cases*. After many years of success in Japan, the *Suntory Oolong Tea* brand is expanding worldwide.

*24 bottles per case

Orangina

Since 1936

The *Orangina* brand originated in 1936. It was first sold by Léon Beton, who created the product because he wanted people to be able to enjoy the wonderful flavor of Mediterranean oranges anywhere throughout the year.

A key characteristic of the *Orangina* product is its distinctive round container. After redesigning the bottle many times, Beton eventually chose a design that symbolized the round shape of an orange. That design has remained popular to this day. By the 1950s, *Orangina* had grown into a national brand in France. Enjoyed as part of the French café culture, it rapidly became a familiar product even at home. Around this time, a unique advertisement poster drawn by Bernard Villemot, a leading French artist of the mid-20th century, greatly contributed to *Orangina*'s brand image. The product attracted even more attention through its "Shake It!" campaign in the 1970s, which encouraged consumers to shake the drink, even though it was carbonated, to ensure none of the orange pulp would be wasted.

In the 1980s, the *Orangina* boom began to spread from France to other countries and regions. Today, it is enjoyed in over 60 countries worldwide.

Lucozade

Since 1929

Lucozade was first marketed in the UK in 1929 as a drink for children when they catch a cold. The name is derived from glucose, which is a vital source of energy for the human body.

In the 1960s, the product became extremely popular thanks to the product's unique yellow packaging and a memorable TV commercial. In the 1980s, it was rebranded as an energy drink and, in the 1990s, a sports drink version was introduced. Innovations such as these ensured the continuing popularity of *Lucozade* as a casual soft drink. Today, it is sold in over 15 countries worldwide.

Lucozade continues to evolve in step with changing consumer preferences. For example, in 2017 and 2018, the product was reformulated, with a focus on reducing sugar content, in response to the growing health-consciousness of consumers.

History of Suntory

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)

1940s

1937

Launch of *Suntory Kakubin* (square bottle) whisky

1960s

1963

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

1980s

1972

Establishment of Suntory Foods Limited, beverage and food sales company

1973

Establishment of Hakushu Distillery

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

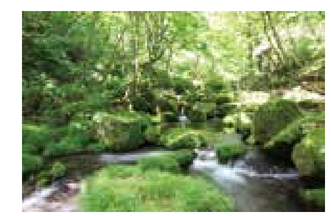
Establishment of Suntory Foundation

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.

Operating Environment and Initiatives in the Fiscal Year Ended December 31, 2018

During the fiscal year ended December 2018, Suntory Beverage & Food Limited Group (the Group), based on the philosophy of enriching consumers' lives by proposing premium and unique products that match the tastes and needs of consumers, put effort into brand reinforcement and new demand creation, and worked to improve the quality of products throughout the Group. Furthermore, to ensure sustainable future growth, the Group endeavored to fortify its business foundation in each area.

Analysis of Results of Operations

For the fiscal year under review, the Group reported consolidated revenue of ¥1,294.3 billion, up 4.9% year on year, consolidated operating income of ¥113.6 billion, down 3.7% year on year and profit for the year attributable to owners of the Company of ¥80.0 billion, up 2.4% year on year.

Segment Performance

Japan business

The Group worked on creating new demand by proposing products that bring new value and by strengthening core brands with a focus on water, coffee, and sugar-free tea categories. As a result, sales volume increased year on year. On the other hand, profits decreased year on year due to increased supply chain costs and the deterioration of product mix.

For the *Suntory Tennensui* brand, the Group continued to promote the brand's unique values of "clear & tasty" and "natural & healthy," and sales for the core mineral water product remained strong. In addition, sales of the *Suntory Minami-Alps Tennensui Sparkling* series grew significantly, and sales volume for the brand as a whole considerably exceeded that of the previous year. As a result, the brand was ranked No.1 in the domestic beverage market by annual sales volume in 2018*. Furthermore, Suntory Beverage & Food Limited signed a plant location agreement with Omachi, Nagano Prefecture to secure a "new water source" that will ensure stable supply into the future. The new plant is scheduled to begin operations at the end of 2020.

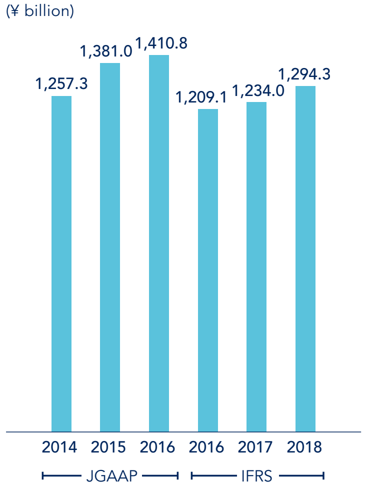
For the *BOSS* brand, the Group continued proactive marketing activities for canned coffee, such as launching *BOSS THE CANCOFFEE*, which was developed for core users of canned coffee. In addition, the *Craft BOSS*, which was launched in 2017 targeting new coffee users, has continued to be well received by consumers. As a result, annual sales volume for the *BOSS* brand as a whole were considerably higher than previous year and exceeded 100 million cases. Additionally, the Ebina Plant of Suntory Coffee Roastery Ltd., which is a group company of Suntory Holdings Limited, began full-scale production in July. Going forward, the Group will use high-performance roasting equipment installed in the Plant to craft a variety of aromas and flavors. In the sugar-free tea category, sales volume for the *Iyemon* brand as a whole decreased year on year due to the decline in *Tokucha*, however, sales volume for *Green DAKARA Yasashii Mugicha* grew significantly within the expanding barley tea market. In addition, sales volume for the Suntory Oolong Tea brand increased year on year.

FOSHU drink products' sales volume declined from the previous year mainly due to certain products such as *Tokucha*. The Group has started the campaign, the lifestyle support service "Tokucha Program Start" since September as part of proactive marketing activities for trend recovery. In terms of profit, natural disasters and extreme hot weather had an impact on logistics of the whole industry, resulting in unexpected costs. Furthermore, the deterioration of product mix caused by the sales declines in products such as FOSHU drink products, and the Group's lack of in-house production capacity for aseptic products, continued to have a negative effect to the profit. As a result of these activities, the Japan business reported revenue of ¥708.7 billion, up 2.8% year on year, and segment profit of ¥52.7 billion, down 8.1% year on year.

*Based on survey results by Inryou Soken

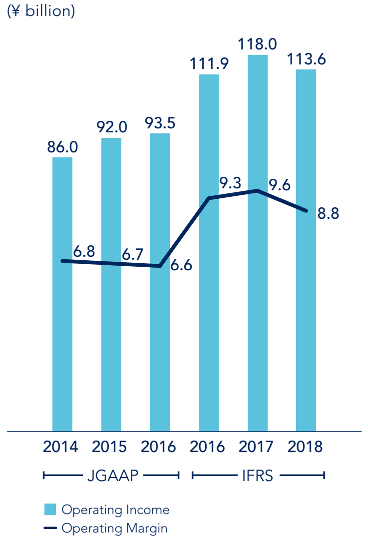
Revenue

(¥ billion)



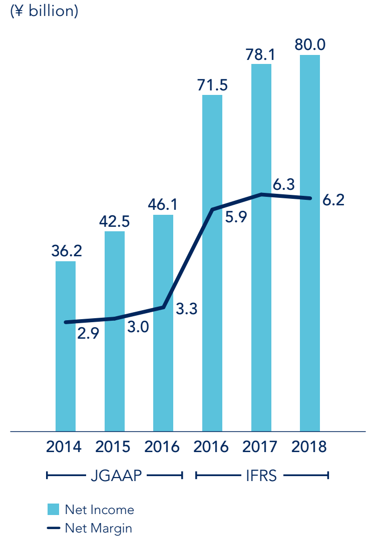
Operating Income and Operating Margin

(¥ billion)



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

(¥ billion)



Europe business

Marketing investments with a focus on core brands and the premium low-sugar iced tea *MayTea*, were conducted.

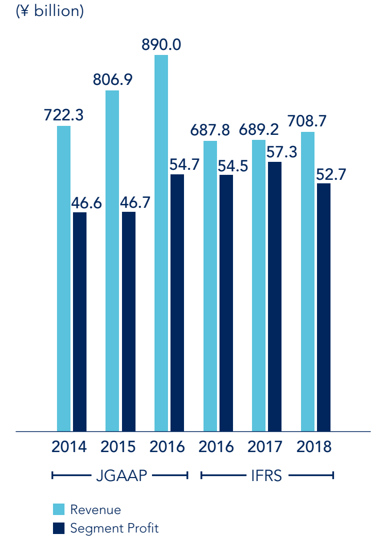
In France, in addition to year-on-year increase in sales volumes for the carbonated fruit drink *Orangina* and the fruit juice *Oasis*, sales of *MayTea* also significantly increased. On the other hand, with the shortage of trucks continuing and turmoil in the logistics network caused by hot weather, supply chain costs increased.

In the UK, sales for *Lucozade Energy*, which had been declining, showed an upward trend, and sales volume for *Lucozade* brand increased year on year. Sales volume for *Ribena* decreased year on year. The Group conducted investments in marketing aiming for reviving the trend of *Lucozade Energy* sales.

In Spain, the Group focused on expanding consumer contact of Schweppes mainly through the onpremise channel, but sales volume for the brand decreased year on year, affected partly by the bad weather and downtrend in the on-premise market. Furthermore, intensifying competition resulted in increase of rebates and sales promotion costs, which had a negative effect on revenue and profit. In addition, a total of about ¥4.0 billion impairment loss was recorded in relation to goodwill, etc. for certain brands in Spain, and some business in Africa. As a result of these activities, the Europe business reported revenue of ¥245.2 billion, up 2.6% year on year, and segment profit of ¥25.0 billion, down 27.8% year on year.

Revenue and Segment Profit (Japan)

(¥ billion)



Asia business

The Group took steps to expand sales of core brands in key regions, and Suntory PepsiCo Beverage (Thailand) Co., Ltd., a joint venture with PepsiCo, Inc. in Thailand, started operations on March 5, 2018. Regarding the beverage business, in Vietnam, sales increased year on year, assisted by steady performance of the energy drink *Sting*, as well as growth in sales of the RTD *TEA+*, the bottled water *Aquafina* and carbonated drinks. The cup jelly drink *Okky* was well-received in Indonesia. In addition, the joint venture in Thailand also performed as planned.

BRAND'S Suntory, which is operating the health supplement business, worked to enhance marketing of *BRAND'S Essence of Chicken*, mainly in the core Thailand market, in order to revive the trend, but sales decreased year on year.

