Suntory Holdings Limited and its Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2017, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suntory Holdings Limited:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suntory Holdings Limited and its subsidiaries as of December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

March 19, 2018

Consolidated statement of financial position
Suntory Holdings Limited and its subsidiaries
As at December 31, 2017

(Millions of yen)

	Notes	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Assets				
Current assets:				
Cash and cash equivalents	8	255,589	352,519	359,518
Trade and other receivables	9,35	375,093	379,286	396,645
Other financial assets	10,35	6,068	3,269	19,687
Inventories	11	414,755	383,861	408,822
Other current assets	12	50,732	72,940	66,914
Subtotal		1,102,240	1,191,877	1,251,588
Assets held for sale	13	65,244	-	23,152
Total current assets		1,167,484	1,191,877	1,274,741
Non-current assets:				
Property, plant and equipment	14	674,144	654,527	660,481
Goodwill	15	928,550	885,441	882,123
Intangible assets	15	1,588,174	1,461,504	1,469,110
Investments accounted for using the equity method	16	39,492	37,673	41,544
Other financial assets	10,35	114,245	110,708	135,882
Deferred tax assets	17	48,202	92,008	75,394
Other non-current assets	12	52,039	38,637	40,297
Total non-current assets		3,444,850	3,280,502	3,304,835
Total assets		4,612,335	4,472,380	4,579,576

See notes to consolidated financial statements.

Consolidated statement of financial position
Suntory Holdings Limited and its subsidiaries
As at December 31, 2017 (continued)

(Millions of yen)

	Notes	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Liabilities and equity				
Liabilities				
Current liabilities:				
Bonds and borrowings	18,35	210,187	307,702	291,501
Trade and other payables	19	491,101	493,850	515,323
Other financial liabilities	20,35	78,584	90,187	103,578
Accrued income taxes		34,206	22,472	29,478
Provisions	21	11,358	7,674	12,383
Other current liabilities	22	92,263	85,349	84,614
Subtotal		917,701	1,007,237	1,036,880
Liabilities directly associated with assets held for sale	13	40,943	-	6,215
Total current liabilities		958,644	1,007,237	1,043,096
Non-current liabilities:				
Bonds and borrowings	18,35	1,849,696	1,636,125	1,539,763
Other financial liabilities	20,35	106,890	85,441	72,908
Post-employment benefit liabilities	24	39,089	41,109	41,478
Provisions	21	8,811	8,076	7,979
Deferred tax liabilities	17	424,669	405,504	307,115
Other non-current liabilities	22	16,347	16,750	21,520
Total non-current liabilities		2,445,505	2,193,008	1,990,767
Total liabilities		3,404,150	3,200,245	3,033,863
Equity				
Share capital	25	70,000	70,000	70,000
Share premium	25	138,081	133,251	133,885
Retained earnings	25	674,435	851,912	1,064,603
Treasury shares	25	(2,285)	(1,598)	(1,006)
Other components of equity	25	9,529	(86,586)	(62,735)
Total equity attributable to owners of the Company (Note 1)		889,760	966,979	1,204,747
Non-controlling interests		318,423	305,155	340,965
Total equity		1,208,184	1,272,134	1,545,713
Total liabilities and equity		4,612,335	4,472,380	4,579,576

See notes to consolidated financial statements.

Consolidated statement of profit or loss
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2017

(Millions of yen)

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Revenue (including excise taxes)	7	2,358,404	2,420,286
Less: excise taxes		(256,806)	(262,754)
Revenue (excluding excise taxes)	7	2,101,598	2,157,531
Cost of sales		(1,072,782)	(1,095,535)
Gross profit		1,028,815	1,061,995
Selling, general and administrative expenses	28	(785,043)	(809,653)
Share of the profit and loss on investments accounted for using the equity method	16	8,328	9,688
Other income	27	28,688	10,334
Other expenses	29	(27,900)	(18,725)
Operating income	7	252,888	253,639
Finance income	30	2,203	3,084
Finance costs	30	(31,254)	(29,833)
Profit before income taxes		223,837	226,890
Income tax (benefit) expenses	17	(1,024)	24,956
Profit for the year		222,812	251,846
Attributable to:			
Owners of the Company (Note 1)		185,682	211,448
Non-controlling interests		37,130	40,398
Profit for the year		222,812	251,846
Earnings per share (Yen)	32	271.40	308.63

Excise taxes are derived from alcoholic beverages.

See notes to consolidated financial statements.

Consolidated statement of comprehensive income
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2017

(Millions of yen)

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Profit for the year		222,812	251,846
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial assets	31	-	8,999
Remeasurement of post-employment benefit plans	31	(7,820)	1,835
Changes in comprehensive income of investments accounted for using the equity method	31	(530)	(870)
Total		(8,350)	9,965
Items that may be reclassified to profit or loss:			
Translation adjustments of foreign operations	31	(105,390)	30,230
Changes in the fair value of cash flow hedges	31	1,888	566
Changes in the fair value of available-for-sale securities	31	(904)	-
Changes in comprehensive income of investments accounted for using the equity method	31	(4,677)	2,601
Total		(109,085)	33,398
Other comprehensive income (loss) for the year, net of tax		(117,435)	43,363
Comprehensive income for the year		105,376	295,210
Attributable to:			
Owners of the Company (Note 1)		89,566	244,659
Non-controlling interests		15,810	50,551
Comprehensive income for the year		105,376	295,210

See notes to consolidated financial statements.

Consolidated statement of changes in equity
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2017

(Millions of yen)

		Attributable to owners of the Company (Note 1)							
	Notes	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total	Non-controlling interests	Total equity
Balance at January 1, 2016		70,000	138,081	674,435	(2,285)	9,529	889,760	318,423	1,208,184
Profit for the year				185,682			185,682	37,130	222,812
Other comprehensive income(loss)						(96,115)	(96,115)	(21,320)	(117,435)
Total comprehensive income (loss) for the year		-	-	185,682	-	(96,115)	89,566	15,810	105,376
Disposals of treasury shares			468		686		1,155		1,155
Dividends	26			(8,205)			(8,205)	(12,709)	(20,914)
Changes in ownership interests in subsidiaries that do not involve loss of controls			(5,297)				(5,297)	1,335	(3,962)
Changes in the scope of consolidation							-	(17,704)	(17,704)
Total transactions with owners of the Company (Note 1)		-	(4,829)	(8,205)	686	-	(12,348)	(29,078)	(41,426)
Balance at December 31, 2016		70,000	133,251	851,912	(1,598)	(86,586)	966,979	305,155	1,272,134
Cumulative effect of adopting new accounting standards						783	783	(290)	492
Balance at January 1, 2017		70,000	133,251	851,912	(1,598)	(85,802)	967,762	304,864	1,272,627
Profit for the year				211,448			211,448	40,398	251,846
Other comprehensive income						33,211	33,211	10,152	43,363
Total comprehensive income for the year		-	-	211,448	-	33,211	244,659	50,551	295,210
Disposals of treasury shares			534		591		1,125		1,125
Dividends	26			(8,902)			(8,902)	(15,141)	(24,043)
Transfer from other components of equity to retained earnings				10,145		(10,145)	-		-
Changes in ownership interests in subsidiaries that do not involve loss of control			99			1	101	691	793
Total transactions with owners of the Company (Note 1)		-	633	1,243	591	(10,143)	(7,675)	(14,449)	(22,124)
Balance at December 31, 2017		70,000	133,885	1,064,603	(1,006)	(62,735)	1,204,747	340,965	1,545,713

See notes to consolidated financial statements.

Consolidated statement of cash flows
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2017

(Millions of yen)

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Cash flows from operating activities			
Profit before income taxes		223,837	226,890
Depreciation and amortization		96,336	97,262
Impairment losses (reversal of impairment losses)		839	616
Interest and dividend income		(1,964)	(2,790)
Interest expenses		27,705	25,800
Share of the profit or loss on investments accounted for using the equity method		(8,328)	(9,688)
Decrease (increase) in inventories		5,230	(15,623)
Increase in trade and other receivables		(20,667)	(19,451)
Increase in trade and other payables		22,031	15,002
Other		(1,558)	3,573
Subtotal		343,461	321,593
Interest and dividends received		6,700	7,477
Interest paid		(28,064)	(27,358)
Income taxes paid		(69,490)	(40,008)
Net cash inflow from operating activities		252,606	261,703
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(100,720)	(99,379)
Proceeds from sales of property, plant and equipment and intangible assets		8,312	8,115
Payments for acquisition of investment securities		(1,251)	(3,370)
Proceeds from sales of investment securities		466	19,504
Payments for acquisition of shares in subsidiaries involving changes in the scope of consolidation		-	(8,587)
Proceeds from disposals of shares in subsidiaries involving changes in the scope of consolidation		10,586	-
Payments for business transfers		(8,088)	-
Proceeds from business transfers		25,148	-
Other		3,173	3,667
Net cash outflow from investing activities		(62,371)	(80,049)
Cash flows from financing activities			
Increase in short-term borrowings and bonds	34	2,214	8,546
Proceeds from long-term borrowings and bonds	34	175,018	132,125
Repayment of long-term borrowings	34	(231,912)	(280,465)
Payments of finance lease liabilities	34	(9,441)	(10,458)
Proceeds from disposals of treasury shares		1,155	1,125
Dividends paid to owners of the parent	26	(8,205)	(8,902)
Dividends paid to non-controlling interests		(12,538)	(15,160)
Payments for acquisitions of shares in subsidiaries that do not involve loss of control		(3,808)	(171)
Other		(204)	1,317
Net cash outflow from financing activities		(87,721)	(172,042)
Effects of exchange rate changes on cash and cash equivalents		(5,583)	827
Net increase in cash and cash equivalents		102,513	9,611
Cash and cash equivalents at the beginning of the year	8	255,589	352,519
Cash and cash equivalents included in assets held for sale	13	-	(3,439)
Cash and cash equivalents at the end of the year	8	352,519	359,518

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting entity

Suntory Holdings Limited ("the Company") is a corporation, which was established based on Japanese Corporate law and domiciled in Japan. The addresses of its registered office and principal place of business are disclosed on the Company's website (URL http://www.suntory.com). The Company's consolidated financial statements whose closing date is December 31 are composed of the Company and its subsidiaries ("the Group") and its associates. The parent company of the Company is Kotobuki Realty Co., Ltd.

The Group is engaged in manufacturing and marketing alcoholic and non-alcoholic beverages and other business. The Company is a pure holding company, which is responsible for establishing and promoting the group management strategy and providing administrative service to subsidiaries. The principal activities of the Group are described in "Note 7. Segment information."

2. Basis of preparation

(1) Accordance with International Financial Reporting Standards and first-time adoption

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Group's consolidated financial statements were authorized for issuance by Takeshi Niinami Representative Director and Shinichiro Hizuka Senior Managing Director on March 19, 2018.

The Group has adopted IFRSs from the year ended December 31, 2017, and the consolidated financial statements for the year ended on December 31, 2017 are the first consolidated financial statements prepared in accordance with IFRSs. The date of transition to IFRSs was January 1, 2016 ("transition date"). The effect of the transition to IFRSs on the Group's financial position, profit or loss, and cash flows on the transition date and the end of the year ended December 31, 2016 is described in "Note 39. First-time adoption of IFRSs."

The Group's accounting policies have complied with each IFRSs effective on December 31, 2017, except for provisions under IFRSs which were early adopted by the Group and for the exemptions allowed by the rules of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The exemptions used by the Group are described in "Note 39. First-time adoption of IFRSs."

(2) Basis of measurement

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) Functional currency and presentation currency

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.

3. Significant accounting policies

(1) Basis of consolidation

[1] Subsidiary

A subsidiary is an entity controlled by the Company. The Company 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. All intragroup receivable and payable balances, intragroup transaction balances, and unrecognized gains and losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements. Disposal of the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiaries are accounted for as an equity transaction. Any difference between the amount of an adjustment to the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and is attributed to owners of the Company. Non-controlling interests of the consolidated 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.

[2] Associate

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

[3] Joint venture

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. 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 profit or loss. Transaction costs that are directly attributable to a business combination, such as agent, legal, and due diligence fees, are expensed as incurred. The Company 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 as at the acquisition date, except for the following:

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

(3) Foreign currencies

[1] Transaction denominated in 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.

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 difference 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 financial instruments designated as hedging instruments against a net investment in a foreign operation, 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.

[2] Financial statements of foreign operations

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

(4) Financial instruments

[1] Financial assets

(i) Initial recognition and measurement

Financial assets are classified into the following specific categories; financial assets measured at fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL) 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

After 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. The cumulative gain or loss recognized in other comprehensive income is reclassified to retained earnings when financial asset is sold, or a significant deterioration in fair value is recognized. Dividends from such financial assets are recognized as part of finance gains in profit or loss for the year.

