Suntory Beverage & Food Limited and Its Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2018, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Suntory Beverage & Food Limited and its subsidiaries as of December 31, 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

Consolidated Statement of Financial Position
Suntory Beverage & Food Limited and Its subsidiaries
As at December 31, 2018

	Notes	2017	2018
		Millions of yen	
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.

Consolidated Statement of Financial Position
Suntory Beverage & Food Limited and Its subsidiaries
As at December 31, 2018 (continued)

		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

	Notes	Millions of yen 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						
		Attributable to owners of the Company (Note 1)						
	Notes	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

	Notes	2017	2018
		Millions of yen	
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

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:

<u>Year ended December 31, 2017</u>

Millions of yen

	Reportable segments					Segment		
	Japan	Europe	Asia	Oceania	Americas	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 segments					Segment		
	Japan	Europe	Asia	Oceania	Americas	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:

	Fair value
	Millions of yen
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

	Amount
	Millions of yen
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:

	Amount
	Millions of yen
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

	Amount
	Millions of yen
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					
		Intangible assets				
	Goodwill	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					
		Intangible assets				
	Goodwill	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					
		Intangible assets				
	Goodwill	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

Deferred tax credits	Millions of yen	
	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	Millions of yen Total dividends	Yen Dividends per share	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	Millions of yen Total dividends	Yen Dividends per share	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	Millions of yen Total dividends	Yen Dividends per share	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	Millions of yen Total dividends	Yen Dividends per share	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	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	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			
			Carrying amount	
2017	Contractual amounts	Receivable/ payable after one year	Assets	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				

2018	Millions of yen			
	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	4,990	-	103	27
Receipt in New Zealand dollars (hedged item)				
Payment in yen	2,970	-	52	-
Receipt in Australian dollars (hedged item)				
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	25,419	25,419	6,231	223
Payment in U.S. dollars (hedged item)				
Receipt in pounds sterling				
Receiving on a floating rate and paying on a fixed rate	50,473	42,853	80	2,535
Payment in U.S. dollars (hedged item)				
Receipt in euros				

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

Name of subsidiary	Place of incorporation and operation	Reportable segment	Proportion of ownership interest and voting power held by the Group	
			2017	2018
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

Nature of relationship	Name	Nature of the related-party transaction	Amount of transaction (Millions of yen)	Balance at period end (Millions of yen)
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

Nature of relationship	Name	Nature of the related-party transaction	Amount of transaction (Millions of yen)	Balance at period end (Millions of yen)
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.