The Group completed transferring the shares of its subsidiaries that operate the food and instant coffee business on March 9, 2018, and around ¥12.0 billion of gain on sale for this transaction was recorded in the fiscal year under review. As a result of these activities, the Asia business reported revenue of ¥201.1 billion, up 23.0% year on year, and segment profit of ¥33.3 billion, up 50.2% year on year.

Oceania business

The Group continued to strengthen its core brands, and the fresh coffee business was transferred to the Oceania business from the beginning of the year ended December 31, 2018.

At FRUCOR SUNTORY, sales of energy drinks such as *V* remained strong, and the Group also newly launched *Amplify*, the fermented tea product (kombucha).

In the fresh coffee business, the Group continued to work on strengthening its core brands such as *Toby's Estate*, *L'Affare*, and *Mocopan*.

As a result of these activities, the Oceania business reported revenue of ¥54.2 billion, down 3.8% year on year, and segment profit of ¥6.4 billion, up 6.0% year on year.

Americas business

The core carbonated beverage brand products continued to struggle, but the Group has started to see signs of recovery. On the other hand, in addition to the decline in sales, increase in costs due to the higher price of raw materials had a negative impact on profits.

As a result of these activities, the Americas business reported revenue of ¥85.0 billion, down 1.2% year on year, and segment profit of ¥8.5 billion, down 8.7% year on year.

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 ¥9.0 billion, consisting of ¥6.4 billion in our Japan business, ¥1.8 billion in our Europe business, ¥0.6 billion in our Asia business, ¥0.2 billion in our Oceania business, ¥0.0 billion in our Americas business.

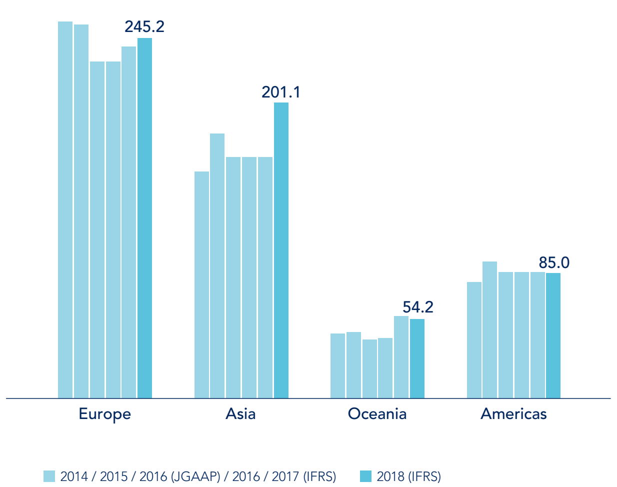
Analysis of Financial Condition

Total assets as of December 31, 2018 were ¥1,539.4 billion, an increase of ¥17.4 billion compared to December 31, 2017. The main factors were increases in trade receivables and property, plant and equipment due to the acquisition of Suntory PepsiCo Beverage (Thailand) Co., Ltd., which became a subsidiary of the Group in the year ended December 31, 2018.

Total liabilities stood at ¥740.5 billion, a decrease of ¥35.3 billion compared to December 31, 2017. The main factor was a decrease in long-term borrowings, despite increases in trade and other payables and other items due to the acquisition of Suntory PepsiCo Beverage (Thailand) Co., Ltd. Total equity stood at ¥798.9 billion, an increase of ¥52.7 billion compared to December 31, 2017 due in part to an increase in non-controlling interests resulting from the acquisition of Suntory PepsiCo Beverage (Thailand) Co., Ltd. and an increase in retained earnings resulting from the recording of profit for the year attributable to owners of the Company. As a result of the above, ratio of equity attributable to owners of the Company to total assets was 46.4% and equity attributable to owners of the Company per share was ¥2,313.34.

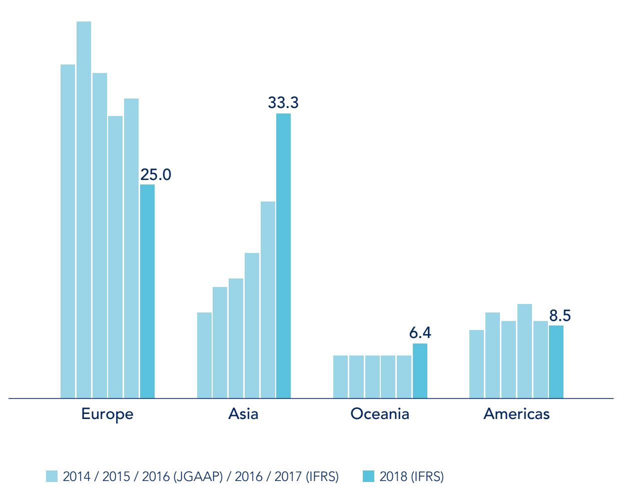
Revenue by Segment (Overseas)

(¥ billion)



Profit by Segment (Overseas)

(¥ billion)



Cash Flows

Cash and cash equivalents as of December 31, 2018 amounted to ¥146.5 billion, an increase of ¥32.7 billion compared to December 31, 2017.

Net cash inflow from operating activities was ¥146.4 billion, a decrease of ¥3.2 billion compared to the previous fiscal year. This was the result of depreciation and amortization of ¥63.3 billion, gain on sales of shares of subsidiaries of ¥12.0 billion and an increase in inventories of ¥4.9 billion, despite profit before tax of ¥111.8 billion.

Net cash outflow from investing activities was ¥58.5 billion, an increase of ¥5.6 billion compared to the previous fiscal year. This was mainly the result of the payments of ¥26.7 billion for the acquisition of Suntory PepsiCo Beverage (Thailand) Co., Ltd., despite the proceeds of ¥24.2 billion from sales of all of the shares of three subsidiaries operating food and instant coffee business.

Net cash outflow from financing activities was ¥56.9 billion, a decrease of ¥6.7 billion compared to the previous fiscal year. This was mainly the result of the proceeds from issuance of bonds of ¥29.9 billion, despite the repayments of long-term borrowings of ¥63.0 billion.

Capital Expenditures

Total capital expenditures by the SBF Group in the year ended December 2018 amounted to ¥60.4 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 ¥33.0 billion. The main items were production capacity expansion, rationalization measures, and the installation of vending machines.

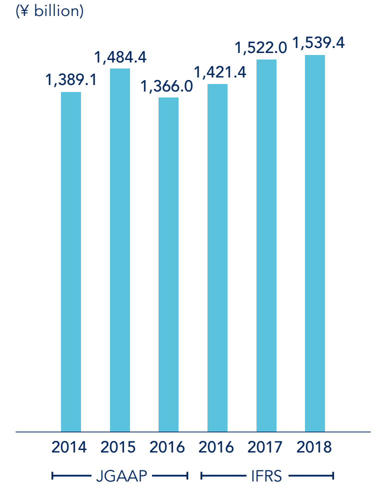
Capital expenditures relating to overseas business operations amounted to ¥12.5 billion in Europe, ¥6.2 billion in Asia, ¥3.0 billion in Oceania, and ¥5.6 billion in the Americas. The main expenditure items were production capacity expansion and rationalization measures.

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

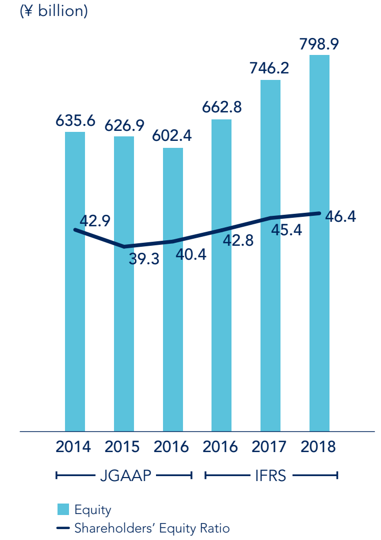
Total Assets

(¥ billion)



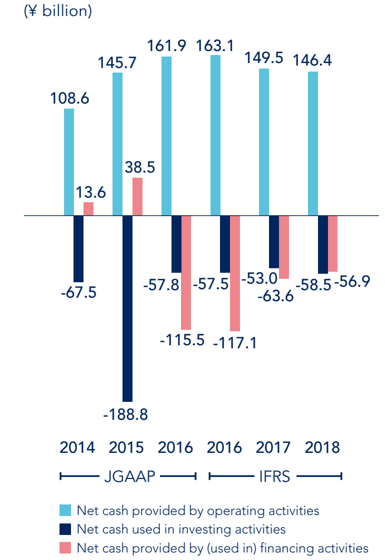
Equity and Shareholders' Equity Ratio

(¥ billion)



Cash Flows

(¥ billion)



and maintaining robust internal reserves for the future, the Company intends to pursue a shareholder return policy that takes its business results and future funding needs into account comprehensively. 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.

For the fiscal year under review, in accordance with the basic policy described above and a consideration of business results and environment, the Company plans to pay a fiscal year-end dividend of ¥39 per share. As a result, the planned annual dividend for the fiscal year under review is ¥78 per share, together with an interim dividend of ¥39 already paid. For the fiscal year ending December 31, 2019, the Company plans to pay an annual dividend of ¥78 per share, comprised of an interim dividend of ¥39 and a fiscal year-end dividend of ¥39.

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 6, 2018 Board of Director resolution	12,051	39
March 28, 2019 Ordinary general meeting of shareholders	12,051	39

Outlook for the Fiscal Year Ending December 31, 2019

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 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.

In the fiscal year ending December 31, 2019, the Group expects consolidated revenue of ¥1,313.0 billion, up 1.4% year on year, consolidated operating income of ¥110.0 billion, up 3.1%.

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 29, 2019.

(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, 2018, the Group's goodwill was ¥250.7 billion and intangible assets were ¥418.6 billion. Among the intangible assets, trademarks were ¥319.0 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; issue of marine plastic; 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 March 29, 2019, 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.	25,232	Determined by discussions between the parties after considering the quality and market price of similar services
Payment of brand royalties	Suntory Holdings Limited	21,787	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.	10,364	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 his extensive track record over many years as a business manager in the Suntory Group and his wide-ranging insights and experience in all areas of management, will contribute further strengthening the functioning of the 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, 2018, there were approximately 250 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, 2018

Millions of yen

	Notes	2017	2018
Assets			
Current assets:			
Cash and cash equivalents		113,883	**146,535**
Trade and other receivables	8, 33	176,653	**184,900**
Other financial assets	9, 33	11,793	**984**
Inventories	10	81,015	**85,766**
Other current assets	11	25,487	**25,149**
Subtotal		408,832	**443,336**
Assets held for sale	12	22,081	**27**
Total current assets		430,914	**443,363**
Non-current assets:			
Property, plant and equipment	13	354,216	**375,382**
Goodwill	14	254,025	**250,685**
Intangible assets	14	432,814	**418,562**
Investments accounted for using the equity method	15	1,233	**1,216**
Other financial assets	9, 33	20,460	**20,955**
Deferred tax assets	16	12,701	**14,291**
Other non-current assets	11	15,663	**14,959**
Total non-current assets		1,091,115	**1,096,052**
Total assets		1,522,029	**1,539,416**

See notes to consolidated financial statements.