(iii) Impairment

For financial assets measured at amortized cost, the Group recognizes a loss allowance against expected credit losses on such financial assets. At each reporting date, financial assets are assessed whether there has been a significant increase in credit risk of the financial asset since initial recognition. If the credit risk on financial assets has not increased significantly since 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 since 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 for the amount of expected credit losses needed to adjust the loss allowance at the reporting date to the required amount. If any event resulting in a decrease of impairment losses occurs after the recognition of impairment losses, an impairment gain is recognized through profit or loss.

(iv) Derecognition

The Group derecognizes financial assets when the contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group continues to recognize the asset and related liabilities to the extent of its continuing involvement.

[2] Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified into either subsequently measured at amortized cost or at FVTPL. The classifications are determined at initial recognition. Financial liabilities measured at FVTPL are initially measured at fair value. Financial liabilities measured at amortized cost are initially measured at fair value less any directly attributable transaction costs.

(ii) Subsequent measurement

After initial recognition, financial liabilities measured at FVTPL include those held for trading purposes and those designated as measured at FVTPL upon initial recognition. Financial liabilities measured at FVTPL are measured at fair value after initial recognition, with subsequent changes recognized in profit or loss for the reporting period. After initial recognition, financial liabilities measured at amortized cost are 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.

[3] 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.

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

If the hedging relationship does not meet the hedge effectiveness requirements in terms of hedge ratios due to a change in an economic relationship between the hedged item and the hedging instrument, despite that the risk management objective 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* (as revised in July 2014; "IFRS 9") as follows.

(i) Fair value hedges

Changes in the fair value of the hedging instrument are recognized in 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. 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. However, changes in fair value of a hedged item that is an equity instrument with an election to present such changes in other comprehensive income are recognized in other 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. The portion of the gain or loss on the hedging instrument that is hedge ineffectiveness is immediately recognized in 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.

(iii) Hedges of a net investment in a foreign operation

Hedge of net investments in foreign operations are accounted for similarly to 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. The portion of the gain or loss on the hedging instrument that is hedge ineffectiveness is recognized in profit or loss. At the disposal of the foreign operation, cumulative gains and losses previously recognized in equity through other comprehensive income are transferred to profit or loss.

(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, which are readily convertible into cash and are not exposed to significant risk related to 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 a weighted-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 charges 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 is as follows:

Buildings:	3 to 50 years
Machinery and equipment:	2 to 20 years

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date. A change in such accounting estimate is accounted for prospectively.

(8) Goodwill and intangible assets

[1] Goodwill

Goodwill is stated at cost less accumulated impairment losses. Method for measurement at initial recognition of goodwill is described in "Note 3. Accounting policies (2) Business combinations." Goodwill is not amortized, but is tested for impairment annually, and whenever there is an indication that the cash-generating unit may be impaired. Method for impairment of goodwill is described in "Note 3. Accounting policies (10) Impairment of non-financial assets."

[2] Intangible assets

Measurement of intangible assets is applied the cost model. Intangible assets is stated at cost less accumulated depreciation and any accumulated impairment losses. Intangible assets acquired separately is measured including directly attributable costs of acquiring the asset. Method for measurement at recognition of intangible assets acquired in a business combination is described in "Note 3. Accounting policies (2) Business combinations." Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives of the major intangible asset with finite useful lives is as follows:

- Trademarks: 15 to 30 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each reporting period. A change in such accounting estimates is accounted for prospectively. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment each reporting period and as necessary. Method for impairment of intangible assets with indefinite useful lives is described in "Note 3. Accounting policies (10) Impairment of non-financial assets."

(9) Leased assets

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 assets are depreciated on a straight-line basis over the shorter of its estimated useful life and its lease term based on the applicable accounting policies for the asset. Lease payments under finance lease are allocated to finance costs and the repayment of the lease obligations is based on the interest method. Finance costs are expense.

Other leases are treated as operating leases. Lease payments for an operating lease transaction are recognized as an expense on a straight-line basis over the lease term.

(10) Impairment of non-financial assets

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

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

Corporate assets of the Group do not generate independent cash inflows. If there is any indication that a corporate asset may be impaired, the recoverable amount of the cash-generating unit to which the corporate asset belongs is determined. Impairment loss is recognized in profit or loss when the carrying amount of an asset or cash generating unit is greater than its recoverable amount. An impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses recognized for goodwill are not reversed subsequently. Impairment losses recognized for other assets are assessed at each reporting date whether there is any indication that they may no longer exist or may have decreased. If there is a change in the estimates used to determine the recoverable amount of an asset, an entity reviews the recoverable amount of the asset and reverses an impairment loss for the asset. An impairment loss is reversed to the extent not exceeding the 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 consolidated subsidiaries have post-employment benefit plans for its employees: defined benefit and defined contribution plans. The present value of defined benefit obligations, related current service cost and, where applicable, past service cost are determined using the projected unit credit method. The discount rate is determined by reference to market yields at each reporting date on high quality corporate bonds corresponding to a discount period that is defined based on the period to the date of expected future benefit payment for each year. The net defined benefit liability (asset) is determined as the present value of the defined benefit obligation less the fair value of plan assets (adjusting for any effect of limiting a net defined benefit asset to the asset ceiling and of giving rise to a liability by a minimum funding requirement, if necessary). Remeasurements of the net defined benefit liability (asset) are recognized collectively in other comprehensive income for the period in which they are incurred.

Past service cost is recognized as an expense for the period it incurred. Expenses related to defined contribution benefits are recognized when related services are rendered.

(12) Provisions

A provision is recognized only when an entity 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

[1] Sale of goods

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

[2] Interest income

Interest income is recognized using the effective interest method.

(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 is deducted from the carrying amount of the asset.

(15) Corporate income taxes

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

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

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

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

The carrying amount of deferred tax assets is reviewed in each period and is 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.

The Company and its wholly-owned subsidiaries in Japan have adopted the consolidated taxation system and file income tax return on a consolidated taxation group basis.

(16) Earnings per share

Basic earnings per share is calculated by the profit or loss attributable to ordinary shareholders of the parent for the period divided by the weighted-average number of ordinary shares issued, adjusted for treasury shares during the period.

(17) Non-current assets held for sale

The Group classifies a non-current asset or asset group that will be recovered principally through a sales transaction rather than through continuing use as held for sale if:

The asset or disposal group is available for immediate sale in its present condition;
Its sale must be highly probable within one year; and
The appropriate level of management of the Group is committed to a plan to sell the asset or disposal group.

The non-current asset held for sale is not depreciated or amortized, and is measured at the lower of its carrying amount and the fair value less costs to sell.

(18) Treasury shares

Treasury shares are measured at cost and are deducted from equity. Gains and losses arising from buy-back, sale or retirement of treasury shares by the Company are not recognized. Any difference between the carrying amount of treasury shares and the consideration received for disposal of such treasury shares are recognized in other capital premium.

4. Critical accounting estimates and judgements

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

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

- Estimates used for impairment of properties, plant and equipment, intangibles and goodwill ("Note 3. Significant accounting policies (10) Impairment of non-financial assets," "Note 14. Property, plant and equipment," "Note 15. Goodwill and intangible assets")
- Measurement of post-employment obligations ("Note 3. Significant accounting policies (11) Post-employment benefit plans," "Note 24. Post-employment benefit plans")
- Judgements and estimates made for the recognition and measurement of provisions ("Note 3. Significant accounting policies (12) Provisions," "Note 21. Provisions")
- Judgements made for assessing the recoverability of deferred tax assets ("Note 3. Significant accounting policies (15) Corporate income tax," "Note 17. Corporate income tax")
- Judgements made in determining whether the Group controls another entity ("Note 3. Significant accounting policies (1) Basis of consolidation," "Note 16. Investments accounted for using the equity method")
- Fair value of financial instruments ("Note 3. Significant accounting policies (4) Financial instruments," "Note 35. Financial instruments (4) Fair value of financial instruments")
- Estimates used for residual value and useful life of property, plant and equipment and intangible assets ("Note 3. Significant accounting policies (7) Property, plant and equipment, (8) Goodwill and intangible assets," "Note 14. Property, plant and equipment," "Note 15. Goodwill and intangible assets")
- Measurement of the fair value of assets acquired and the liabilities assumed in a business combination ("Note 3. Significant accounting policies (2) Business combinations").

5. Early adoption of new accounting standards

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

The Group has applied the exemption provisions under IFRS 1 for IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") and IFRS 9. Therefore, the previous accounting standard (i.e. generally accepted accounting principles in Japan, "Japanese GAAP") has been applied to the Group's opening IFRSs statement of financial position and to the comparative period. Therefore, "Note 35. Financial instruments" as at transition date (January 1, 2017) and December 31, 2017 is not prepared.

Principal changes in requirements are summarized as follows. Please see "Note 3. Significant accounting policies (4) Financial Instruments" for the Group's detailed accounting policy under IFRS 9.

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

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

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

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

<u>Reconciliation of equity as at January 1, 2017</u>

(Millions of yen)

	Before adoption	Effect of IFRS9	After adoption	Notes
Assets				
Current assets:				
Cash and cash equivalents	352,519	-	352,519	
Trade and other receivables	379,286	58	379,344	(3)
Other financial assets	3,269	17,542	20,811	(2)(3)
Inventories	383,861	0	383,861	(2)
Other current assets	72,940	(46)	72,894	(1)
Total current assets	1,191,877	17,554	1,209,431	
Non-current assets:				
Property, plant and equipment	654,527	-	654,527	
Goodwill	885,441	-	885,441	
Intangible assets	1,461,504	-	1,461,504	
Investments accounted for using the equity method	37,673	-	37,673	
Other financial assets	110,708	58,024	168,733	(1)(2)(3)
Deferred tax assets	92,008	2,297	94,306	(1)(2)
Other non-current assets	38,637	(3,138)	35,499	(1)
Total non-current assets	3,280,502	57,184	3,337,687	
Total assets	4,472,380	74,738	4,547,119	

(Millions of yen)

	Before adoption	Effect of IFRS9	After adoption	Notes
Liabilities and equity				
Liabilities				
Current liabilities:				
Bonds and borrowings	307,702	17,824	325,527	(1)(2)
Trade and other payables	493,850	163	494,014	(2)
Other financial liabilities	90,187	55	90,242	(2)
Accrued income taxes	22,472	-	22,472	
Provisions	7,674	-	7,674	
Other current liabilities	85,349	-	85,349	
Total current liabilities	1,007,237	18,043	1,025,281	
Non-current liabilities:				
Bonds and borrowings	1,636,125	50,781	1,686,907	(1)(2)
Other financial liabilities	85,441	2,748	88,190	(2)
Post-employment benefit liabilities	41,109	-	41,109	
Provisions	8,076	-	8,076	
Deferred tax liabilities	405,504	2,671	408,176	(1)(2)
Other non-current liabilities	16,750	-	16,750	
Total non-current liabilities	2,193,008	56,202	2,249,210	
Total liabilities	3,200,245	74,246	3,274,491	
Equity				
Share capital	70,000	-	70,000	
Share premium	133,251	-	133,251	
Retained earnings	851,912	-	851,912	
Treasury shares	(1,598)	-	(1,598)	
Other components of equity	(86,586)	783	(85,802)	(1)(2)
Total equity attributable to owners of the Company	966,979	783	967,762	
Non-controlling interests	305,155	(290)	304,864	
Total equity	1,272,134	492	1,272,627	
Total liabilities and equity	4,472,380	74,738	4,547,119	

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

6. New standards and interpretations not yet adopted

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

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

7. Segment information

(1) Overview of reportable segments

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

The Group applies a holding company structure and operating companies have been established based on their products or service. The management of each operating company focuses on the type of products and services delivered or provided when establishing its own strategy for domestic and international operations. Therefore, the Group determined and identified "Beverage and foods" and "Alcoholic beverages" as a reportable segment based on the types of products and services delivered or provided. The classification of the Group's primary products and services have been defined as below.

Beverage and foods – non-alcoholic beverages, healthy drinks, processed foods, and others
Alcoholic beverage – sprits, beer, wine and other alcoholic beverages
Others – healthy foods, ice cream, restaurants, flowers, operations in China and other operations

(2) Description of reportable segments and allocations of revenues, expenses and profit or loss

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.