Millions of yen

	Notes	2017	2018
Liabilities and equity			
Liabilities:			
Current liabilities:			
Bonds and borrowings	17, 33	95,654	**75,437**
Trade and other payables	19, 33	289,521	**303,783**
Other financial liabilities	18, 20, 33	32,678	**30,736**
Accrued income taxes		18,773	**18,445**
Provisions	22	1,385	**2,074**
Other current liabilities		8,860	**8,639**
Subtotal		446,873	**439,117**
Liabilities directly associated with assets held for sale	12	6,215	**—**
Total current liabilities		453,088	**439,117**
Non-current liabilities:			
Bonds and borrowings	17, 33	211,375	**195,436**
Other financial liabilities	18, 20, 33	25,306	**20,150**
Post-employment benefit liabilities	21	11,888	**13,258**
Provisions	22	2,913	**2,702**
Deferred tax liabilities	16	66,001	**63,494**
Other non-current liabilities		5,253	**6,377**
Total non-current liabilities		322,738	**301,421**
Total liabilities		775,827	**740,538**
Equity:			
Share capital	23	168,384	**168,384**
Share premium	23	182,404	**182,349**
Retained earnings	23	364,274	**420,638**
Other components of equity	23	(24,625)	**(56,548)**
Total equity attributable to owners of the Company		690,437	**714,823**
Non-controlling interests		55,763	**84,054**
Total equity		746,201	**798,877**
Total liabilities and equity		1,522,029	**1,539,416**

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, 2018

Millions of yen

	Notes	2017	2018
Revenue	6, 25	1,234,008	**1,294,256**
Cost of sales	10, 13, 14, 21	(697,789)	**(758,724)**
Gross profit		536,219	**535,532**
Selling, general and administrative expenses	13, 14, 21, 26	(412,444)	**(424,897)**
Gain on investments accounted for using the equity method	15	447	**137**
Other income	14, 27	5,862	**14,591**
Other expenses	13, 14, 28	(12,129)	**(11,806)**
Operating income	6	117,955	**113,557**
Finance income	29, 33	871	**1,032**
Finance costs	29, 33	(4,384)	**(2,777)**
Profit before tax		114,442	**111,813**
Income tax expense	16	(28,267)	**(22,979)**
Profit for the year		86,175	**88,833**
Profit attributable to:			
Owners of the Company (Note 1)		78,112	**80,024**
Non-controlling interests		8,062	**8,808**
Profit for the year		86,175	**88,833**

Yen

	Note	2017	2018
Earnings per share	31	252.79	**258.98**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2018

Millions of yen

	Notes	2017	2018
Profit for the year		86,175	**88,833**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial assets	30, 33	388	**(614)**
Remeasurement of post-employment benefit plans	21, 30	755	**(205)**
Total		1,144	**(820)**
Items that may be reclassified to profit or loss:			
Translation adjustments of foreign operations	30	24,913	**(32,635)**
Changes in the fair value of cash flow hedges	30, 33	512	**806**
Changes in comprehensive income of investments accounted for using the equity method	15, 30	66	**(56)**
Total	30	25,492	**(31,885)**
Other comprehensive income (loss) for the year, net of tax	30	26,637	**(32,705)**
Comprehensive income for the year		112,812	**56,128**
Comprehensive income attributable to:			
Owners of the Company (Note 1)		105,776	**48,233**
Non-controlling interests		7,036	**7,895**
Comprehensive income for the year		112,812	**56,128**

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, 2018

Millions of yen

	Notes	Attributable to owners of the Company (Note 1) Share capital	Share premium	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance at December 31, 2016		168,384	182,326	309,582	(51,507)	608,784	54,030	662,815
Cumulative effect of adoption of 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	24			(23,484)		(23,484)	(5,397)	(28,881)
Transactions with non-controlling interests			77			77	95	172
Reclassifications to retained earnings	9			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
Profit for the year				**80,024**		**80,024**	**8,808**	**88,833**
Other comprehensive loss					**(31,791)**	**(31,791)**	**(913)**	**(32,705)**
Total comprehensive income (loss) for the year		**—**	**—**	**80,024**	**(31,791)**	**48,233**	**7,895**	**56,128**
Dividends	24			**(23,793)**		**(23,793)**	**(6,516)**	**(30,309)**
Increase due to business combinations	7					**—**	**26,881**	**26,881**
Transactions with non-controlling interests			**(54)**			**(54)**	**30**	**(24)**
Reclassifications to retained earnings	9			**131**	**(131)**	**—**		**—**
Total transactions with owners of the Company (Note 1)		**—**	**(54)**	**(23,661)**	**(131)**	**(23,847)**	**20,394**	**(3,453)**
Balance at December 31, 2018		**168,384**	**182,349**	**420,638**	**(56,548)**	**714,823**	**84,054**	**798,877**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Suntory Beverage & Food Limited and its subsidiaries
For the year ended December 31, 2018

Millions of yen

	Notes	2017	2018
Cash flows from operating activities			
Profit before tax		114,442	**111,813**
Depreciation and amortization		63,934	**63,319**
Impairment losses		184	**4,177**
Interest and dividends income		(871)	**(893)**
Interest expense		2,724	**2,365**
Gain on investments accounted for using the equity method		(447)	**(137)**
Gain on sale of subsidiaries		—	**(12,038)**
Increase in inventories		(7,887)	**(4,855)**
Increase in trade and other receivables		(1,425)	**(4,946)**
Increase in trade and other payables		6,453	**7,933**
Other		3,446	**7,211**
Subtotal		180,554	**173,949**
Interest and dividends received		833	**850**
Interest paid		(2,813)	**(2,405)**
Income tax paid		(29,061)	**(26,040)**
Net cash inflow from operating activities		149,513	**146,354**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(55,339)	**(56,929)**
Proceeds on sale of property, plant and equipment and intangible assets		787	**715**
Payments for acquisition of subsidiaries	7	—	**(26,719)**
Proceeds from sale of subsidiaries	7	—	**24,216**
Other	14	1,593	**173**
Net cash used in investing activities		(52,958)	**(58,543)**
Cash flows from financing activities			
Increase in short-term borrowings	32	8,751	**4,073**
Proceeds from long-term borrowings	32	26,642	**9,500**
Repayment of long-term borrowings	32	(61,905)	**(63,027)**
Proceeds from issuance of bonds	32	—	**29,883**
Payments of finance lease liabilities	32	(8,404)	**(6,998)**
Dividends paid to owners of the Company (Note 1)	24	(23,484)	**(23,793)**
Dividends paid to non-controlling interests		(5,397)	**(6,516)**
Payments for acquisition of shares of subsidiaries		(171)	**(44)**
Other		374	**54**
Net cash used in financing activities		(63,593)	**(56,868)**
Net increase in cash and cash equivalents		32,961	**30,941**
Cash and cash equivalents at the beginning of the year		84,096	**113,883**
Reversal of cash and cash equivalents included in assets held for sale	12	—	**3,439**
Cash and cash equivalents at the beginning of the year		84,096	**117,322**
Effects of exchange rate changes on cash and cash equivalents		265	**(1,728)**
Cash and cash equivalents included in assets held for sale	12	(3,439)	**—**
Cash and cash equivalents at the end of the year		113,883	**146,535**

See notes to consolidated financial statements.

Notes to consolidated financial statements

Suntory Beverage & Food Limited and its subsidiaries

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 offices and locations of principal offices are disclosed on our website (URL https://www.suntory.co.jp/softdrink/). The Company and its subsidiaries (the "Group") operate the beverage and food segment of the Suntory Group by manufacturing and distributing 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 Director, Senior Managing Executive Officer, Division COO and Corporate Strategy Division on March 18, 2019.

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 96 subsidiaries (102 as at December 31, 2017), together with the Group's attributable share of the results of 9 associates (9 as at December 31, 2017).

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 subsidiary is accounted for as an equity transaction. Any difference between the amount of adjustment to 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, which is the power to participate in the financial and operating policy of the entity, but does not have control or joint control of those policies. 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 ("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 years ended December 31, 2017 and 2018 were as follows:

Yen

	2017	2018
U.S. Dollar:		
Average rates	112.2	**110.4**
Closing rates	113.0	**111.0**
Euro:		
Average rates	126.7	**130.4**
Closing rates	134.9	**127.0**
Pound Sterling:		
Average rates	144.5	**147.4**
Closing rates	152.0	**140.5**
Singapore Dollar:		
Average rates	81.3	**81.9**
Closing rates	84.5	**81.0**
Thai Baht:		
Average rates	3.3	**3.4**
Closing rates	3.5	**3.4**
Vietnam Dong:		
Average rates	0.0049	**0.0048**
Closing rates	0.0050	**0.0048**
New Zealand Dollar:		
Average rates	79.7	**76.4**
Closing rates	80.2	**74.5**
Australian Dollar:		
Average rates	86.0	**82.6**
Closing rates	88.2	**78.2**

(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 to determine 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 of the Group's financial assets to credit risk, 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 the risk management objective remaining 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, "Financial Instruments" (hereinafter, "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 change is 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 change is 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 if 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 if 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 leases are allocated to finance costs and the repayment of the lease obligations is based on the effective 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 continued 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 perform 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 subsequently reversed. Impairment losses recognized for other assets are assessed at each reporting date whether or not 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 of 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 the sale of soft drinks and foods. As customers usually obtain control of the goods and the Group's performance obligation is satisfied at the time when the goods are delivered, the Group recognizes revenue at the amount of consideration promised under the contracts with customer after deduction of trade discounts, rebates, taxes collected on behalf of third parties such as consumption taxes or value added tax, sales incentives, and returned goods.
Interest income and expense is recognized by using the effective interest method. Please refer to "(18) Changes in accounting policies."

(14) Government grant

The Group measures and recognizes 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 are 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 taxes over 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 affecting 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 amounts 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 it is highly probable that the sale will occur 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 are measured at the lower of its carrying amount and the fair value less costs to sell.

(18) Changes in accounting policies

The Group has adopted IFRS 15, "Revenue from Contracts with Customers" (amended in April 2016) (hereinafter, "IFRS 15"), from the year ended December 31, 2018. The Group recognizes revenue, except for interest and dividend revenue under IFRS 9, by considering the following five steps:

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

The Group is engaged in sale of soft drinks and foods. As customers usually obtain control of the goods and the Group's performance obligation is satisfied at the time when the goods are delivered, the above criteria to recognize revenue are met at this point in time. Previously, it was required to recognize revenue when the Group transferred to the buyer the significant risks and rewards of ownership of the goods, retained neither continuing involvement nor effective control over the goods, it was probable the future economic benefits associated with the transaction would flow to the Group, and the economic benefits and the costs incurred or to be incurred in respect of the transaction could be measured reliably. The Group previously recognized revenue at the time of delivery of goods, and consequently, the timing of revenue recognition was not changed upon the application of IFRS 15.

In addition, revenue is measured at the amount after deduction of trade discounts, rebates, taxes collected on behalf of third parties such as consumption taxes or value added tax, sales incentives, and returned goods from consideration promised under the contracts with customers, and there was no change from the previous measurement method.

In the application of IFRS 15, the Group adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed as the transition approach, and did not make retrospective adjustments for each reporting period in the past. However, as stated above, there was no change to recognition and measurement of revenue and no impact on the consolidated financial statements.

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 and 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 that have significant effects on the amounts in the consolidated financial statements:

- Estimates used for impairment of property, plant and equipment, intangibles, and goodwill (Notes 3. Significant accounting policies (10), 13. Property, plant and equipment, and 14. Goodwill and intangible assets)
- Measurement of post-employment obligations (Notes 3. Significant accounting policies (11) and 21. Post-employment benefit plants)
- Judgements and estimates made for the recognition and measurement of provisions (Notes 3. Significant accounting policies (12) and 22. Provisions)
- Judgements made for assessing the recoverability of deferred tax assets (Notes 3. Significant accounting policies (15) and 16. Income tax expense)
- Judgements made in determining whether the Group controls another entity (Notes 3. Significant accounting policies (1) and 15. Investments accounted for using the equity method)
- Fair value of financial instruments (Notes 3. Significant accounting policies (4) and 33. 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), 13. Property, plant and equipment, and 14. Goodwill and intangible assets)
- Measurement of the fair value of the assets acquired and liabilities assumed in a business combination (Note 3. Significant accounting policies (2)).

5. New accounting standards and interpretations not yet adopted

IFRS 16, "Leases" (hereinafter, "IFRS 16"), has been published as at the approval date of the consolidated financial statements. The Group did not early adopt IFRS 16 but decided to adopt it from the mandatory adoption date of January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases currently required under IAS 17, "Leases," and introduces a single lessee accounting model where the lessee is required to recognize assets and liabilities for all material leases. Requirements for measurement and disclosure are significantly refined by this new standard. All material leases will be recognized on the consolidated statement of financial position as right of use assets and depreciated on a straight-line basis. The lease liability will be measured at a discounted value and related interest will be charged to finance charges in the consolidated statement of profit or loss. Therefore, the charge to the consolidated statement of profit or loss for the operating lease payment will be replaced with depreciation on the right of use asset and the interest charge inherent in the lease. The Group has adopted IFRS 16 by applying the method, allowed as the transition approach, to recognize the cumulative effect of this new standard on the date of initial application and make no retrospective adjustment for each previous reporting period. The Group has decided to reduce the complexity of implementation to take advantage of a number of practical expedients on transition, at each region or business level as follows:

- not to reassess whether a contract is, or contains, a lease at the date of initial application
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- to exclude initial direct costs from the measurement of the right-of-use asset arising from leases previously classified as operating leases at the date of initial application
- to measure the right of use asset arising from leases previously classified as operating leases at the same value as the lease liability
- to apply the short-term and low value exemptions

The impact of IFRS 16 on the Group is still under assessment as at the timing of preparation of the consolidated financial statements; however, it is anticipated that total assets and total liabilities are to increase by approximately 3% and 5%, respectively, due to the application of the standard. The impact on consolidated statement of profit and loss is not anticipated to be material. This impact could be updated during the financial statement closing process for the year ending December 31, 2019.

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, such as mineral water, coffee, tea, carbonated drinks, sports drinks, and food for specified health uses. 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 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.

Following the organizational changes, the fresh coffee business, which was previously included in "Asia business," was reclassified from "Asia business" into "Oceania business" starting from the year ended December 31, 2018. Accordingly, the same reclassification has been made for the accompanying segment information for the year ended December 31, 2017.

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

Year ended December 31, 2017

Millions of yen

	Reportable segment: Japan	Europe	Asia	Oceania	Americas	Segment total	Reconciliations	Consolidated
Revenue:								
External customers	689,192	238,943	163,528	56,303	86,040	1,234,008	—	1,234,008
Intersegment	3	1,367	563	6	—	1,940	(1,940)	—
Total revenue	689,195	240,311	164,091	56,309	86,040	1,235,948	(1,940)	1,234,008
Segment profit	57,309	34,580	22,181	6,012	9,298	129,382	(11,426)	117,955
(Depreciation and amortization expense)	36,644	9,618	8,737	2,315	3,652	60,968	2,966	63,934

Year ended December 31, 2018

Millions of yen

	Reportable segment: Japan	Europe	Asia	Oceania	Americas	Segment total	Reconciliations	Consolidated
Revenue:								
External customers	**708,725**	**245,175**	**201,143**	**54,185**	**85,025**	**1,294,256**	**—**	**1,294,256**
Intersegment	**5**	**1,134**	**1,052**	**9**	**—**	**2,201**	**(2,201)**	**—**
Total revenue	**708,730**	**246,310**	**202,196**	**54,195**	**85,025**	**1,296,458**	**(2,201)**	**1,294,256**
Segment profit	**52,681**	**24,979**	**33,318**	**6,371**	**8,488**	**125,839**	**(12,281)**	**113,557**
(Depreciation and amortization expense)	**34,970**	**10,401**	**9,899**	**1,899**	**3,111**	**60,282**	**3,037**	**63,319**

"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, 2017	689,192	239,349	143,799	75,627	86,040	1,234,008
Year ended December 31, 2018	**708,725**	**245,276**	**197,966**	**57,262**	**85,025**	**1,294,256**

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

Non-current assets by location was as follows:

Millions of yen

	Japan	Europe	Asia	Oceania	Americas	Total
As at December 31, 2017	339,933	532,115	68,877	40,208	59,920	1,041,056
As at December 31, 2018	**332,570**	**492,463**	**121,406**	**36,999**	**61,188**	**1,044,629**

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

There were no sales to a single external customer that represented 10% or more of the Group's revenue.

7. Acquisition and sale of businesses and purchase of non-controlling interests (Acquisition of beverage business in Thailand)

As at March 5, 2018, the Group acquired 51% of the shares of International Refreshment (Thailand) Co., Ltd., a soft drink operation in Thailand, from Pepsi-Cola (Thai) Trading Co., Ltd., a subsidiary of PepsiCo Inc., aiming to expand the beverage business in Thailand. The company's name after the acquisition is Suntory PepsiCo Beverage (Thailand) Co., Ltd.

The consideration paid in cash for the acquisition was ¥33,551 million (US $315 million).

Assets acquired and liabilities assumed as at the day of the business combination were as follows:

Millions of yen

	Fair value
Assets:	
Cash and cash equivalents	**6,832**
Trade and other receivables	**5,265**
Other current assets	**5,275**
Total current assets	**17,373**
Property, plant and equipment	**33,049**
Intangible assets	**19,537**
Other non-current assets	**359**
Total non-current assets	**52,945**
Total assets	**70,319**
Liabilities:	
Trade and other payables	**10,512**
Other current liabilities	**347**
Total current liabilities	**10,859**
Total non-current liabilities	**4,600**
Total liabilities	**15,459**
Net assets	**54,859**

Intangible assets were recognized by assessing the fair value of "Exclusive Bottling Appointment," with PepsiCo, Inc. and others. Goodwill of ¥5,573 million was recorded in association with this transaction. The goodwill reflects the expected synergies to be created through future business expansion.

Non-controlling interests of ¥26,881 million were recorded, with the amount measured as the ownership ratio of non-controlling shareholders of the fair value of identifiable net assets of the acquired business.

Cash flow analysis of the share acquisition

Millions of yen

	Amount
Consideration paid in cash and cash equivalents	**33,551**
Cash and cash equivalents held by the acquired company	**(6,832)**
Payments for acquisition of subsidiaries	**26,719**

The transaction was translated into Japanese yen at the exchange rate on the transaction date.

The acquisition-related costs for this business combination were ¥784 million, which were recorded in "Other expenses." Acquisition-related costs of ¥675 million and ¥108 million were recorded for the years ended December 31, 2017 and 2018, respectively.

Revenue and operating profit of the acquired company after the date of acquisition that was recognized in the consolidated statement of profit or loss for the reporting period were ¥44,859 million and ¥2,300 million, respectively.

Had this business consolidation taken effect from the beginning of the year, the Group's revenues and operating profit for the year ended December 31, 2018 would have been ¥1,306,233 million and ¥114,649 million, respectively. Since these amounts do not represent actual results of operation, the amounts are out of scope of audit by the independent auditor.

(Disposal of the food and instant coffee business)

The Group completed the transfer of all of the shares of its three subsidiaries operating food and instant coffee businesses to The Kraft Heinz Company as at March 9, 2018. As a result, the balances of assets held for sale and liabilities directly associated with assets held for sale as at December

31, 2017 were decreased.

The consideration received in cash for the transfer date was ¥26,285 million (AUD $313 million), and a gain on transfer of ¥12,038 million was recorded in "Other income."

Assets and liabilities over which control was lost, as well as the reconciliation of considerations received and proceeds from sales of shares were as follows:

Millions of yen

	Amount
Assets:	
Current assets	9,044
Non-current assets	9,345
Liabilities:	
Current liabilities	4,275
Non-current liabilities	29

Cash flow analysis of the sales of shares

Millions of yen

	Amount
Consideration received in cash	26,285
Cash and cash equivalents held in the subsidiary as at the transaction date	(2,068)
Proceeds from sale of subsidiaries	24,216

The transaction was translated into Japanese yen at the exchange rate on the transaction date.