(3) Profit or loss for each reportable segment

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

<u>Year ended December 31, 2016</u>

(Millions of yen)

	Reportable segment			Segment total	Reconciliations (Note 2)	Consolidated (Note 1)
	Beverages and Foods	Alcoholic Beverages	Others			
Revenue (including excise taxes)	1,199,690	946,158	212,555	2,358,404	-	2,358,404
Revenue (excluding excise taxes)						
External customers	1,199,690	689,351	212,555	2,101,598	-	2,101,598
Intersegment	9,458	4,443	9,562	23,464	(23,464)	-
Total revenue	1,209,149	693,795	222,118	2,125,063	(23,464)	2,101,598
Segment profit	131,591	127,534	31,554	290,680	(37,791)	252,888
Finance income	-	-	-	-	-	2,203
Finance costs	-	-	-	-	-	(31,254)
Profit before income taxes	-	-	-	-	-	223,837
Others:						
Depreciation and amortization	(64,082)	(25,046)	(4,642)	(93,772)	(2,563)	(96,336)
Share of the profit and loss on investments accounted for using the equity method	665	4,838	2,824	8,328	-	8,328

(Note 1) Segment profit agrees with operating income presented in the consolidated statement of profit or loss.
(Note 2) "Reconciliations" to segment profit or loss represent overhead costs incurred by the Company to manage the Group's operations and are not allocated to the reportable segments.

Year ended December 31, 2017

(Millions of yen)

	Reportable segment			Segment total	Reconciliations (Note 2)	Consolidated (Note 1)
	Beverages and Foods	Alcoholic Beverages	Others			
Revenue (including excise taxes)	1,226,436	985,288	208,561	2,420,286	-	2,420,286
Revenue (excluding excise taxes)						
External customers	1,226,436	722,533	208,561	2,157,531	-	2,157,531
Intersegment	7,571	4,233	11,561	23,366	(23,366)	-
Total revenue	1,234,008	726,767	220,122	2,180,898	(23,366)	2,157,531
Segment profit	138,771	126,927	25,892	291,591	(37,951)	253,639
Finance income	-	-	-	-	-	3,084
Finance costs	-	-	-	-	-	(29,833)
Profit before income taxes	-	-	-	-	-	226,890
Others:						
Depreciation and amortization	(65,546)	(25,946)	(3,416)	(94,910)	(2,352)	(97,262)
Share of the profit and loss on investments accounted for using the equity method	447	6,174	3,066	9,688	-	9,688

(Note 1) Segment profit agrees with operating income presented in the consolidated statement of profit or loss.

(Note 2) "Reconciliations" to segment profit or loss represent overhead costs incurred by the Company to manage the Group's operations and are not allocated to the reportable segments.

(4) Information about products and services

Please refer to (1) overview of reportable segments.

(5) Information about geographical areas

Geographical areas other than Japan are comprised of the following countries.

Americas	United States of America and others
Europe	France, UK, Spain, and others
Asia and Oceania	Vietnam, Thailand, Australia, and others

Revenue including excise taxes from external customers was as follows:

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Year ended December 31, 2016	1,453,873	329,477	292,523	282,530	2,358,404
Year ended December 31, 2017	1,466,814	348,682	310,796	293,991	2,420,286

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

Revenue excluding excise taxes from external customers was as follows:

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Year ended December 31, 2016	1,262,764	277,276	284,955	276,601	2,101,598
Year ended December 31, 2017	1,274,985	293,001	303,010	286,534	2,157,531

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

Non-current assets by reportable segment was as follows:

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Transition date (January 1, 2016)	531,101	1,699,615	828,033	132,119	3,190,869
December 31, 2016	518,242	1,686,604	676,098	120,529	3,001,474
December 31, 2017	512,906	1,656,735	730,058	112,015	3,011,716

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

(6) Information about major customers

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

8. Cash and cash equivalents

The balance of cash and cash equivalents in the consolidated statements of financial position as at the transition date, at the end of the previous year and the current year are consistent with the amounts of cash and cash equivalents in the consolidated statements of cash flows.

9. Trade and other receivables

Trade and other receivables were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Trade receivables	351,677	355,768	373,197
Other	25,863	25,304	25,341
Loss allowance	(2,446)	(1,785)	(1,893)
Total	375,093	379,286	396,645

10. Other financial assets

(1) Other financial assets

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016
Equity securities	83,052	81,175
Guarantee deposits	22,076	19,741
Other	16,132	13,852
Allowance for doubtful accounts	(946)	(791)
Total	120,314	113,978
Current assets	6,068	3,269
Non-current assets	114,245	110,708
Total	120,314	113,978

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

	December 31, 2017 (Millions of yen)
Financial assets at amortized cost	
Guarantee deposits	19,968
Other	3,169
Loss allowance	(858)
Financial assets designated as hedging instruments	
Derivative assets	38,777
Financial assets at fair value through profit or loss	
Derivative assets	300
Other	6,151
Financial assets carried at fair value through other comprehensive income	
Equity instruments (shares)	88,013
Other	47
Total	155,570
Current assets	19,687
Non-current assets	135,882
Total	155,570

Equity instruments (shares) are 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.

(2) Fair values of major financial assets

Fair values of major equity instruments (shares) designated as financial assets measured at fair value through other comprehensive income were as follows:

Type	December 31, 2017 (Millions of yen)
Listed shares	60,747
Unlisted shares	27,266

Fair values of major equity instruments (shares) were as follows:

Shares	December 31, 2017 (Millions of yen)
Palace Hotel Co., Ltd.	6,706
Hankyu Hanshin Holdings, Inc.	3,599
The Royal Hotel, Ltd.	2,002
TOHO Co., Ltd.	1,993
Mitsubishi UFJ Financial Group, Inc.	1,343
Tokyo Kaikan Co., Ltd.	1,174
Sumitomo Mitsui Financial Group, Inc.	1,107

Please see "Note 35. Financial instruments (4) Fair value of financial instruments" for the fair value measurement methods for unlisted shares and unobservable inputs for measurement.

(3) Financial assets measured at fair value through other comprehensive income derecognized during the year

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 gains (or losses) recognized in other comprehensive income in other components of equity at the time of disposal were as follows:

(Millions of yen)

	December 31, 2017
Fair value	19,504
Cumulative gains (losses)	16,507

The cumulative gain or loss recognized in other comprehensive income in other components of equity is reclassified to retained earnings when the associated financial asset is sold, or a significant deterioration in fair value is recognized. The amount of reclassification to retained earnings from the cumulative gain (net of tax) recognized in other comprehensive income in other components of equity during the year ended December 31, 2017 was 10,145 million yen.

11. Inventories

Inventories were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Merchandise and finished goods	357,330	331,622	353,380
Work in progress	15,339	14,279	13,989
Raw materials	37,809	33,767	36,462
Consumables	4,276	4,190	4,990
Total	414,755	383,861	408,822

Merchandise and finished goods included 243,462 million yen (230,726 million yen as at December 31, 2016, and 232,508 million yen as at the transition date) of whiskey and other spirit products, which are expected to be utilized or sold after more than 12 months.

Inventories recognized as an expense, write-downs of inventories to net realizable value, and the reversal of such write-downs during the years ended December 31, 2016 and 2017 were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Inventories recognized as an expense	916,880	932,176
Write-down of inventories to net realizable value	1,850	1,802
Reversal of write-down	-	-

12. Other assets

Other assets were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Prepaid expenses	44,635	40,348	40,887
Consumption tax receivable	10,021	9,914	10,041
Others	48,114	61,315	56,282
Total	102,772	111,578	107,211
Current assets	50,732	72,940	66,914
Non-current assets	52,039	38,637	40,297
Total	102,772	111,578	107,211

13. Assets held for sale

Assets held for sale were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Assets held for sale			
Cash and cash equivalents	-	-	3,439
Trade and other receivables	16,508	-	5,237
Inventories	7,469	-	2,855
Property, plant and equipment	31,227	-	8,190
Goodwill	2,738	-	2,833
Other	7,300	-	594
Total	65,244	-	23,152
Liabilities directly associated with assets held for sale			
Bonds and borrowings	3,396	-	963
Trade and other payables	16,444	-	4,922
Other	21,102	-	329
Total	40,943	-	6,215

Assets held for sale at the date of transition comprised primarily of assets and liabilities of a consolidated subsidiary engaging in the beer business in China, which was included in the "Others" segment, and related investments accounted for using the equity method. The Company transferred all shares held in the subsidiaries to Tsingtao Brewery Company Limited during the year ended December 31, 2016, and have excluded it from the scope of consolidation.

The Group had no assets held for sales or liabilities associated with assets held for sale during the year ended December 31, 2016.

Assets held for sale and liabilities directly associated with assets held for sale as at December 31, 2017 was recognized primarily in the "Beverages and Foods" segment in the Asia business in relation to the share transfer agreement which concluded on October 19, 2017. The transferring process was subsequently completed on March 9, 2018.

14. Property, plant and equipment

(1) Movement

Property, plant and equipment were as follows:

Carrying amount

(Millions of yen)

	Land, buildings and structures	Machinery and equipment	Assets under construction	Other	Total
Balance at January 1, 2016	265,566	377,986	22,067	8,524	674,144
Additions	4,971	41,937	49,643	3,199	99,751
Acquisitions through business combinations	830	4,104	2	32	4,971
Depreciation	(12,567)	(65,788)	-	(1,958)	(80,314)
Disposals	(9,410)	(8,832)	(37)	(581)	(18,862)
Decrease due to disposal of interest in subsidiaries	(1,113)	(169)	(97)	-	(1,380)
Reclassifications	16,623	27,966	(46,186)	51	(1,545)
Exchange differences	(7,777)	(10,455)	(886)	(576)	(19,696)
Other	(757)	(1,748)	(134)	99	(2,540)
Balance at December 31, 2016	256,365	365,000	24,371	8,789	654,527
Additions	5,447	44,063	54,215	2,023	105,750
Acquisitions through business combinations	-	75	-	-	75
Depreciation	(12,721)	(65,779)	-	(2,278)	(80,778)
Disposals	(1,799)	(9,633)	-	(175)	(11,607)
Reclassified as assets held for sale	(3,372)	(4,546)	-	-	(7,918)
Reclassifications	17,036	41,006	(58,318)	275	-
Exchange differences	2,211	(1,089)	248	250	1,621
Other	362	(1,629)	(279)	358	(1,188)
Balance at December 31, 2017	263,530	367,467	20,239	9,244	660,481

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.

Cost

(Millions of yen)

	Land, buildings and structures	Machinery and equipment	Assets under construction	Other	Total
Transition date (January 1, 2016)	472,920	911,336	22,087	18,617	1,424,961
December 31, 2016	470,999	916,149	24,391	20,023	1,431,564
December 31, 2017	479,993	941,140	20,239	22,422	1,463,795

Accumulated depreciation and impairment losses

(Millions of yen)

	Land, buildings and structures	Machinery and equipment	Assets under construction	Other	Total
Transition date (January 1, 2016)	207,354	533,349	19	10,092	750,816
December 31, 2016	214,634	551,148	19	11,234	777,036
December 31, 2017	216,463	573,673	-	13,177	803,313

(2) Leased assets

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

(Millions of yen)

	Land, buildings and structures	Machinery and equipment	Total
Transition date (January 1, 2016)	2,750	36,223	38,974
December 31, 2016	1,989	28,464	30,454
December 31, 2017	3,254	20,613	23,868

(3) 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.

During the year ended December 31, 2017, impairment losses of 624 million yen were recognized primarily in the "Others" segment. During the year ended December 31, 2016, impairment losses of 2,093 million yen was recognized primarily in the "Beverages and Foods" segment.

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

Impairment losses are included in other expenses in the consolidated statement of profit or loss.

15. Goodwill and intangible assets

Goodwill and intangible assets were as follows:

Carrying amount

(Millions of yen)

	Goodwill	Intangible assets		
		Trademarks	Other	Total
Balance at January 1, 2016	928,550	1,473,172	115,001	1,588,174
Additions	-	7	6,266	6,274
Acquisitions through business combinations	1,201	-	1,396	1,396
Amortization	-	(6,078)	(9,880)	(15,959)
Disposals	-	(7)	(538)	(546)
Decrease due to disposal of interest in subsidiaries	(11,555)	(381)	(70)	(451)
Exchange differences	(32,757)	(113,881)	(4,511)	(118,393)
Other	3	9	1,003	1,012
Balance at December 31, 2016	885,441	1,352,840	108,664	1,461,504
Additions	-	6	7,708	7,715
Acquisitions through business combinations	10,047	2,726	-	2,726
Amortization	-	(6,504)	(9,893)	(16,397)
Disposals	-	(5)	(185)	(191)
Exchange differences	(10,760)	14,151	(691)	13,460
Reclassified as assets held for sale	(2,725)	-	-	-
Other	119	10	282	292
Balance at December 31, 2017	882,123	1,363,225	105,885	1,469,110

Amortization costs are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss. Expenditures for research and development activities recognized as expenses were 24,434 million yen during the year ended December 31, 2017 (23,407 million yen during the year ended December 31, 2016) and are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss. Acquisitions through business combinations during the year ended December 31, 2017 was mainly the acquisition of a gin manufacturing company in the UK in spirits business. There were no significant internally generated intangible assets recorded at each year end.