8. Trade and other receivables

Trade and other receivables were as follows:

Millions of yen

	2017	2018
Trade receivables	159,141	166,159
Other receivables	15,535	16,634
Other	2,861	3,194
Loss allowance	(885)	(1,087)
Total	176,653	184,900

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

9. Other financial assets

Other financial assets as at December 31, 2017 and 2018 were as follows:

Millions of yen

	2017	2018
Financial assets at amortized cost:		
Guarantee deposits	5,809	5,716
Other	1,203	624
Loss allowance	(475)	(50)
Financial assets designated as hedging instruments:		
Derivative assets	15,828	6,730
Financial assets measured at FVTPL:		
Derivative assets	—	204
Other	1,155	1,121
Financial assets measured at FVTOCI:		
Listed equity investments	5,566	4,925
Unlisted equity investments	3,158	2,657
Other	8	8
Total	32,253	21,939
Current assets	11,793	984
Non-current assets	20,460	20,955
Total	32,253	21,939

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	2018
Fair value	186	254
Cumulative gains	118	196

The cumulative gains recognized in other comprehensive income in other components of equity are 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 years ended December 31, 2017 and 2018 were ¥64 million and ¥131 million, respectively.

10. Inventories

The breakdown of inventories were as follows:

Millions of yen

	2017	2018
Merchandise and finished goods	50,555	**50,448**
Work in progress	4,359	**4,540**
Raw materials	22,731	**26,929**
Consumables	3,370	**3,848**
Total	81,015	**85,766**

Inventories recognized as an expense and write-down of inventories to its' net realizable value during the year were as follows:

Millions of yen

	2017	2018
Inventories recognized as an expense	639,820	**694,283**
Write-down of inventories to its' net realizable value	1,347	**1,549**

11. Other assets

Other assets were as follows:

Millions of yen

	2017	2018
Other current assets:		
Prepaid expenses	11,655	**12,975**
Consumption tax receivables	6,345	**7,336**
Corporate tax receivables	5,805	**3,315**
Other	1,681	**1,522**
Total	25,487	**25,149**
Other non-current assets:		
Long-term prepaid expenses	10,236	**10,071**
Other	5,426	**4,887**
Total	15,663	**14,959**

12. Assets held for sale

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

Millions of yen

	2017	2018
Assets held for sale:		
Cash and cash equivalents	3,439	**—**
Trade and other receivables	5,237	**—**
Inventories	2,855	**—**
Property, plant and equipment	7,120	**27**
Goodwill	2,833	**—**
Other	594	**—**
Total	22,081	**27**
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 and liabilities directly associated with assets held for sale as at December 31, 2017 were recognized in the Asia business in relation to the share transfer agreement which concluded on October 19, 2017. The share transfer was completed on March 9, 2018.

13. Property, plant and equipment

The movement of carrying amount, cost, and 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, 2017	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
Additions	**2,619**	**8,639**	**19,994**	**25,093**	**1,541**	**57,887**
Acquisitions through business combinations	**13,594**	**15,016**	**113**	**454**	**3,870**	**33,049**
Depreciation	**(5,505)**	**(25,197)**	**(22,170)**	**—**	**(2,823)**	**(55,696)**
Impairment losses	**(62)**	**(212)**	**(1)**	**(0)**	**(146)**	**(423)**
Reversal of impairment losses	**156**	**6**	**—**	**—**	**1**	**164**
Sales or disposals	**(1,186)**	**(1,232)**	**(2,863)**	**(25)**	**(97)**	**(5,404)**
Reclassified as assets held for sale	**—**	**(27)**	**(0)**	**—**	**—**	**(27)**
Reclassifications	**3,080**	**13,389**	**1,558**	**(19,052)**	**1,198**	**174**
Exchange differences	**(2,228)**	**(4,779)**	**(314)**	**(610)**	**(366)**	**(8,299)**
Other	**(168)**	**97**	**(42)**	**(191)**	**46**	**(258)**
Balance at December 31, 2018	**121,778**	**148,282**	**78,769**	**15,255**	**11,296**	**375,382**

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 as at December 31, 2017 and 2018 were ¥1,702 million and ¥2,188 million, respectively. These grants are primarily received in connection with the acquisition of production facilities (buildings and machinery) in Japan.

Cost

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Assets under construction	Other	Total
Balance at January 1, 2017	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
Balance at December 31, 2018	**188,814**	**376,707**	**214,846**	**15,255**	**20,120**	**815,744**

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, 2017	(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)
Balance at December 31, 2018	**(67,035)**	**(228,425)**	**(136,077)**	**—**	**(8,823)**	**(440,362)**

Leased assets

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

Millions of yen

	Land, buildings and structures	Machinery and vehicles	Tools, fixtures and equipment	Total
Balance at January 1, 2017	1,482	9,431	11,066	21,980
Balance at December 31, 2017	2,066	7,309	6,869	16,245
Balance at December 31, 2018	**2,251**	**5,647**	**4,036**	**11,936**

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

	2017	2018
Japan	(8)	**(60)**
Europe	—	**(201)**
Asia	(189)	**(161)**
Total	(198)	**(423)**

Impairment losses were recognized for the years ended December 31, 2017 and 2018 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.

14. 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

	Goodwill	Intangible assets: Trademarks	Franchises	Software	Other	Total
Balance at January 1, 2017	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
Additions	**—**	**—**	**—**	**386**	**1,432**	**1,818**
Acquisitions through business combinations	**5,573**	**—**	**19,537**	**—**	**—**	**19,537**
Amortization	**—**	**(2,963)**	**—**	**(2,853)**	**(1,800)**	**(7,618)**
Impairment losses	**(962)**	**(2,062)**	**—**	**—**	**(891)**	**(2,954)**
Reversal of impairment losses	**—**	**—**	**—**	**—**	**—**	**—**
Sales or disposals	**—**	**—**	**—**	**—**	**(100)**	**(100)**
Exchange differences	**(7,950)**	**(22,886)**	**(853)**	**(370)**	**(762)**	**(24,873)**
Other	**—**	**—**	**—**	**2,543**	**(2,605)**	**(62)**
Balance at December 31, 2018	**250,685**	**319,011**	**63,598**	**7,104**	**28,848**	**418,562**

Amortization costs are included in cost of sales and 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

	Goodwill	Intangible assets: Trademarks	Franchises	Software	Other	Total
Balance at January 1, 2017	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
Balance at December 31, 2018	**379,069**	**371,871**	**63,598**	**24,438**	**36,748**	**496,655**

Accumulated amortization and impairment losses

Millions of yen

	Goodwill	Intangible assets: Trademarks	Franchises	Software	Other	Total
Balance at January 1, 2017	(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)
Balance at December 31, 2018	**(128,383)**	**(52,860)**	**—**	**(17,333)**	**(7,899)**	**(78,093)**

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

Goodwill

Millions of yen

	2017	2018
Japan business	130,680	**130,680**
Orangina Schweppes Group	91,099	**84,792**
Other	32,245	**35,212**
Total	254,025	**250,685**

Goodwill for the Japan business mainly consists of that 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 Schweppes 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

		2017	2018
Trademarks:	Lucozade and Ribena	156,690	**144,842**
	Schweppes	81,017	**76,250**
	Orangina	22,773	**21,433**
	Oasis	21,895	**20,607**
	La Casera	11,175	**9,555**
	Other	18,475	**16,314**
Franchises:	North Carolina, U.S.A.	34,377	**33,768**
	Thailand	—	**19,710**
	Vietnam	10,537	**10,119**
Other		16	**16**
Total		356,960	**352,617**

Trademarks of Lucozade and Ribena are related to the acquisition of the business of Lucozade Ribena Suntory Limited on December 31, 2013. Trademarks of Schweppes, Orangina, Oasis, and La Casera were acquired through the aforementioned acquisition of Orangina Schweppes Holding B.V. Franchises for some areas in the U.S., Thailand, and Vietnam are the assets recognized by evaluating Exclusive Bottling Appointments engaged in with PepsiCo, Inc. and others. These trademarks represent brands with long histories in at each region, and the businesses are expected to continue in the foreseeable future. Franchises have long contract terms and the associated businesses are expected to continue in the foreseeable future. Since these trademarks and franchises are expected to contribute to the Group as long as the business continues, these are deemed to have indefinite lives for accounting purposes and are not amortized.

Impairment tests of goodwill and intangible assets are performed for the preceding units. The value in use is calculated as the discounted future cash flows, which are estimated based on the business plan for one to three years and have been approved by management, and discount rates which are determined with reference to the pre-tax weighted-average cost of capital ("WACC") (3.9%–20.1% and 3.9%–23.4% for the years ended December 31, 2017 and 2018, respectively) of the cash-generating units or cash-generating groups.

The business plans are made to reflect past business experiences and external information for five 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 ¥1,167 million for the year ended December 31, 2017, which is primarily for certain trademarks in the Europe business, such as "Trina." The impairment losses were 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 the previous period; however, these intangible assets were assessed as having 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.

As a result of annual impairment tests performed during the year ended December 31, 2018, the Group recorded impairment losses for intangible assets of ¥2,954 million. This was primarily for certain trademarks in the Europe business, such as “La Casera” and “Trina.” The impairment losses were recognized as the excess amount of the carrying amounts of trademarks over their recoverable amounts based on the most updated business plan. Recoverable amounts were calculated to represent the value in use of these brands, applying discount rates of 3.9% and 6.8%, respectively. Discount rates used in the previous-year impairment tests of these brands were 3.9% and 6.9%, respectively.

The Group also recognized impairment losses for Goodwill of ¥962 million during the year ended December 31, 2018. This was primarily for certain areas in the African business, which is part of the Europe business. Due to stiff competition in those areas, part of Goodwill was assessed to be uncollectible. Recoverable amounts were calculated to represent the value in use of the business, applying a discount rate of 23.4%, which was 20.1% in the previous-year impairment test. These expenses are recorded in other expenses 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 except for the goodwill and intangible assets on which the impairment losses were recorded for the current year. The Group assessed that the value in use would exceed the carrying amount even though the discount rate and the growth rate may fluctuate at reasonably assumable levels.

15. Investments accounted for using the equity method

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

Millions of yen

	2017	2018
Carrying amount:		
Associates	1,233	**1,216**
Joint ventures	—	**—**
Total	1,233	**1,216**

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

Millions of yen

	2017	2018
Profit for the year:		
Associates	276	**137**
Joint ventures	170	**—**
Total	447	**137**
Other comprehensive income:		
Associates	47	**(56)**
Joint ventures	18	**—**
Total	66	**(56)**
Comprehensive income for the year:		
Associates	324	**81**
Joint ventures	189	**—**
Total	513	**81**

16. Income tax expense

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

Year ended December 31, 2017

Millions of yen

	As at January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive 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” in the table above primarily comprised foreign exchange movements.

Year ended December 31, 2018

Millions of yen

	As at January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Other	As at December 31, 2018
Deferred tax assets:					
Other payables	**6,106**	**(553)**	**—**	**(39)**	**5,513**
Unrealized gain	**5,386**	**(177)**	**—**	**(35)**	**5,172**
Post-employment benefit liabilities	**3,867**	**(128)**	**61**	**(2)**	**3,797**
Other	**9,182**	**1,613**	**(210)**	**66**	**10,651**
Total	**24,542**	**753**	**(149)**	**(11)**	**25,135**
Deferred tax liabilities:					
Intangible assets	**(50,370)**	**4,904**	**—**	**(1,457)**	**(46,923)**
Property, plant and equipment	**(12,179)**	**549**	**—**	**(457)**	**(12,087)**
Temporary differences associated with investments in associates	**(8,005)**	**(343)**	**—**	**139**	**(8,208)**
Other	**(7,287)**	**(148)**	**189**	**127**	**(7,119)**
Total	**(77,843)**	**4,962**	**189**	**(1,647)**	**(74,338)**

“Other” in the table above primarily comprised foreign exchange movements.

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

Millions of yen

	2017	2018
Unused tax losses	20,491	**25,933**
Unused tax credits	2,195	**2,796**
Deductible temporary differences	49,845	**48,671**
Total	72,532	**77,401**

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	2017	2018
Expires within 1 year	516	**401**
Expires between 1 and 2 years	2,425	**2,806**
Expires between 2 and 3 years	4,291	**3,807**
Expires between 3 and 4 years	3,581	**3,936**
Expires after 4 years	9,676	**14,981**
Total	20,491	**25,933**

Millions of yen

Deferred tax credits	2017	2018
Expires within 1 year	—	**—**
Expires between 1 and 2 years	—	**—**
Expires between 2 and 3 years	—	**—**
Expires between 3 and 4 years	—	**—**
Expires after 4 years	2,195	**2,796**
Total	2,195	**2,796**

Taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized as at December 31, 2017 and 2018 were ¥91,388 million and ¥91,925 million, 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 will not be reversed in the foreseeable future.

Income tax expense was as follows:

Millions of yen

	2017	2018
Current tax expense	29,083	**28,695**
Deferred tax expense	(815)	**(5,716)**
Total	28,267	**22,979**

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

%

	2017	2018
Effective statutory tax rate	30.84	**30.84**
Tax rate change	(3.76)	**(4.63)**
Differences in overseas tax rates	(2.40)	**(4.11)**
Permanent differences, such as non-taxable dividend income	(1.56)	**(3.38)**
Other	1.58	**1.83**
Average effective tax rate	24.70	**20.55**

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 30.84% for the year ended December 31, 2017 and 30.84% for the year ended December 31, 2018. Foreign subsidiaries are subject to income tax expense in the tax jurisdiction in which they are located.

Due to the enactment of new U.S. tax legislation in December 2017, the federal corporate income tax rate in the U.S. was reduced from 35% to 21% for the year ended December 31, 2017. 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.

Due to the enactment of the Netherland tax amendment on December 28, 2018, the corporate income tax rate in the Netherlands is to be gradually decreased from 25% to 20.5% over the five years ending on 2021 for the year ended December 31, 2018. According to this change in effective tax rate, the Group reversed certain deferred tax assets and liabilities, and credited deferred tax expense by ¥5,173 million.

17. Bonds and borrowings

The breakdown of bonds and borrowings were as follows:

Millions of yen

	2017	2018	Average interest rate (%)	Maturity date
Short-term borrowings	21,819	**23,126**	0.61	—
Current portion of long-term borrowings	73,834	**27,320**	1.51	—
Current portion of bonds	—	**24,989**	0.26	—
Long-term borrowings	171,453	**150,580**	1.56	2020–2025
Bonds	39,921	**44,855**	0.26	2021–2024
Total	307,029	**270,874**		
Current liabilities	95,654	**75,437**		
Non-current liabilities	211,375	**195,436**		
Total	307,029	**270,874**		

Bonds and borrowings are classified as financial liabilities measured at amortized cost. The average interest rate is calculated as the weighted-average interest rate as at the end of the reporting period.

Summary of terms of bonds were as follows:

Millions of yen

Issuer	Type	Issue date	2017	2018	Interest rate (%)	Collateral	Maturity date
Suntory Beverage & Food Limited	The 1st issue of unsecured corporate bonds	June 26, 2014	24,969	**24,989**	0.26	None	June 26, 2019
	The 2nd issue of unsecured corporate bonds	June 26, 2014	14,952	**14,959**	0.70	None	June 26, 2024
	The 3rd issue of unsecured corporate bonds	July 26, 2018	—	**14,953**	0.001	None	July 26, 2021
	The 4th issue of unsecured corporate bonds	July 26, 2018	—	**14,942**	0.07	None	July 26, 2023
	Total		39,921	**69,845**			

There was no asset pledged as collateral for bonds and borrowings.

18. 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	
	2017	2018	2017	2018
Within 1 year	7,978	**5,444**	7,765	**5,260**
Between 1 and 5 years	8,251	**6,102**	8,099	**6,051**
More than 5 years	688	**977**	686	**832**
Total	16,918	**12,524**	16,550	**12,144**
Future finance charge	(367)	**(379)**		
The present value of lease liabilities	16,550	**12,144**		

(2) Non-cancellable operating leases

The Group leases buildings, vehicles, 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

	2017	2018
Within 1 year	6,767	**6,289**
Between 1 and 5 years	16,050	**17,389**
More than 5 years	4,722	**6,413**
Total	27,539	**30,092**

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

Millions of yen

	2017	2018
Total minimum lease payments	7,699	**7,140**

19. Trade and other payables

Trade and other payables were as follows:

Millions of yen

	2017	2018
Trade payables	118,832	**135,005**
Accrued expenses	148,123	**145,690**
Accrued employee benefits	22,565	**23,088**
Total	289,521	**303,783**

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

20. Other financial liabilities

Other financial liabilities as at December 31, 2017 and 2018 were as follows:

Millions of yen

	2017	2018
Financial liabilities measured at amortized cost:		
Lease obligations	16,550	**12,144**
Deposits received	34,743	**35,262**
Other	649	**584**
Financial liabilities designated as hedging instruments:		
Derivative liabilities	5,918	**2,864**
Financial liabilities measured at FVTPL:		
Derivative liabilities	122	**31**
Total	57,984	**50,887**
Current liabilities	32,678	**30,736**
Non-current liabilities	25,306	**20,150**
Total	57,984	**50,887**

21. 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

	2017	2018
Present value of funded defined benefit obligations	33,294	**33,960**
Fair value of plan assets	(32,764)	**(32,670)**
Subtotal	529	**1,290**
Present value of unfunded defined benefit obligation	10,114	**10,888**
Net defined benefit liability	10,644	**12,179**
Balance in consolidated statement of financial position:		
Post-employment benefit liabilities	11,888	**13,258**
Post-employment benefit assets	(1,244)	**(1,078)**
Net of liabilities and assets	10,644	**12,179**

Changes in the present value of the defined benefit obligation during the years ended December 31, 2017 and 2018 were as follows:

Millions of yen

	2017	2018
Balance at beginning of the year	41,629	**43,408**
Current service cost	3,065	**3,241**
Interest expense	325	**358**
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	(78)	**(498)**
Actuarial gains and losses arising from changes in financial assumptions	(296)	**79**
Past service cost	—	**(57)**
Benefits paid	(1,212)	**(1,318)**
Other	(24)	**(364)**
Balance at end of the year	43,408	**44,849**

The weighted-average durations of the defined benefit obligation as at December 31, 2017 and 2018 were 15.5 years and 15.3 years, respectively.

Changes in the fair value of plan assets during the years ended December 31, 2017 and 2018 were as follows:

Millions of yen

	2017	2018
Balance at beginning of the year	31,124	**32,764**
Interest income	231	**248**
Remeasurements:		
Return on plan assets	751	**(682)**
Employer contributions	1,487	**1,489**
Benefits paid	(937)	**(1,007)**
Other	107	**(142)**
Balance at end of the year	32,764	**32,670**

The contribution by the Group to defined benefit plans in the subsequent annual reporting period is expected to be ¥1,950 million.

Fair values of plan assets were as follows:

Millions of yen

		2017			2018		
		Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total
Cash and cash equivalents		871	—	871	**579**	**—**	**579**
Equity	instruments	—	6,353	6,353	**—**	**5,074**	**5,074**
	Domestic	—	2,419	2,419	**—**	**1,935**	**1,935**
	Overseas	—	3,934	3,934	**—**	**3,138**	**3,138**
Debt	instruments	—	12,021	12,021	**—**	**12,689**	**12,689**
	Domestic	—	5,358	5,358	**—**	**4,721**	**4,721**
	Overseas	—	6,663	6,663	**—**	**7,967**	**7,967**
Life insurance—General accounts		—	5,306	5,306	**—**	**5,442**	**5,442**
Other		—	8,211	8,211	**—**	**8,885**	**8,885**
Total		871	31,892	32,764	**579**	**32,090**	**32,670**

Plan assets invested in joint investment trusts in trust banks are deemed 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 adjustment of the weight of risk assets by following corporate rules as a temporary solution when unexpected situations occur in the market environment.

Significant actuarial assumptions were as follows:

%

	2017	2018
Discount rate	0.5–0.9	**0.5–0.8**

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

		2017	2018
Discount rate:	Increase by 0.5%	(2,480)	**(3,149)**
	Decrease by 0.5%	2,732	**2,857**

Defined benefit costs were as follows:

Millions of yen

	2017	2018
Current service cost	3,065	**3,241**
Interest expense	325	**358**
Interest income	(231)	**(248)**
Past service cost	—	**(57)**
Total	3,159	**3,293**

The Group's contribution to the plans for the years ended December 31, 2017 and 2018 were ¥12,916 million and ¥11,596 million, respectively, and those are not included in defined benefit costs analyzed above.

(2) Employee benefit expenses

Employee benefit expenses for the years ended December 31, 2017 and 2018 were ¥167,523 million and ¥170,619 million, respectively. Employee benefit expenses 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.