Cost

(Millions of yen)

	Goodwill	Intangible assets		
		Trademarks	Other	Total
Transition date (January 1, 2016)	1,123,858	1,522,577	169,254	1,691,832
December 31, 2016	1,070,687	1,405,188	174,307	1,579,495
December 31, 2017	1,074,325	1,426,792	178,743	1,605,536

Accumulated amortization and impairment losses

(Millions of yen)

	Goodwill	Intangible assets		
		Trademarks	Other	Total
Transition date (January 1, 2016)	195,308	49,404	54,252	103,657
December 31, 2016	185,245	52,347	65,642	117,990
December 31, 2017	192,201	63,567	72,858	136,425

"Other" in intangible assets includes finance lease assets, and debts incurred from finance lease (ref. "Note 23. Lease") are guaranteed by holding ownership of the lease assets by lessor.

The breakdown of goodwill was as follow:

(Millions of yen)

Reportable segment	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Beverages and foods	253,142	245,481	254,025
(Details)			
Japan business	130,680	130,680	130,680
Orangina Schweppes Group	87,977	83,223	91,099
Alcoholic beverages	675,407	639,960	628,098
(Details)			
Spirits business	675,407	639,960	628,098
Other	-	-	-
Total	928,550	885,441	882,123

Goodwill for the "Beverages and foods" segment mainly consists of those recognized through the acquisition of Orangina Schweppes Holding B.V. and Japan Beverage Holdings Inc. Goodwill for the "Alcoholic beverages" segment mainly consists of those recognized through the acquisition of Beam Inc. (currently Beam Suntory Inc.).

The value in use is calculated as the discounted future cash flows which are estimated based on the business plan for 1-3 years, which have been approved by management and discount rates which are determined with reference to the pre-tax weighted-average cost of capital (WACC) (4.7%~16.4% and 4.7%~22.0% for the years ended December 31, 2016 and 2017 respectively, and 5.2%~17.7% for the transition date (January 1, 2016)) of the cash-generating units or cash-generating groups.

The value in use of remaining intangible assets recorded on the consolidated statement of financial position sufficiently exceeds the carrying amount of all of the cash-generating units or cash-generating groups. The Group assessed that the value in use would continue to exceed the carrying amount even if the discount and growth rates fluctuate at a reasonably assumable level.

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

(Millions of yen)

Reportable segments	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Beverages and foods	384,161	335,131	356,960
(Details)			
(Trademarks) Lucozade and Ribena	184,357	147,461	156,690
(Trademarks) Schweppes	79,114	73,669	81,017
Alcoholic beverages	1,021,427	960,981	948,179
(Details)			
(Trademarks) Jim Beam	318,929	308,034	298,805
(Trademarks) Maker's Mark	315,455	304,679	295,551
Other	-	-	-
Total	1,405,588	1,296,113	1,305,140

Intangible assets with indefinite useful lives for the "Beverages and foods" segment mainly consists of those recognized through the acquisition of Lucozade Ribena Suntory Limited and Orangina Schweppes Holding B.V. Intangible assets with indefinite useful lives for the "Alcoholic beverages" segment mainly consists of those recognized through the acquisition of Beam Inc. (Beam Suntory Inc.).

Those are deemed appropriate to treat as having indefinite lives for existing as long as business are going concern, thus are not amortized.

The value in use is calculated as the discounted future cash flows which are estimated based on the business plan for 1-3 years, which have been approved by management and discount rates which are determined with reference to the pre-tax weighted-average cost of capital (WACC) (4.8%~9.8% and 3.9%~8.9% for the years ended December 31, 2016 and 2017 respectively, and 3.8%~9.9% for the transition date (January 1, 2016)) of the cash-generating units or cash-generating groups.

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

The breakdown of impairment losses for each reportable segments are not presented because those amounts are immaterial to the consolidated financial statements.

16. Investments accounted for using the equity method

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Carrying amount			
Associates	21,129	19,355	24,288
Joint ventures	18,363	18,318	17,256
Total	39,492	37,673	41,544

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

(Millions of yen)

	December 31, 2016	December 31, 2017
Profit for the year		
Associates	3,791	5,219
Joint ventures	4,536	4,468
Total	8,328	9,688
Other comprehensive income		
Associates	(4,022)	1,753
Joint ventures	(1,185)	(22)
Total	(5,208)	1,731
Comprehensive income for the year		
Associates	(231)	6,973
Joint ventures	3,351	4,446
Total	3,120	11,420

17. Income taxes

(1) Deferred tax assets and deferred tax liabilities

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

Year ended December 31, 2016

(Millions of yen)

	Transition date (January 1, 2016)	Recognized in profit or loss	Recognized in OCI	Other	December 31, 2016
Deferred tax assets					
Tax loss carryforwards	2,715	46,319	-	37	49,072
Post-employment benefit liabilities	13,757	(571)	430	(327)	13,289
Unrealized gains	6,740	3,075	-	(331)	9,485
Accrued expenses	16,354	(7,543)	-	(143)	8,667
Translation differences on foreign operations	27,307	-	(5,708)	-	21,599
Other	40,582	(2,959)	25	2,435	40,083
Total	107,457	38,321	(5,253)	1,671	142,197
Deferred tax liabilities					
Intangible assets	(414,268)	4,084	-	15,857	(394,326)
Temporary differences associated with investments in subsidiaries	(9,718)	(2,519)	-	151	(12,086)
Property, plant and equipment	(32,475)	6,892	-	1,184	(24,398)
Unrealized gains on available-for-sale securities	(12,355)	-	1,214	16	(11,124)
Other	(15,107)	(139)	1,423	65	(13,757)
Total	(483,924)	8,318	2,637	17,275	(455,693)

"Other" in above schedule primarily comprise of foreign exchange movement.

Year ended December 31, 2017

(Millions of yen)

	January 1, 2017	Recognized in profit or loss	Recognized in OCI	Other	December 31, 2017
Deferred tax assets					
Tax loss carryforwards	49,072	(12,618)	-	(91)	36,362
Post-employment benefit liabilities	13,289	(1,692)	(233)	(22)	11,339
Unrealized gain	9,485	(2,271)	-	55	7,269
Accrued expenses	8,667	4,905	-	(168)	13,404
Translation differences on foreign operations	21,599	-	(5,465)	-	16,133
Other	40,083	1,167	(1,744)	(1,755)	37,750
Total	142,197	(10,509)	(7,444)	(1,983)	122,260
Deferred tax liabilities					
Intangible assets	(394,326)	94,130	-	7,922	(292,272)
Temporary differences associated with investments in subsidiaries	(12,086)	3,587	-	390	(8,108)
Property, plant and equipment	(24,398)	515	-	126	(23,756)
Changes in the fair value of Financial assets	(11,124)	-	(1,763)	-	(12,887)
Other	(13,757)	(230)	(2,923)	(44)	(16,955)
Total	(455,693)	98,003	(4,686)	8,395	(353,981)

"Other" in above schedule primarily comprise of foreign exchange movement.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized were as follows. The amounts below are presented on its tax basis.

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Tax loss carryforwards	16,577	39,058	41,854
Unused tax credits	1,654	2,037	7,233
Deductible temporary differences	74,154	84,232	74,789
Total	92,386	125,328	123,877

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

(Millions of yen)

Unused tax losses (Tax basis)	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Expires within 1 year	343	285	140
Expires between 1 and 2 years	288	951	1,055
Expires between 2 and 3 years	223	1,410	1,186
Expires between 3 and 4 years	1,468	1,909	1,326
Expire after 4 years	14,254	34,502	38,146
Total	16,577	39,058	41,854

Taxable temporary differences (tax basis) associated with investments in subsidiaries for which deferred tax liabilities are not recognized as at December 31, 2017 were 38,189 million yen (35,951 million yen and 56,621 million yen as at December 31, 2016, and the transition date, respectively). Deferred tax liabilities were not recognized since the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference is not expected to be reversed in the foreseeable future.

(2) Income tax expenses

Income tax expenses were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Current tax expense	47,664	62,537
Deferred tax expense	(46,639)	(87,494)
Total	1,024	(24,956)

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

	December 31, 2016	December 31, 2017
	(%)	(%)
Effective statutory tax rate	33.1	30.9
Permanent differences	(34.0)	(0.9)
Unrecognized differed tax asset	10.4	3.9
Differences in overseas tax rates	(4.7)	(1.6)
Tax rate change	(0.4)	(46.8)
Other	(3.8)	3.5
Average effective tax rate	0.6	(11.0)

Income tax, inhabitant tax and business tax are the main components of income tax expense imposed on the Group, and the effective statutory tax rate based on those taxes was 33.1% for the year ended December 31, 2016 and 30.9% for the year ended December 31, 2017. Foreign subsidiaries are subject to income taxes expense in the tax jurisdiction that they are located.

Due to the enactment of the new U.S. tax legislation on December 22, 2017, federal corporate income tax rate in the U.S. is to be reduced from 35% to 21%. According to this change in effective tax rate, the Group credited deferred tax expense by 97,102 million yen.

18. Bonds and borrowings

(1) Bonds and borrowings

Bonds and borrowings were as follows:

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017	Average interest rate (Note 1)	Maturity date
		(Millions of yen)		(%)	
Short-term borrowings	32,217	25,912	39,658	2.36	-
Current portion of long-term borrowings	126,050	167,266	223,650	1.10	-
Current portion of bonds (Note 2)	51,918	114,523	28,192	1.75	-
Long-term borrowings	1,427,812	1,308,189	1,177,504	1.50	2019 - 2076
Bonds (Note 2)	421,883	327,935	362,259	1.84	2019 - 2036
Total	2,059,883	1,943,827	1,831,265		
Current liabilities	210,187	307,702	291,501		
Non-current liabilities	1,849,696	1,636,125	1,539,763		
Total	2,059,883	1,943,827	1,831,265		

(Note 1) The average interest rate is calculated as the weighted-average interest rate as at the end of the fiscal year.
(Note 2) Summary of terms of bonds were as follows:

Issuer	Type	Issue date	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017	Interest rate	Collateral	Maturity date
			(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)		
Suntory Holdings Limited	Publicly offered corporate bonds	July 9, 2010 - June 2, 2016	25,000 -	75,000 (25,000)	49,832 -	0.15 - 0.22	None	July 7, 2017 - June 2, 2026
Suntory Holdings Limited	Euro yen bonds	July 3, 2003 - November 25, 2009	3,600 (3,600)	- -	- -	1.07 - 1.15	None	January 7, 2016 - November 25, 2016
Suntory Holdings Limited	Euro U.S. dollar bonds	May 9, 2014	24,122 [200,000 thousands of U.S. dollars]	23,298 [200,000 thousands of U.S. dollars]	22,597 [200,000 thousands of U.S. dollars]	1.84	None	May 9, 2019
Suntory Holdings Limited	Interest deferrable and early redeemable subordinated bonds	June 28, 2011	21,700	-	-	1.17 - 1.64	None	June 26, 2071
Suntory Holdings Limited	U.S. dollar bonds	October 1, 2014	109,023 [999,111 thousands of U.S. dollars]	109,052 [999,385 thousands of U.S. dollars] (54,554 [499,949 thousands of U.S. dollars])	56,282 [499,642 thousands of U.S. dollars]	2.55	None	September 29, 2017 - September 29, 2019
Suntory Holdings Limited	U.S. dollar bonds	June 28, 2017	- -	- -	67,153 [600,000 thousands of U.S. dollars]	2.55	None	June 27, 2022
Suntory Beverage and Food Limited	Publicly offered corporate bonds	June 26, 2014	40,000	40,000	39,921	0.26 - 0.70	None	June 26, 2019 - June 26, 2024
Beam Suntory Inc.	Publicly offered corporate U.S. dollar bonds	November 15, 1991 - June 10, 2013	250,357 [2,075,758 thousands of U.S. dollars] (48,318 [400,621 thousands of U.S. dollars])	195,108 [1,674,891 thousands of U.S. dollars] (34,968 [300,188 thousands of U.S. dollars])	154,665 [1,368,719 thousands of U.S. dollars] (28,192 [249,489 thousands of U.S. dollars])	1.75 - 8.63	None	May 15, 2017 - January 15, 2036
Total	-	-	473,802 (51,918)	442,459 (114,523)	390,451 (28,192)	-	-	-

The amount of ( ) in the above table were current portion of long-term bonds.

(2) Assets pledged as collateral

Secured borrowings and assets pledged as collateral were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Property, plant and equipment	6,765	580	535

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Bonds and borrowings	766	356	313

In addition to the above, assets pledged as collateral for loans, etc. of the Company's investees from financial institutions were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Other financial assets	-	320	320

19. Trade and other payables

Trade and other payables were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Trade payables	138,237	134,589	201,541
Accrued expenses	352,864	359,261	313,782
Total	491,101	493,850	515,323

20. Other financial liabilities

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016
Lease obligations	40,412	32,456
Deposits received	93,596	108,823
Other	51,465	34,348
Total	185,475	175,628
Current liabilities	78,584	90,187
Non-current liabilities	106,890	85,441
Total	185,475	175,628

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

(Millions of yen)

	December 31, 2017
Financial liabilities measured at amortized cost	
Lease obligations	25,161
Deposits received	126,553
Other	6,725
Financial liabilities designated as hedging instruments	
Derivative liabilities	17,577
Financial liabilities measured at fair value thorough profit or loss	
Derivative liabilities	469
Total	176,487
Current liabilities	103,578
Non-current liabilities	72,908
Total	176,487

21. Provisions

Changes of provisions were as follows:

(Millions of yen)

	Asset retirement obligations	Other	Total
Balance at January 1, 2016	5,187	14,982	20,170
Additional provisions recognized	350	2,005	2,355
Interest expense	63	-	63
Utilized during the period	(132)	(1,781)	(1,914)
Reversed during the period	(372)	(4,212)	(4,584)
Other	(30)	(309)	(339)
Balance at December 31, 2016	5,066	10,684	15,751
Additional provisions recognized	181	7,402	7,583
Interest expense	82	-	82
Utilized during the period	(62)	(2,057)	(2,119)
Reversed during the period	(72)	(1,076)	(1,149)
Other	8	206	215
Balance at December 31, 2017	5,203	15,160	20,363

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 experiences. These costs are generally expected to be disbursed after more than one year; however, it will be affected by the execution of the Group's business plan in the future.

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Current assets	11,358	7,674	12,383
Non-current assets	8,811	8,076	7,979
Total	20,170	15,751	20,363

22. Other liabilities

Other liabilities were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Accrued excise taxes	54,139	51,435	50,909
Consumption tax payable	21,269	20,069	18,884
Other	33,201	30,595	36,342
Total	108,610	102,100	106,135
Current liabilities	92,263	85,349	84,614
Non-current liabilities	16,347	16,750	21,520
Total	108,610	102,100	106,135

23. Leases

(1) Finance leases

(As a lessee)

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

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

(Millions of yen)

	Total minimum lease payments			Total minimum lease payments, at present value		
	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Within 1 year	13,540	12,674	10,337	13,000	12,200	10,053
Between 1 and 5 years	25,519	18,691	13,426	25,020	18,183	13,091
More than 5 years	2,446	2,100	2,038	2,390	2,071	2,016
Total	41,506	33,466	25,802	40,412	32,456	25,161
Future finance charge	(1,093)	(1,010)	(640)			
The present value of lease liabilities	40,412	32,456	25,161			

(2) Non-cancellable operating leases

(As a lessee)

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

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Within 1 year	12,065	12,519	13,642
Between 1 and 5 years	40,223	38,733	33,531
More than 5 years	16,837	17,014	16,036
Total	69,126	68,266	63,211

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

(Millions of yen)

	December 31, 2016	December 31, 2017
Total minimum lease payments	13,541	14,307

(As a lessor)

The Group leases buildings 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 receivables under non-cancellable operating leases were as follows:

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Within 1 year	293	279	377
Between 1 and 5 years	191	335	663
More than 5 years	231	565	873
Total	716	1,179	1,914

24. Post-employment benefits

(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.

[1] Reconciliation of defined benefit obligations and plan assets

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Present value of funded defined benefit obligations	179,391	184,953	188,691
Fair value of plan assets	(173,944)	(175,093)	(181,308)
	5,447	9,859	7,382
Present value of unfunded defined benefit obligation	20,929	26,838	27,630
Net defined benefit liability	26,377	36,697	35,013
Balance in consolidated statement of financial position			
Post-employment benefit liabilities	39,089	41,109	41,478
Post-employment benefit assets	(12,712)	(4,411)	(6,465)
Net of liabilities and assets	26,377	36,697	35,013

[2] Reconciliation of the present value of the defined benefit obligations

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

(Millions of yen)

	December 31, 2016	December 31, 2017
Balance at beginning of the year	200,321	211,791
Current service cost	6,594	7,466
Interest expense	3,935	3,350
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	(1,225)	(1,000)
Actuarial gains and losses arising from changes in financial assumptions	13,485	2,019
Benefits paid	(8,550)	(7,575)
Exchange differences	(3,097)	153
Other	325	116
Balance at end of the year	211,791	216,321

The weighted average duration of the defined benefit obligation is 16.0 years (16.0 years and 16.3 years as at transition date and December 31, 2016, respectively).

[3] Reconciliation of the fair value of the plan assets

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

(Millions of yen)

	December 31, 2016	December 31, 2017
Balance at beginning of the year	173,944	175,093
Interest income	2,909	2,471
Remeasurements:		
Return on plan assets (other than interest income)	1,551	5,744
Employer contributions	6,209	4,773
Employee contributions	15	65
Benefits paid	(7,649)	(6,907)
Exchange differences	(2,483)	35
Other	597	31
Balance at end of the year	175,093	181,308

The contribution by the Group to defined benefit plans is expected to be 4,111 million yen in the next fiscal year.

[4] Breakdown of major items in plan assets

Fair value of plan assets were as follows:

(Millions of yen)

	Transition date (January 1, 2016)			December 31, 2016			December 31, 2017		
	Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total
Cash and cash equivalents	838	-	838	1,296	-	1,296	1,673	-	1,673
Equity instruments	15,672	35,285	50,957	14,289	34,029	48,318	-	46,443	46,443
Domestic	15,672	7,068	22,741	14,289	7,053	21,342	-	8,732	8,732
Overseas	-	28,216	28,216	-	26,976	26,976	-	37,711	37,711
Debt instruments	26	61,850	61,876	21	60,041	60,062	22	68,883	68,905
Domestic	-	19,129	19,129	-	18,577	18,577	-	18,360	18,360
Overseas	26	42,721	42,747	21	41,463	41,485	22	50,522	50,544
Life insurance-General accounts	-	17,025	17,025	-	18,193	18,193	-	21,257	21,257
Other	-	43,245	43,245	-	47,222	47,222	1	43,027	43,028
Total	16,538	157,406	173,944	15,606	159,487	175,093	1,696	179,611	181,308

Plan assets invested in joint investment trusts in trust banks are deemed as plan assets that do not have a quoted market price in an active market. Life insurance-General accounts represent the pension assets managed by the general accounts of life insurance companies, which usually guarantee principal amounts and interest. Plan assets which invested previously in domestic equity instruments having quoted market prices in an active market invest other plan assets in accordance with plan asset management policy.

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

[5] Significant actuarial assumptions

Significant actuarial assumptions were as follows:

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Discount rate	0.8%~8.0%	0.6%~8.0%	0.5%~7.9%

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

(Millions of yen)

	Change in the rate	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Discount rate	Increase by 0.5%	(13,733)	(14,842)	(14,910)
	Decrease by 0.5%	14,796	16,317	16,916

[6] Defined benefit cost

Defined benefit costs during the years ended December 31, 2016 and 2017 were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Current service cost	6,594	7,466
Interest expense	3,935	3,350
Interest income	(2,909)	(2,471)
Total	7,620	8,345

The Group's contribution to the plans was 21,295 million yen (21,389 million yen in 2016), and it is not included in defined benefit costs analyzed above.

(2) Employee benefit expenses

Employee benefits expenses of 322,067 million yen (318,138 million yen in 2016) are primarily composed of salaries, bonuses, legal welfare costs, welfare expense and post-employment costs. They are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

25. Equity and other components of equity

(1) Share capital

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

	Shares authorized	Shares issued
	(Shares)	(Shares)
Balance at January 1, 2016	1,305,600,000	687,136,196
Increase (decrease)	-	-
Balance at December 31, 2016	1,305,600,000	687,136,196
Increase (decrease)	-	-
Balance at December 31, 2017	1,305,600,000	687,136,196

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

(2) Share premium

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

(3) Retained earnings

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

(4) Treasury shares

The number of treasury shares were as follows:

	Number of shares	Amounts
	(Shares)	(Millions of yen)
Balance at January 1, 2016	3,360,748	2,285
Decrease	(1,010,000)	(686)
Balance at December 31, 2016	2,350,748	1,598
Increase	(870,000)	(591)
Balance at December 31, 2017	1,480,748	1,006

The decrease was mainly attributable to a third-party allocation of shares to the employee shareholding association.

(5) Other components of equity

Other components of equity were as follows:

(Millions of yen)

	Other components of equity					
	Translation adjustments of foreign operations	Changes in the fair value of cash flow hedges	Unrealized gain on available-for-sale securities	Changes in the fair value of financial assets	Remeasurement of defined benefit obligation	Total
Balance at January 1, 2016	-	(3,803)	26,440	-	(13,107)	9,529
Other comprehensive income	(89,106)	1,546	(949)		(7,605)	(96,115)
Comprehensive income for the year	(89,106)	1,546	(949)	-	(7,605)	(96,115)
Total transactions with owners of the Company	-	-	-	-	-	-
Balance at December 31, 2016	(89,106)	(2,257)	25,491	-	(20,713)	(86,586)
Cumulative impact of the adoption of new accounting standard		(4,675)	(25,491)	30,950		783
Balance at January 1, 2017	(89,106)	(6,932)	-	30,950	(20,713)	(85,802)
Other comprehensive income	22,993	757		8,859	600	33,211
Total comprehensive income for the period	22,993	757	-	8,859	600	33,211
Transfer from other components of equity to retained earnings				(10,145)		(10,145)
Changes in ownership interests in subsidiaries that do not involve loss of control	1					1
Total transactions with owners of the parent	1	-	-	(10,145)	-	(10,143)
Balance at December 31, 2017	(66,111)	(6,175)	-	29,664	(20,113)	(62,735)

26. Dividends

Dividends paid were as follows:

Resolution	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Year ended December 31, 2016 Annual General Meeting of shareholders held on March 25, 2016	8,205	12	December 31, 2015	March 28, 2016
Year ended December 31, 2017 Annual General Meeting of shareholders held on March 27, 2017	8,902	13	December 31, 2016	March 28, 2017

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

Resolution	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Year ended December 31, 2016 Annual General Meeting of shareholders held on March 27, 2017	8,902	13	December 31, 2016	March 28, 2017
Year ended December 31, 2017 Annual General Meeting of shareholders held on March 26, 2018	8,913	13	December 31, 2017	March 28, 2018

27. Other income

Other income were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Gain on sale of property, plant and equipment and intangible assets	3,522	2,771
Gain on transfer of business (Note 1)	8,505	-
Insurance income (Note 2)	7,000	-
Gain on sales of investments in subsidiaries and associates	4,732	1,876
Other	4,927	5,687
Total	28,688	10,334

(Note 1) Gain on transfer of business was recognized due to the transfer of a brandy and sherry business in Spain in the spirits business.

(Note 2) Insurance income was an insurance proceed for damages due to the Kumamoto Earthquakes in April 2016.

28. Selling, general and administrative expenses

Selling, general and administrative expenses were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Advertising and sales promotion expenses	357,663	369,414
Employee benefits expenses	245,276	254,292
Depreciation and amortization	50,636	49,146
Other	131,466	136,799
Total	785,043	809,653

29. Other expenses

Other expenses were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Loss on disposal of property, plant and equipment and intangible assets	5,449	5,563
Restructuring charges (Note 1)	6,682	6,647
Losses from natural disaster (Note 2)	10,917	876
Other	4,851	5,637
Total	27,900	18,725

(Note 1) Restructuring charges were expenses mainly for professional advisory fees related to reorganization and relocation carried out by subsidiaries.

(Note 2) Losses from natural disaster were expenses for the repair of facilities and the disposal of finished goods arising from the Kumamoto Earthquakes in April 2016.