22. Provisions

Changes of provisions were as follows:

Millions of yen

	Asset retirement obligations	Provision for restructuring	Other	Total
Balance at January 1, 2017	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
Additional provisions recognized	**56**	**733**	**1,218**	**2,008**
Interest expense	**23**	**—**	**—**	**23**
Utilized during the period	**—**	**(955)**	**(17)**	**(972)**
Reversed during the period	**(50)**	**(257)**	**(73)**	**(381)**
Reclassifications	**—**	**427**	**(427)**	**—**
Other	**(45)**	**(110)**	**(43)**	**(199)**
Balance at December 31, 2018	**1,855**	**1,754**	**1,167**	**4,777**

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, such disbursement 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

	2017	2018
Current liabilities	1,385	**2,074**
Non-current liabilities	2,913	**2,702**
Total	4,299	**4,777**

23. Equity

Share premium is the remaining of the proceeds from issuance of equity instruments less the amount recognized as share capital. The Companies Act of Japan requires the Company to recognize one-half or more of the proceeds from issuance of equity instruments, and the remaining amount as share premium. Equity transactions designated by IFRS 10, "Consolidated Financial Statements," as to charge to equity are recorded in share premium as well.

Retained earnings are the accumulated amount of profit attributable to owners of the Company up to the reporting period less dividends paid. The Group also reclassifies the cumulative gains or losses associated with equity financial instruments designated as measured at FVTOCI to retained earnings from other comprehensive income when equity instruments are derecognized or when there is a significant decline in fair value.

The number of shares authorized and shares issued were as follows. The Company only issues ordinary shares, and the issued shares are fully paid in.

Shares

	Shares authorized	Shares issued
Balance at January 1, 2017	480,000,000	309,000,000
Increase (decrease)	—	—
Balance at December 31, 2017	480,000,000	309,000,000
Increase (decrease)	—	—
Balance at December 31, 2018	**480,000,000**	**309,000,000**

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 December 31, 2016	(48,358)	130	2,020	—	(5,299)	(51,507)
Cumulative effect of adoption of new accounting standards	—	(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)
Other comprehensive income	**(31,783)**	**808**	**—**	**(612)**	**(205)**	**(31,791)**
Transferred to retained earnings	**—**	**—**	**—**	**(131)**	**—**	**(131)**
Balance at December 31, 2018	**(54,036)**	**72**	**—**	**2,258**	**(4,843)**	**(56,548)**

24. Dividends

Dividends paid were as follows:

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 4, 2017

Year ended December 31, 2018

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on March 29, 2018	**11,742**	**38.00**	**December 31, 2017**	**March 30, 2018**
Board of Directors meeting held on August 6, 2018	**12,051**	**39.00**	**June 30, 2018**	**September 3, 2018**

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

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 29, 2018	11,742	38.00	December 31, 2017	March 30, 2018

Year ended December 31, 2018

Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders held on March 28, 2019	**12,051**	**39.00**	**December 31, 2018**	**March 29, 2019**

25. Revenue

The Group primarily manufactures and distributes soft drinks and foods. The Group's business in Japan is operated by the Company and its domestic subsidiaries, and the businesses outside of Japan are operated by local subsidiaries in each region. Products of the Group comprise mineral water, coffee, tea, carbonated drinks, sports drinks, and food for specified health uses (hereinafter, "Beverages" in aggregate) and health supplements. These products are sold to customers through a variety of local brands in each region. Customers for the Group are local wholesalers or consumers, and the Group carries out its sales activities in conformity with the nature of local markets or consumers. In order to assess nature, amount, timing, and uncertainty of revenue and cash flows of the Group under such business environment, it is most appropriate to review revenue segregated by product (Beverages and Health supplements) and by areas of business activity. Revenue information by area is reviewed by the Board of Directors on a periodic basis to determine allocation of resources and to review performance of the Group. Disaggregated revenues by reportable segment and product are as follow:

Year ended December 31, 2018

Millions of yen

	Reportable segment					
	Japan	Europe	Asia	Oceania	Americas	Segment total
Beverages	**708,725**	**245,175**	**142,825**	**54,185**	**85,025**	**1,235,938**
Health Supplements	**—**	**—**	**55,207**	**—**	**—**	**55,207**
Other	**—**	**—**	**3,110**	**—**	**—**	**3,110**
Total	**708,725**	**245,175**	**201,143**	**54,185**	**85,025**	**1,294,256**

There were no significant contract assets or liabilities. The liabilities incurred from contracts with customers, such as sales incentives, which the Group expects to pay in relation to the sales transactions recorded for the reporting period, are recognized as refund liabilities and presented in accrued expenses.

The Group adopted the practical expedient of not disclosing its remaining performance obligations, as performance obligations are parts of contracts that have original expected durations of one year or less. In addition, there is no material consideration which is not included in the transaction prices based on the contracts with customers. Promised considerations include no significant financing component as the Group receives considerations within one year after the delivery of goods to the customers.

There has been no significant cost incurred to obtain or fulfil a contract with a customer. The Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Group otherwise would have recognized is one year or less, as allowed as practical expedients.

26. Selling, general and administrative expenses

Selling, general and administrative expenses were as follows:

Millions of yen

	2017	2018
Advertising and sales promotions	155,416	**157,620**
Brand royalties	20,815	**21,787**
Employee benefits expenses	134,733	**135,026**
Rental expenses	12,741	**13,212**
Depreciation and amortization	35,881	**33,757**
Other	52,855	**63,493**
Total	412,444	**424,897**

Expenditures for research and development activities recognized as expenses were ¥9,012 million for the year ended December 31, 2018 (¥9,488 million for the year ended December 31, 2017).

27. Other income

Other income was as follows:

Millions of yen

	2017	2018
Gain on sale of associated companies	1,876	**12,038**
Reversal of impairment losses	1,175	**164**
Gain on sale of property, plant and equipment	260	**378**
Other	2,550	**2,009**
Total	5,862	**14,591**

Gain on sale of associated companies for the year ended December 31, 2018 is due to the disposal of the food and instant coffee business.

28. Other expenses

Other expenses were as follows:

Millions of yen

	2017	2018
Loss on disposal of property, plant and equipment	4,097	**3,286**
Restructuring charges	4,217	**2,339**
Impairment losses	1,360	**4,341**
Other	2,454	**1,839**
Total	12,129	**11,806**

Restructuring charges recognized during the year ended December 31, 2017 were for professional advisory fees related to the reorganization of subsidiaries in the Asia business and restructuring costs related to the reorganization of subsidiaries carried out in the Europe business. Restructuring charges for the year ended December 31, 2018 are primarily expenses related to renewal and enforcement of management in the Europe business and restructuring costs in the African business.

Impairment losses was recognized for the year ended December 31, 2018 for plant, property and equipment, goodwill, brands, and other intangible assets at ¥423 million, ¥962 million, ¥2,062 million, and ¥891 million, respectively.

29. Finance income and costs

Finance income and costs were as follows:

Millions of yen

Finance income	2017	2018
Interest received:		
From financial assets measured at amortized cost	462	**778**
Fair value gains:		
From financial assets measured at FVTPL	—	**139**
Dividends received:		
From financial assets measured at FVTOCI:		
From financial assets derecognized during the year	282	**1**
From financial assets held at the end of the year	126	**113**
Total	871	**1,032**

Millions of yen

Finance costs	2017	2018
Interest paid:		
From financial liabilities measured at amortized cost	2,724	**2,365**
Fair value losses:		
From financial assets measured at FVTPL	47	**—**
Net foreign exchange losses	1,512	**311**
Other	100	**100**
Total	4,384	**2,777**

30. Other comprehensive income

Details on amounts arising during the year, reclassifications, and tax effects for other comprehensive income were as follows:

Year ended December 31, 2017

Millions of yen

	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

Year ended December 31, 2018

Millions of yen

	Amount arising during the year	Reclassifi-cations	Before tax	Tax effects	After-tax
Items that will not be reclassified to profit or loss:					
Changes in the fair value of financial assets	(900)	—	(900)	285	(614)
Remeasurement of post-employment benefit plans	(266)	—	(266)	61	(205)
Total	(1,166)	—	(1,166)	346	(820)
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	(31,795)	(840)	(32,635)	—	(32,635)
Changes in the fair value of cash flow hedges	2,198	(1,084)	1,113	(306)	806
Changes in comprehensive income of investments accounted for using the equity method	(56)	—	(56)	—	(56)
Total	(29,653)	(1,924)	(31,578)	(306)	(31,885)
Grand total	(30,820)	(1,924)	(32,745)	39	(32,705)

31. Earnings per share

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

Millions of yen

	2017	2018
Profit for the year attributable to owners of the Company	78,112	80,024
Profit for the year used in the calculation of earnings per share	78,112	80,024
Weighted-average number of ordinary shares (Shares)	309,000,000	309,000,000
Earnings per share (Yen)	252.79	258.98

32. 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

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

Cash flows associated with the bonds and borrowings and derivatives presented above reconcile 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 table above includes the receipt and payment of interests. Derivatives are utilized to hedge bonds and borrowings.

Millions of yen

			Non-cash movements					
	January 1, 2018	Cash flows	Foreign exchange adjustments	Changes in fair value	New leases	Other	Other movements	December 31, 2018
Bonds and borrowings	307,029	(26,138)	(10,058)	—	—	41	—	270,874
Derivatives	(10,130)	6,568	—	(1,334)	—	—	1,342	(3,554)
Lease liabilities	16,550	(6,998)	(4)	—	3,576	(979)	—	12,144

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

(2) Non-cash transactions

Non-cash transactions were primarily as follows:

Millions of yen

	2017	2018
Assets acquired through finance leases	2,627	4,274

33. 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	2018
Interest-bearing liabilities	307,029	**270,874**
Net valuation loss arising from derivative transactions	(10,804)	**(3,743)**
Interest-bearing liabilities (adjusted)	296,225	**267,130**
Cash and cash equivalents	(113,883)	**(146,535)**
Net interest-bearing liabilities	182,341	**120,594**
Total equity	746,201	**798,877**
Net debt-to-equity ratio (Times)	0.2	**0.2**

The Board of Directors of the Company monitors the Group's financial indices. There have 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 which the Group enters into derivative transactions to hedge foreign exchange and interest rate fluctuation risks and with which it deposits 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 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 amounts by an allowance percentage that is based on historical credit loss experience determined for each classification and 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 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
Balance at January 1, 2017	23,446	27	159,922
Balance at December 31, 2017	24,845	532	159,141
Balance at December 31, 2018	**26,101**	**37**	**166,159**

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
Decreased (increased) 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
Decreased (increased) due to financial assets incurred or collected	**(2)**	**(64)**	**280**
Direct amortization	**—**	**(359)**	**(21)**
Exchange differences	**—**	**—**	**(56)**
Balance at December 31, 2018	**12**	**37**	**1,087**

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

As at December 31, 2018

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	**303,783**	**303,783**	**303,783**	**—**	**—**	**—**	**—**	**—**
Borrowings	**201,028**	**207,240**	**53,172**	**63,967**	**28,286**	**36,423**	**130**	**25,259**
Bonds	**69,845**	**70,663**	**25,148**	**115**	**15,115**	**115**	**15,115**	**15,052**
Lease obligations	**12,144**	**12,524**	**5,444**	**2,829**	**1,671**	**1,032**	**569**	**977**
Derivative financial liabilities:								
Currency derivatives	**(519)**	**(409)**	**(399)**	**(9)**	**—**	**—**	**—**	**—**
Interest rate derivatives	**(3,524)**	**(7,181)**	**(1,103)**	**(5,543)**	**(1,127)**	**592**	**—**	**—**
Commodity derivatives	**5**	**5**	**4**	**0**	**—**	**—**	**—**	**—**
Total	**582,763**	**586,626**	**386,050**	**61,359**	**43,946**	**38,164**	**15,815**	**41,290**

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 limits 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 management

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 swaps, 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 risk affects on profit for the year is minor.

e. Management of market price fluctuation risks

The Group limits risks of changes in market prices by utilizing commodity swap transactions.