30. Finance income and costs

Finance income and costs were as follows:

(Millions of yen)

Finance income	December 31, 2016
Interest received	1,112
Dividends received	851
Other	239
Total	2,203

(Millions of yen)

Finance costs	December 31, 2016
Interest paid	27,705
Other	3,549
Total	31,254

Finance income	(Millions of yen) December 31, 2017
Interest received	
From financial assets measured at amortized cost	1,521
Fair value gains	
From financial assets and liabilities measured at fair value through profit or loss	293
Dividends received	
From financial assets measured at fair value through OCI	
From financial liabilities derecognized during the year	412
From financial assets held at the end of the year	855
Total	3,084

Finance costs	(Millions of yen) December 31, 2017
Interest paid	
From financial liabilities measured at amortized cost	25,800
Fair value losses	
From financial assets and liabilities measured at fair value through profit or loss	6
Other	4,026
Total	29,833

31. Other comprehensive income

Year ended December 31, 2016

(Millions of yen)

	Amount arising during the year	Reclassification	Before tax	Tax effects	Net of tax
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit plans	(10,708)	-	(10,708)	2,888	(7,820)
Changes in comprehensive income of investments accounted for using the equity method	(530)	-	(530)	-	(530)
Total	(11,238)	-	(11,238)	2,888	(8,350)
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	(99,683)	-	(99,683)	(5,707)	(105,390)
Changes in the fair value of cash flow hedges	2,620	295	2,915	(1,027)	1,888
Changes in the fair value of available-for-sale securities	(2,029)	(106)	(2,136)	1,231	(904)
Changes in comprehensive income of investments accounted for using the equity method	(4,675)	(2)	(4,677)	-	(4,677)
Total	(103,768)	186	(103,581)	(5,503)	(109,085)
Grand total	(115,007)	186	(114,820)	(2,615)	(117,435)

Year ended December 31, 2017

(Millions of yen)

	Amount arising during the year	Reclassification	Before tax	Tax effects	Net of tax
Items that will not be reclassified to profit or loss:					
Changes in the fair value of financial assets and liabilities	13,710	-	13,710	(4,710)	8,999
Remeasurement of post-employment benefit plans	4,725	-	4,725	(2,890)	1,835
Changes in comprehensive income of investments accounted for using the equity method	(870)	-	(870)	-	(870)
Total	17,566	-	17,566	(7,600)	9,965
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	35,688	6	35,695	(5,465)	30,230
Changes in the fair value of cash flow hedges	8,351	(5,460)	2,890	(2,324)	566
Changes in comprehensive income of investments accounted for using the equity method	2,601	-	2,601	-	2,601
Total	46,641	(5,453)	41,187	(7,789)	33,398
Grand total	64,207	(5,453)	58,753	(15,390)	43,363

32. Earnings per share

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

	December 31, 2016	December 31, 2017
Profit for the year attributable to owners of the Company (Millions of yen)	185,682	211,448
Profit for the year not attributable to ordinary shareholders of the Company (Millions of yen)	-	-
Profit used in the calculation of basic earnings per share from continuing operations (Millions of yen)	185,682	211,448
Weighted-average number of ordinary shares (share)	684,163,910	685,120,063
Earnings per share (Yen)	271.40	308.63

33. Non-cash transactions

Non-cash transactions were as follows:

(Millions of yen)

	December 31, 2016	December 31, 2017
Assets acquired through finance lease	3,716	3,443

34. Liabilities for financing activities

Liabilities for financing activities were as follows:

(Millions of yen)

	Balance at January 1, 2016	Cash flows	Non-cash movements				Balance at December 31, 2016
			Foreign exchange adjustments	Fair value movement	Amortized cost movement	New finance leases etc.	
Bonds and borrowings	2,059,883	(54,678)	(62,338)	-	961	-	1,943,827
Lease obligations	40,412	(9,441)	(76)	-	-	1,562	32,456

(Note 1) Cash flows from financing activities associated to bonds and borrowings presented above reconciles with the net amount of increase (decrease) in short-term borrowings, proceeds from long-term borrowings and repayment of long-term borrowings presented in the consolidated statement of cash flows.

(Millions of yen)

	Balance at December 31, 2016	Effect of IFRS 9	Balance at January 1, 2017	Cash flows	Non-cash movements				Other changes	Balance at December 31, 2017
					Foreign exchange adjustments	Fair value movement	Amortized cost movement	New finance leases etc.		
Bonds and borrowings	1,943,827	68,606	2,012,434	(151,767)	(28,867)	(971)	1,364	-	(926)	1,831,265
Derivatives	-	(63,566)	(63,566)	11,973	-	14,481	-	-	10,106	(27,005)
Lease obligations	32,456	-	32,456	(10,458)	7	-	-	3,217	(61)	25,161

(Note 1) Cash flows from financing activities associated to bonds and borrowings and derivatives presented above reconciles with the net amount of increase (decrease) in short-term borrowings, proceeds from long-term borrowings and repayment of long-term borrowings presented in the consolidated statement of cash flows.

(Note 2) "Other" changes presented above includes interest paid and received etc.

(Note 3) Derivatives are held for the purpose of hedging risks associated with bonds and borrowings.

35. Financial instruments

(1) Capital management

The Group manages its capital with the goal of maintaining strong financial positions to achieve its sustainable growth.

The key index the Company uses for its capital management is the net debt-to-equity ratio, paying particular attention to internal and external environment. The net debt-to-equity ratio is determined as net debt (adjusted for hybrid bonds and subordinated loans) divided by total equity (adjusted for Hybrid bonds and subordinated loans).

The net debt (adjusted for hybrid bonds and subordinated loans) is determined considering the net valuation gain (loss) arising from derivative transactions under hedge accounting. Both net debt (adjusted for hybrid bonds and subordinated loans) and total equity (adjusted for hybrid bonds and subordinated loans) are determined considering equity credit for hybrid bonds and subordinated loans.

The computation of the net debt-to-equity ratio for the Group is shown below.

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Interest bearing liabilities	2,059,883	1,943,827	1,831,265
Net valuation gain (loss) arising from derivative transactions	37,263	18,765	(30,052)
Interest bearing liabilities (adjusted)	2,097,146	1,962,593	1,801,213
Cash and cash equivalents	(255,589)	(352,519)	(359,518)
Equity credit for hybrid bonds and subordinated loans	(241,799)	(237,561)	(233,845)
Interest bearing liabilities (adjusted for hybrid bonds and subordinated loans)	1,599,757	1,372,512	1,207,849
Total equity	1,208,184	1,272,134	1,545,713
Equity credit for hybrid bonds and subordinated loans	241,799	237,561	233,845
Total equity (adjusted for hybrid bonds and subordinated loans)	1,449,983	1,509,696	1,779,558
Net debt-to-equity ratio	1.10	0.91	0.68

Equity credit for hybrid bonds and subordinated loans is the amount of hybrid bonds and subordinated loans multiplied by equity credit recognized by Japan Credit Rating Agency and Moody's Japan. There has been no significant restrictions on the Group's capital imposed by regulation authorities.

(2) Risk management for financial instruments

The Group is exposed to financial risks, e.g., risks of changes in credit, liquidity, foreign exchange rates, interest rates and market prices in the course of its business activities. The Group performs risk management activities to mitigate such financial risks. The Group utilizes derivative transactions to avoid foreign exchange or interest rate fluctuation risks, and has a policy in place not to engage in speculative transactions.

[1] Credit risk management

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

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

Trade receivables

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

Receivables other than trade receivables

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

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

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

(Millions of yen)

Carrying amount	Financial assets measured at 12-month expected credit losses	Financial assets measured at lifetime expected credit losses	Financial assets applying the simplified approach
Beginning balance at January 1, 2017	46,520	410	355,768
Ending balance at December 31, 2017	47,260	570	373,197

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

Credit risk rating

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:

(Millions of yen)

Loss allowance	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	381	410	1,785
Increased (decreased) due to financial assets incurred or collected	(116)	159	130
Write off	-	-	(72)
Exchange differences	22	-	50
Balance at December 31, 2017	287	570	1,893

Effect of significant changes in the carrying amount of financial instruments in total during the period

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.

Maximum exposures related to credit risks

The carrying amount of financial assets, net of loss allowance, presented in the consolidated financial statements represents the maximum exposure to credit risks of the Group's financial assets, without considering the valuation of collaterals obtained.

[2] 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 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	515,323	515,323	515,323	-	-	-	-	-
Borrowings	1,440,814	1,527,903	279,210	125,352	139,583	85,196	120,777	777,783
Bonds	390,451	450,411	35,367	113,744	7,972	14,359	108,226	170,740
Lease obligations	25,161	25,801	10,336	6,924	3,742	1,880	878	2,038
Derivative financial liabilities								
Currency derivatives	(2,776)	(10,844)	(5,734)	(4,330)	(56)	668	(1,391)	-
Interest rate swaps	(18,254)	(35,912)	(18,735)	(1,541)	(9,659)	(1,454)	(1,924)	(2,596)
Total	2,350,720	2,472,683	815,769	240,149	141,582	100,650	226,565	947,965

[3] Foreign currency risk management

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

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

[4] Interest rate risk

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

The exposures to interest rate risk of the Group was as follows:

The following amount excludes the amount of interest rate risks being hedged by derivative transactions.

	(Millions of yen)
	December 31, 2017
Floating-rate bonds and borrowings	278,973

Interest rate sensitivity analysis

The Group's sensitivity to one percent increase and decrease in interest rate against profit before tax presented in the consolidated statement of profit or loss for each reporting period is as follows. This analysis, however, is based on the assumption all other variable factors (balances, foreign exchange rates, etc.) remain the same.

	(Millions of yen)
	December 31, 2017
Profit before income taxes	2,789

[5] Management of market price fluctuation risks

The Group is exposed to risks of changes in market prices arising on equity financial instruments (investment in shares). For investment securities, the Group manages such risks by periodically monitoring market quotes and financial conditions of issuers (business counterparties).

Market price fluctuation risks as at the reporting date is not considered material.

(3) Hedge accounting

Please refer to "Note 35. Financial instruments (2) Risk management for financial instruments" for the Group's risk management policy over hedge accounting, determined for each class of risk exposures. Foreign currency exchange risks is managed by focusing on to control risk exposures according to foreign currency risk management policies and hedge policies. Exposure of interest rate risk is managed considering financial market trends, asset-liability composition, interest rate fluctuation risks, and other factors.

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

[1] Cash flow hedges

Details of hedging instruments designated as cash flow hedges

December 31, 2017

(Millions of yen)

	Contractual amounts	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Foreign exchange risks				
Foreign exchange contracts				
Long position				
Yen and U.S. Dollar	16,346	-	295	10
Short position				
Yen and Australian Dollar	8,921	-	30	106
Currency swap contracts				
Payment in U.S. Dollar (hedged currency) Receipt in Yen	204,747	117,172	5,480	121
Payment in Yen Receipt in Euro (hedged currency)	2,644	-	-	310
Payment in Yen Receipt in N.Z. Dollar (hedged currency)	1,844	-	-	33
Interest rate risks				
Interest rate swap transactions				
Receiving on a floating interest and paying on a fixed interest	656,994	591,138	3,949	7,342
Interest rate currency swap transactions				
Receiving on a floating interest and paying on a fixed interest	228,767	202,478	16,930	1,633
Payment in U.S. dollar (hedged currency) Receipt in Yen				
Receiving on a floating interest and paying on a fixed interest	53,628	53,628	111	4,858
Payment in U.S. dollar (hedged currency) Receipt in Euro				
Receiving on a floating interest and paying on a fixed interest	34,948	18,234	8,013	650
Payment in U.S. dollar (hedged currency) Receipt in British pound sterling				

The carrying amounts of derivatives are presented in other financial assets or other financial liabilities in the consolidated statement of financial position. The carrying amounts to the extent receivable/payable after one year are classified under non-current assets or non-current liabilities.

Increases (decreases) in net valuation gains (losses) on hedging instruments designated as cash flow hedges

(Millions of yen)

	Effective portion of changes in fair value of cash flow hedges		
	Foreign exchange risks	Interest rate risks	Total
Balance at January 1, 2017	12,076	(19,118)	(7,042)
Other comprehensive income			
Incurred for the period (Note 1)	(2,170)	10,522	8,351
Reclassified (Note 2)	(4,668)	(791)	(5,460)
Tax effects	263	(2,587)	(2,324)
Balance at December 31, 2017	5,500	(11,975)	(6,475)

(Note 1) Changes in the value of hedged items used as a basis for recognizing the ineffective hedge portion approximates the changes in the fair value of the hedging instruments.

(Note 2) "Reclassified" in above schedule represent the amounts reclassified to profit or loss when the hedged items affected net profit or loss, which are recognized as finance gains or costs in the consolidated statement of profit or loss. The amount of the ineffective hedge portions was immaterial.

[2] Hedges on a net investment in a foreign operation

Details of hedging instruments designated as hedges on a net investment in a foreign operation

December 31, 2017

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Bonds denominated in U.S. dollar	USD 350 mil.	USD 350 mil.	-	39,550
Borrowings denominated in U.S. dollar	USD 2,446 mil.	USD 2,446 mil.	-	276,398
Currency derivatives	USD 245 mil.	USD 245 mil.	-	2,509

These carrying amounts are included in bonds payable and borrowings, other financial assets or other financial liabilities in the consolidated statement of financial position. The carrying amount to the extent receivable/payable after one year is classified under non-current liabilities.

Valuation gains (losses) arising on hedging instruments designated as a net investment in a foreign operation

(Millions of yen)

	Exchange differences on foreign operations
Balance at January 1, 2017	28,718
Other comprehensive income	
Incurred during the period (Note 1)	21,357
Tax effects	(5,465)
Balance at December 31, 2017 (Note 2)	44,609

(Note 1) Changes in the value of hedged items used as a basis for recognizing the ineffective hedge portion approximates the changes in the fair value of the hedging instruments.

(Note 2) The amount of translation adjustments of foreign operations included 9,546 million yen of exchange losses from hedging instruments discontinued hedging relationships.

[3] Fair value hedges

Details of hedging instruments designated as fair value hedges

December 31, 2017

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Interest rate risks				
Interest rate swap transactions				
Receiving on a floating interest and paying on a fixed interest	80,000	80,000	3,733	-

The carrying amounts of derivatives are included in other financial assets or other financial liabilities in the consolidated statement of financial position. The carrying amounts to the extent receivable/payable after one year are classified under non-current assets or non-current liabilities.

The carrying amount of hedged items under fair value hedges and the cumulative adjustment related to fair value hedges as at the end of the reporting period were as follows:

(Millions of yen)

	Carrying amount		Cumulative adjustment related to fair value hedges		Line items presented in the consolidated statement of financial position
	Assets	Liabilities	Assets	Liabilities	
Interest rate transactions	-	83,513	-	3,733	Bonds and borrowings

The amount of change in the value of hedged items used as a basis for recognizing the ineffective hedge portion and hedging instruments during the year ended December 31, 2017 were as follows:

(Millions of yen)

Risk	Year ended December 31, 2017	
	Change in the value of hedged items	Change in the value of hedging instruments
Interest rate risks	971	(971)

The amount of the ineffective hedge portions recognized in profit or loss was insignificant.

(4) Fair value of financial instruments

[1] Classification by the fair value hierarchy level

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

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Fair value determined using observable prices other than Level 1 for the asset or liability directly or indirectly
Level 3: Fair value determined using the valuation technique including unobservable inputs for the asset or liability

[2] Financial instruments measured at fair value

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

(i) Derivative assets and liabilities

The fair value of derivative instruments — e.g. foreign exchange contracts, currency options, interest rate swaps, interest rate currency swaps, interest rate options, etc. — are determined based on their prices presented by financial institutions that are our counterparties. Specifically, for example, the fair value of a foreign exchange contract is measured at fair value based on quoted prices of forward foreign exchange markets, etc. 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 at the reporting date over a period to its maturity.

(ii) Equity instruments

The fair value of listed shares are measured at the quoted prices available at the reporting date. Unlisted shares are measured at fair value using the following valuation techniques: the discounted cash flow method, the comparative multiple valuation multiples and the adjusted net asset method. (The adjusted net asset method is a method to determine corporate values based on net assets of a stock issuing company, adjusted as necessary with market-value valuation for certain assets and liabilities.) The major unobservable inputs using for measurement of the fair value of unlisted shares is EBITDA ratio in the comparative multiple valuation, which is 12 times. The illiquidity discount using is 15%. We do not expect any significant change in the fair value of equity instruments arises if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions.

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	-	38,777	-	38,777
Financial assets measured at FVTPL				
Derivative assets	-	300	-	300
Other	3,411	1,760	979	6,151
Financial assets measured at FVTOCI				
Equity instruments	60,747	-	27,266	88,013
Other	-	-	47	47
Liabilities:				
Financial liabilities designated as hedging instruments				
Derivative liabilities	-	17,577	-	17,577
Financial liabilities measured at FVTPL				
Derivative liabilities	-	469	-	469

Transfers between levels of the fair value hierarchy shall be recognized at the date of the event or change in circumstances that caused the transfer.

[3] Changes in financial instruments classified with Level 3 during the period

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

Year ended December 31, 2017

(Millions of yen)

	Financial assets measured at FVTPL	Financial assets measured at FVTOCI
Balance at January 1, 2017	807	26,083
Total gains and losses	30	624
Profit or loss (Note 1)	30	-
Other comprehensive income (Note 2)	-	624
Purchased	268	710
Sold	-	-
Transfer from Level 3 (Note 3)	-	(104)
Other	(126)	-
Balance at December 31, 2017	979	27,314

(Note 1) Gains and losses included in profit or loss relate to financial assets measured at FVTPL at the reporting date, which are included in finance gains or finance costs in the consolidated statement of profit or loss.

(Note 2) 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.

(Note 3) Initial public offering by an investee caused the transfer from Level 3.

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

[4] Financial instruments measured at amortized cost

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

(i) Cash and cash equivalents, trade and other receivables and trade and other payables

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

The Group has adopted IFRS 9 starting the year ended December 31, 2017. Accordingly, trade and other receivables are classified into financial assets measured at amortized cost, while trade and other payables are classified into financial liabilities measured at amortized cost.

(ii) Bonds and borrowings

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

The carrying amount and the fair value hierarchy of financial instruments measured at amortized cost at each reporting date were as follows.

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	390,451	-	400,277	-	400,277
Borrowings	1,440,814	-	1,446,123	-	1,446,123

36. Principle subsidiaries

(1) Composition of the Group

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group		
		Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Suntory Beverage & Food Ltd.	Japan	59.4	59.4	59.4
Suntory Foods Co., Ltd.	Japan	100.0	100.0	100.0
Suntory Beverage Solution Ltd.	Japan	-	100.0	100.0
Suntory Beverage Service Co., Ltd.	Japan	99.0	99.0	99.0
Japan Beverage Holdings Inc.	Japan	82.6	82.6	82.6
Suntory Products Ltd.	Japan	100.0	100.0	100.0
Orangina Schweppes Holding B.V.	Netherland	100.0	100.0	100.0
Lucozade Ribena Suntory Ltd.	United Kingdom	100.0	100.0	100.0
Cerebos Pacific Ltd.	Singapore	100.0	100.0	100.0
PT Suntory Garuda Beverage	Indonesia	51.0	75.0	75.0
Suntory PepsiCo Vietnam Beverage Co., Ltd.	Vietnam	100.0	100.0	100.0
Frucor Beverages Ltd.	New Zealand	100.0	100.0	100.0
Pepsi Bottling Ventures LLC	United States	65.0	65.0	65.0
Beam Suntory Inc.	United States	100.0	100.0	100.0
Suntory Spirits Ltd.	Japan	100.0	100.0	100.0
Suntory Beer, Wine & Spirits Japan Ltd.	Japan	-	-	100.0
Suntory Beer Ltd.	Japan	100.0	100.0	100.0
Suntory Wine International Ltd.	Japan	100.0	100.0	100.0
Suntory Liquors Ltd.	Japan	100.0	100.0	100.0
Suntory Wellness Ltd.	Japan	100.0	100.0	100.0
Dynac Corporation	Japan	61.7	61.7	61.7
Suntory Flowers Ltd.	Japan	100.0	100.0	100.0
Suntory MONOZUKURI Expert Ltd.	Japan	100.0	100.0	100.0
Suntory Business System Ltd.	Japan	-	-	100.0
Suntory Communications Ltd.	Japan	-	-	100.0
Suntory Global Innovation Center Ltd.	Japan	100.0	100.0	100.0

Suntory Business Expert Limited changed its company's name to "Suntory MONOZUKURI Expert Ltd." as at April 1, 2017.

(2) Summarized consolidated financial information in respect of each of the Group's subsidiaries that has material non-controlling interests

Summarized consolidated financial information in respect of each of the Group's subsidiaries that has material non-controlling interests was as follows:

The below summarized consolidated financial information represents amounts before eliminating inter-company transactions.

Suntory Beverage & Food International Limited and its consolidated group companies.

[1] General information

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Proportion of ownership interests held by non-controlling interests (%)	40.5	40.5	40.5
Accumulated non-controlling interests	297,252	300,698	335,516

(Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Profit allocated to non-controlling interests of the subsidiary	36,019	39,712
Dividends paid to non-controlling interests of the subsidiary	12,497	14,912

[2] Summarized consolidated financial information

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016	December 31, 2017
Current assets	375,783	359,057	430,914
Non-current assets	1,140,781	1,062,340	1,091,115
Current liabilities	441,896	413,470	453,088
Non-current liabilities	410,023	345,112	322,738
Equity	664,645	662,815	746,201

(Millions of yen)

	December 31, 2016	December 31, 2017
Revenue	1,209,149	1,234,008
Profit for the year	78,549	86,175
Comprehensive income for the year	27,311	112,812

(Millions of yen)

	December 31, 2016	December 31, 2017
Cash flows generated by operating activities	163,083	149,513
Cash flows used in investing activities	(57,461)	(52,958)
Cash flows used in financing activities	(117,126)	(63,593)
Net (decrease) increase in cash and cash equivalents	(11,505)	32,961

37. Related party transactions

(1) Related party transactions

The Group has no material transactions and balances with related parties.

(2) Remuneration for principle executives

(Millions of yen)

	December 31, 2016	December 31, 2017
Basic remuneration and bonus	1,538	1,565

38. Commitments

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

(Millions of yen)

	December 31, 2016	December 31, 2017
Acquisition of property, plant and equipment	8,974	4,285
Total	8,974	4,285

39. First-time adoption

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

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

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

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

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

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

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

Reconciliation required to disclose on first-time adoption of IFRSs

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

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
Assets					Assets
Current Assets:					Current assets:
Cash and deposits	258,622	(3,032)	255,589	(1)	Cash and cash equivalents
Notes and accounts receivable	380,562	(5,469)	375,093	(2),(5)	Trade and other receivables
Finished products	370,258	44,497	414,755	(5)	Inventories
Work in process	18,212	(18,212)	-		
Raw materials and supplies	50,456	(50,456)	-		
Deferred tax assets	45,349	(45,349)	-	(7)	
	-	6,068	6,068	(6)	Other financial assets
Other current assets	84,409	(33,676)	50,732		Other current assets
Allowance for doubtful accounts	(2,109)	2,109	-	(4)	
Total current assets	1,205,761	(103,521)	1,102,240		Sub-total
	-	65,244	65,244		Assets held for sale
	1,205,761	(38,277)	1,167,484		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment	686,068	(11,923)	674,144	(8)	Property, plant and equipment
Goodwill	1,130,884	(202,334)	928,550	(9)	Goodwill
Trademarks	1,285,478	302,696	1,588,174	(9)	Intangible assets
Other intangible assets	90,550	(90,550)	-	(9)	
Investment securities	119,633	(80,140)	39,492	(10)	Investments accounted for using the equity method
	-	114,245	114,245	(6)	Other financial assets
Asset for retirement benefits	18,535	(18,535)	-		
Other	56,727	(4,688)	52,039		Other non-current assets
Deferred tax assets	7,890	40,312	48,202	(7)	Deferred tax assets
Allowance for doubtful accounts	(1,309)	1,309	-	(4)	
Total non-current assets	3,394,458	50,391	3,444,850		Total non-current assets
Deferred assets	774	(774)	-		
Total assets	4,600,995	11,339	4,612,335		Total assets

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
					Liabilities and equity
Liabilities					Liabilities
Current liabilities:					Current liabilities:
Short-term bank loans	161,664	48,522	210,187	(11)	Bonds and borrowings
Current portion of long-term debt	51,918	(51,918)	-		
Notes and accounts payable	146,790	344,311	491,101	(3)	Trade and other payables
Electronically recorded debt	109,333	(109,333)	-		
Liquor tax payable	55,064	(55,064)	-		
Consumption taxes payable	22,349	(22,349)	-		
	-	78,584	78,584	(6)	Other financial liabilities
Accrued income taxes	36,629	(2,422)	34,206		Accrued income taxes
Allowance for bonus	26,149	(14,790)	11,358	(12)	Provisions
Accounts payable	157,615	(157,615)	-		
Accrued expenses	83,008	(83,008)	-		
Other current liabilities	84,104	8,158	92,263	(12)	Other current liabilities
Total current liabilities	934,627	(16,926)	917,701		Sub-total
	-	40,943	40,943		Liabilities directly associated with assets held for sale
	934,627	24,017	958,644		Total current liabilities
					Non-current liabilities:
Long-term liabilities:	421,883	1,427,812	1,849,696	(11)	Bonds and borrowings
Bonds	1,427,812	(1,427,812)	-		
Long-term bank loans	-	106,890	106,890	(6)	Other financial liabilities
Liability for employee's retirement benefits	33,926	5,163	39,089	(13)	Post-employment benefit liabilities
Retirement allowance for directors and Audit and supervisory Board members	1,004	7,806	8,811		Provisions
Other non-current liabilities	154,039	(137,692)	16,347		Other non-current liabilities
Deferred tax liabilities	471,066	(46,396)	424,669	(7)	Deferred tax liabilities
Total long-term liabilities	2,509,733	(64,227)	2,445,505		Total non-current liabilities
Total liabilities	3,444,361	(40,210)	3,404,150		Total liabilities
Equity					Equity
Common stock	70,000	-	70,000		Share capital
Capital surplus	138,027	54	138,081		Share premium
Retained earnings	580,375	94,060	674,435	(16)	Retained earnings
Treasury stock	(2,285)	-	(2,285)		Treasury share
Accumulated other comprehensive income	66,360	(56,830)	9,529	(14)	Other components of equity
	852,477	37,283	889,760		Total equity attributable to owners of the Company
Non-controlling interests	304,157	14,266	318,423		Non-controlling interests
Total equity	1,156,634	51,549	1,208,184		Total equity
Total liabilities and equity	4,600,995	11,339	4,612,335		Total liabilities and equity