The Group is exposed to risks of changes in market prices of 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	**2018**
Other comprehensive income (before tax effects)	87	**75**

(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 exposure. Foreign currency exchange risks are managed by focusing on controlling risk exposures according to foreign currency risk management policy and hedge policy. Exposure to 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	Carrying amount: Liabilities
Foreign exchange risks:				
Foreign exchange contracts:				
Long—U.S. dollars	9,743	—	121	9
Short—Australian dollars	5,692	—	15	1
Currency swap contracts:				
Payment in yen	1,844	—	—	33
Receipt in New Zealand dollars (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. dollars (hedged item)				
Receipt in yen				
Receiving on a floating rate and paying on a fixed rate	34,948	18,234	8,013	650
Payment in U.S. dollars (hedged item)				
Receipt in pounds sterling				
Receiving on a floating rate and paying on a fixed rate	53,628	53,628	111	4,858
Payment in U.S. dollars (hedged item)				
Receipt in euros				

Millions of yen

2018	Contractual amounts	Receivable/ payable after one year	Carrying amount Assets	Liabilities
Foreign exchange risks:				
Foreign exchange contracts:				
Long—U.S. dollars	11,361	—	125	58
Short—Australian dollars	3,881	—	157	—
Currency swap contracts:				
Payment in yen Receipt in New Zealand dollars (hedged item)	4,990	—	103	27
Payment in yen Receipt in Australian dollars (hedged item)	2,970	—	52	—
Interest rate risks:				
Interest rate swap contracts:				
Receiving on a floating interest and paying on a fixed interest	16,855	—	—	29
Currency swap contracts:				
Receiving on a floating rate and paying on a fixed rate Payment in U.S. dollars (hedged item) Receipt in pounds sterling	25,419	25,419	6,231	223
Receiving on a floating rate and paying on a fixed rate Payment in U.S. dollars (hedged item) Receipt in euros	50,473	42,853	80	2,535

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	Market price fluctuation 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)
Other comprehensive income:				
Incurred for the period	231	1,972	(5)	2,198
Reclassified	188	(1,273)	—	(1,084)
Tax effect	(137)	(171)	2	(306)
Balance at December 31, 2018	254	(181)	(2)	70

Changes in the value of hedged items used as a basis for recognizing the ineffective hedge portion approximate the changes in the fair values of the hedging instruments. "Reclassified" in the preceding schedule represents the amounts reclassified to profit or loss when the hedged items affected net profit or loss, which are recognized as finance income or cost 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

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 directly or indirectly observable prices other than Level 1 for the asset or liability

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 values 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 values of listed shares are 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 the net assets approach (i.e., a method to determine corporate values based on the 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

As at December 31, 2018

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets designated as hedging instruments:				
Derivative assets	—	6,730	—	6,730
Financial assets measured at FVTPL:				
Derivative assets	—	204	—	204
Other	964	154	2	1,121
Financial assets measured at FVTOCI:				
Equity instruments	4,925	—	2,657	7,583
Other	—	—	8	8
Liabilities:				
Financial liabilities designated as hedging instruments:				
Derivative liabilities	—	2,864	—	2,864
Financial liabilities measured at FVTPL:				
Derivative liabilities	—	31	—	31

There were no transfers among Levels 1, 2, and 3 for the year ended December 31, 2018.

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

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

Year ended December 31, 2018

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
Total gains and losses	—	(499)
Other comprehensive income	—	(499)
Sales	(0)	(1)
Balance at December 31, 2018	2	2,666

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 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 values reasonably approximate their carrying amounts and immaterial financial instruments are excluded from the following table.

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 maturities.

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 amounts and the fair value hierarchy of major financial instruments measured at amortized cost at each reporting date.

Year ended 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

Year ended December 31, 2018

Millions of yen

	Carrying amount	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities measured at amortized cost:					
Bonds	69,845	—	70,479	—	70,479
Borrowings	201,028	—	202,311	—	202,311

34. Principal subsidiaries

The Group's principal 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 2017	2018
Suntory Foods Limited	Japan	Japan	100.0	**100.0**
Suntory Beverage Solution Limited	Japan	Japan	100.0	**100.0**
Suntory Beverage Service Limited	Japan	Japan	99.0	**99.0**
Japan Beverage Holdings Inc.	Japan	Japan	82.6	**82.7**
Suntory Foods Okinawa Limited	Japan	Japan	100.0	**100.0**
Suntory Products Limited	Japan	Japan	100.0	**100.0**
Orangina Schweppes Holding B.V.	Netherlands	Europe	100.0	**100.0**
Lucozade Ribena Suntory Limited	United Kingdom	Europe	100.0	**100.0**
Suntory Beverage & Food Asia Pte. Ltd.	Singapore	Asia	100.0	**100.0**
BRAND'S SUNTORY INTERNATIONAL Co., Ltd.	Thailand	Asia	100.0	**100.0**
PT SUNTORY GARUDA BEVERAGE	Indonesia	Asia	75.0	**75.0**
Suntory PepsiCo Vietnam Beverage Co., Ltd.	Vietnam	Asia	100.0	**100.0**
Suntory PepsiCo Beverage (Thailand) Co., Ltd.	Thailand	Asia	—	**51.0**
FRUCOR SUNTORY NEW ZEALAND LIMITED	New Zealand	Oceania	100.0	**100.0**
FRUCOR SUNTORY AUSTRALIA PTY. LIMITED	Australia	Oceania	100.0	**100.0**
Pepsi Bottling Ventures LLC	United States of America	Americas	65.0	**65.0**
80 other companies				

35. Related-party transactions

Related-party transactions and balances were as follows:

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

Year ended December 31, 2018

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	**21,787**	**1,849**
Company owned by the same parent company	Suntory MONOZUKURI Expert Limited	Advance payment of raw materials and other	**—**	**66,654**

The brand royalty rate is negotiated considering brand values and determined to be rational rate as payment for usage. Suntory MONOZUKURI Expert Limited leases the Group's payment to third-party suppliers and does not have substantive transactions with the Group. The balance amounts above at period end includes consumption tax.

Remuneration for principal executives was as follows:

Millions of yen

	2017	2018
Basic remuneration and bonuses	439	**416**

36. Commitments

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

Millions of yen

	2017	2018
Acquisition of property, plant and equipment	366	**12,167**

Commitments for the year ended December 31, 2018 are for the installation of new production lines at Ujigawa Plant and Haruna Plant in Japan, as well as the construction of the new Water Plant in Omachi-city, Nagano Prefecture, Japan.

37. Contingent liabilities

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

Millions of yen

	2017	2018
Oulmès Drink Developpement SA	337	**317**

38. Subsequent events

There were no subsequent events.

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

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www.deloitte.com/jp/en

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, 2018, 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, 2018, 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 18, 2019

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data

Company Name
Suntory Beverage & Food Limited

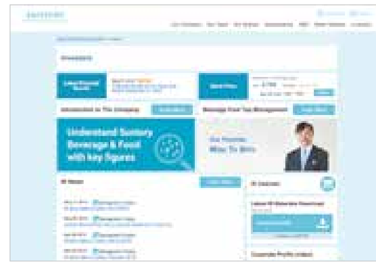
Head Office
3-1-1 Kyobashi, Chuo-ku,
Tokyo 104-0031, Japan

Capital
¥168,384 million

Employees
24,142 (as of December 31, 2018)

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
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, 2018

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
42,248

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	9,046	2.9%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,875	2.2%
Japan Trustee Services Bank, Ltd. (Trust Account)	5,457	1.7%
JP MORGAN CHASE BANK 385632	4,137	1.3%
STATE STREET BANK WEST CLIENT – TREATY 505234	3,930	1.2%
HSBC BANK PLC A/C ABU DHABI INVESTMENT AUTHORITY	3,258	1.0%
JP Morgan Securities Japan Co., Ltd.	2,678	0.8%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,635	0.8%
JP MORGAN CHASE BANK 385167	2,371	0.7%

Ratings

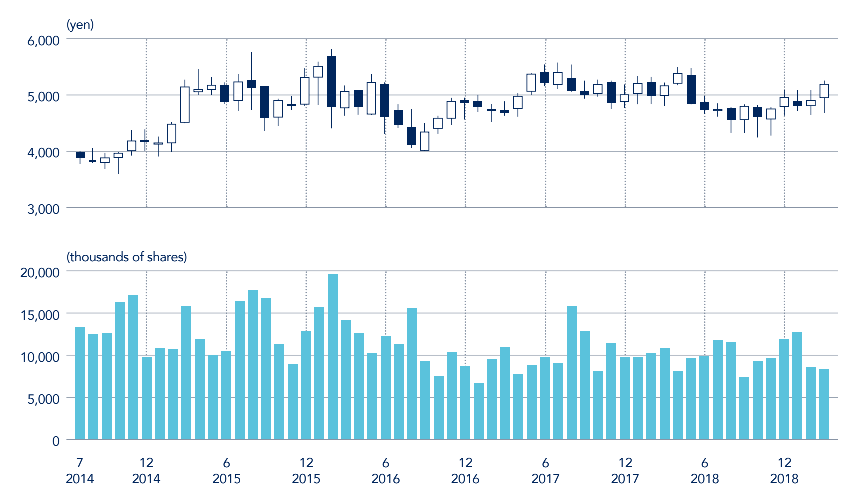
Japan Credit Rating Agency, Ltd. (JCR) (As of July 2, 2018)

Long-Term Senior Debt Rating (Issuer Rating)	AA–
CP Rating	J–1+

Moody's (As of November 13, 2018)

Long-Term Senior Debt Rating (Issuer Rating)	A3

Stock Price and Trading Volume



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SUNTORY BEVERAGE & FOOD