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

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
Assets					Assets
Current Assets:					Current assets:
Cash and deposits	353,157	(638)	352,519	(1)	Cash and cash equivalents
Notes and accounts receivable	368,858	10,428	379,286	(2),(5)	Trade and other receivables
Finished products	347,826	36,034	383,861	(5)	Inventories
Work in process	15,321	(15,321)	-		
Raw materials and supplies	40,244	(40,244)	-		
Deferred tax assets	42,854	(42,854)	-	(7)	
	-	3,269	3,269	(6)	Other financial assets
Other current assets	100,204	(27,263)	72,940		Other current assets
Allowance for doubtful accounts	(1,363)	1,363	-	(4)	
Total current assets	1,267,103	(75,226)	1,191,877		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment	640,821	13,706	654,527	(8)	Property, plant and equipment
Goodwill	1,012,334	(126,892)	885,441	(9)	Goodwill
Trademarks	1,180,264	281,240	1,461,504	(9)	Intangible assets
Other intangible assets	81,827	(81,827)	-	(9)	
Investment securities	116,068	(78,395)	37,673	(10)	Investments accounted for using the equity method
	-	110,708	110,708	(6)	Other financial assets
Asset for retirement benefits	12,168	(12,168)	-		
Other	48,233	(9,596)	38,637		Other non-current assets
Deferred tax assets	16,233	75,775	92,008	(7)	Deferred tax assets
Allowance for doubtful accounts	(1,214)	1,214	-	(4)	
Total non-current assets	3,106,737	173,765	3,280,502		Total non-current assets
Deferred assets	515	(515)	-		
Total assets	4,374,356	98,023	4,472,380		Total assets

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
					Liabilities and equity
Liabilities					Liabilities
Current liabilities:					Current liabilities:
Short-term bank loans	193,179	114,523	307,702	(11)	Bonds and borrowings
Current portion of long-term debt	114,523	(114,523)	-		
Notes and accounts payable	133,170	360,680	493,850	(3)	Trade and other payables
Electronically recorded debt	105,953	(105,953)	-		
Liquor tax payable	51,434	(51,434)	-		
Consumption taxes payable	20,394	(20,394)	-		
	-	90,187	90,187	(6)	Other financial liabilities
Accrued income taxes	24,119	(1,646)	22,472		Accrued income taxes
Allowance for bonus	27,482	(19,807)	7,674	(12)	Provisions
Accounts payable	150,922	(150,922)	-		
Accrued expenses	87,590	(87,590)	-		
Other current liabilities	93,447	(8,097)	85,349	(12)	Other current liabilities
Total current liabilities	1,002,217	5,020	1,007,237		Total current liabilities
					Non-current liabilities:
Long-term liabilities:	327,935	1,308,189	1,636,125	(11)	Bonds and borrowings
Bonds	1,308,189	(1,308,189)	-		
Long-term bank loans	-	85,441	85,441	(6)	Other financial liabilities
Liability for employee's retirement benefits	35,341	5,767	41,109	(13)	Post-employment benefit liabilities
Retirement allowance for directors and Audit and supervisory Board members	1,090	6,985	8,076		Provisions
Other non-current liabilities	112,987	(96,236)	16,750		Other non-current liabilities
Deferred tax liabilities	429,873	(24,369)	405,504	(7)	Deferred tax liabilities
Total long-term liabilities	2,215,419	(22,411)	2,193,008		Total non-current liabilities
Total liabilities	3,217,636	(17,390)	3,200,245		Total liabilities
Equity	-	-	-		Equity
Common stock	70,000	-	70,000		Share capital
Capital surplus	133,198	53	133,251		Share premium
Retained earnings	693,688	158,224	851,912	(16)	Retained earnings
Treasury stock	(1,598)	-	(1,598)		Treasury share
Accumulated other comprehensive income	(21,495)	(65,091)	(86,586)	(14)	Other components of equity
	873,792	93,186	966,979		Total equity attributable to owners of the Company
Non-controlling interests	282,927	22,227	305,155		Non-controlling interests
Total equity	1,156,720	115,414	1,272,134		Total equity
Total liabilities and equity	4,374,356	98,023	4,472,380		Total liabilities and equity

Notes to reconciliation of equity

(1) Presentational reclassification of cash and deposits

A part of time deposits in bank that were included in cash and deposits under Japanese GAAP were reclassified to other financial assets (current) in the IFRSs consolidated financial statements.

(2) Presentational reclassification of trade and other receivables

Other receivables that were included in other current assets under Japanese GAAP were reclassified to and are presented as trade and other receivables in the IFRSs consolidated financial statements.

(3) Presentational reclassification of trade and other payables

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

(4) Presentational reclassification of allowance for doubtful accounts

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

(5) Adjustment made for trade receivables and inventories associated with a change in the timing of revenue recognition

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

(6) Presentational reclassification of other financial assets and liabilities

Derivatives and other receivables that were included in other (current) assets under Japanese GAAP were transferred to and are presented as other financial assets (current) under IFRSs. Investment securities that were presented in a separate line under Japanese GAAP were transferred to and are presented as other financial assets (non-current) under IFRSs. Lease obligations that were presented in a separate line of current liabilities and non-current liabilities under Japanese GAAP were reclassified and are presented as other financial assets (current) or other financial assets (non-current) respectively in the IFRSs consolidated financial statements.

(7) Presentational reclassifications of deferred tax assets and liabilities and reassessment of the recoverability of deferred tax assets

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

Recoverability of deferred tax assets and temporary differences associated with investments in associates were reassessed as at the transition date, resulting in changes in the amount of deferred tax assets and liabilities recorded.

(8) Adjustments made for the carrying amount of property, plant and equipment

The Group reassessed the economic useful lives of certain items of property, plant and equipment as part of the adoption of IFRSs. Finance lease transactions that were entered into on or before December 31, 2008 and were not capitalized in the statement of financial position under Japanese GAAP, but are now stated as assets in the IFRSs financial statements. The fair value of certain items of property, plant and equipment as at the date of transition to IFRSs was used as their deemed cost. The fair value of such items of property, plant and equipment as at the date of transition to IFRSs was 11,312 million yen, which was less by 11,191 million yen than with their carrying amount under Japanese GAAP.

(9) Adjustments made for goodwill and intangible assets

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

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

(10) Presentational reclassification of the amount recognized for investments accounted for using the equity method

Investments that are accounted for using the equity method that were included in investment securities under Japanese GAAP are presented in a separate line in the IFRSs consolidated financial statements.

(11) Presentational reclassification of bonds and borrowings

Bonds and long-term loans payable separately presented in non-current liabilities under Japanese GAAP were reclassified and are presented with aggregate as bonds and borrowings (non-current) in the IFRSs consolidated financial statements.

(12) Presentational reclassification of other liabilities

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

(13) Recalculation of post-employment benefit assets and liabilities

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

(14) Reclassification of cumulative translation adjustments of foreign operations

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

(15) Accounting for a business combination

Under Japanese GAAP, the Group has adopted the following accounting standards issued by Accounting Standard Board of Japan (ASBJ) starting at the beginning of the year ended December 31, 2016:

- Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 released on September 13, 2013; "Business Combination Accounting Standard");
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 released on September 13, 2013; "Consolidation Accounting Standard"); and
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 released on September 13, 2013 "Business Divestitures Accounting Standard").

Upon adoption, the Group shall recognize gains or losses arising from change in its equity interests in subsidiaries that does not involve loss of control in capital premium, and recognize acquisition related costs incurred as expenses for the period in which they are incurred. In adopting these standards, the Group applied transitional provisions prescribed in Article 58-2 (3) of the Business Combination Accounting Standard, Article 44-5 (3) of the Consolidation Accounting Standard and Article 57-4 (3) of the Business Divestitures Accounting Standard. Accordingly, the cumulative effect at the beginning of the year ended December 31, 2015, which was determined based on the assumption that all of those accounting changes were retrospectively adopted, was adjusted with capital premium and retained earnings. The changes accompanied with revisions to the Business Combination, the Consolidation and the Business Divestitures Accounting Standards were reflected retrospectively in the consolidated balance sheet as at December 31, 2016, issued under the Japanese GAAP. However, under IFRSs, the Group elected not to retrospectively applied IFRS 3 to business combinations occurred before the date of transition to IFRSs.

(16) Adjustments to retained earnings

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

(Millions of yen)

	Transition date (January 1, 2016)	December 31, 2016
Deferred tax assets and deferred tax liabilities	36,014	52,835
Property, plant and equipment	12,119	12,135
Goodwill and intangible assets	5,372	59,466
Cumulative translation differences on foreign operations	52,232	52,232
Other	(11,677)	(18,443)
Total	94,060	158,224

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

(Millions of yen)

Presentation under Japanese GAAP	Japanese GAAP	Effect of transition	IFRSs	Notes	Presentation under IFRSs
Revenue	2,651,479	(293,074)	2,358,404		Revenue (including excise taxes)
	-	(256,806)	(256,806)		Less: excise taxes
	-	2,101,598	2,101,598	(1)	Revenue (excluding excise taxes)
Cost of sales	(1,262,489)	189,706	(1,072,782)		Cost of sales
Gross profit	1,388,989	(360,174)	1,028,815		Gross profit
Selling, general and administrative expenses	(1,191,001)	405,957	(785,043)	(2),(3),(4)	Selling, general and administrative expenses
	-	8,328	8,328	(5)	Share of the profit and loss on investments accounted for using the equity method
	-	28,688	28,688	(5)	Other income
	-	(27,900)	(27,900)	(5)	Other expenses
Operating income	197,988	54,900	252,888		Operating income
Non-operating income	9,732	(9,732)	-		
Non-operating expenses	(31,895)	31,895	-		
Extraordinary income	27,005	(27,005)	-		
Extraordinary losses	(26,211)	26,211	-		
	-	2,203	2,203	(5)	Finance income
	-	(31,254)	(31,254)	(5)	Finance costs
Income before income taxes	176,618	47,218	223,837		Profit before income taxes
Income taxes	(51,715)	50,691	(1,024)	(6)	Income tax expenses
Income tax adjustments	27,433	(27,433)	-		
Net income	152,336	70,476	222,812		Profit for the year
Other comprehensive income					Other comprehensive income
					Items that will not be reclassified subsequently to profit or loss:
Defined retirement benefit plans	(6,881)	(939)	(7,820)	(4)	Remeasurement of post-employment benefit plans
	-	(530)	(530)		Share of other comprehensive income of investments under the equity method
	(6,881)	(1,469)	(8,350)		Total
					Items that may be reclassified subsequently to profit or loss:
Foreign currency translation adjustments	(101,398)	(3,992)	(105,390)		Exchange differences
Deferred gain (loss) on derivatives under hedge accounting	1,888	-	1,888		Gains or losses from revaluation of cash flow hedges
Unrealized (loss) gain on available-for-sale securities	(878)	(26)	(904)		Changes in fair value of available-for-sale securities
Share of other comprehensive (loss) income in associates	(3,086)	(1,590)	(4,677)		Share of other comprehensive income of investments under the equity method
	(103,475)	(5,609)	(109,085)		Total
Comprehensive income	(110,356)	(7,079)	(117,435)		Other comprehensive income for the year, net of tax
Total comprehensive income	41,980	63,396	105,376		Comprehensive income for the year

Notes to reconciliation of profit or loss and comprehensive income

(1) Changes in revenue recognition

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

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

(2) Review of estimates relating to useful lives used in depreciation

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

(3) Abolishment of amortization of goodwill

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

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

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

(5) Presentational reclassifications

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

(6) Income tax expenses

In connection with the adoption of IFRSs, the recoverability of deferred tax assets and temporary differences associated with investments accounted for using under equity method, etc. were reassessed. As a result of the reassessment, there were changes in the amount of deferred tax assets and liabilities.

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

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