Suntory Holdings Limited and Its Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2019, 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, 2019, 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, 2019, 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 17, 2020

Consolidated statement of financial position
Suntory Holdings Limited and its subsidiaries
As at December 31, 2019

(Millions of yen)

	Notes	December 31, 2018	December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents	8	272,425	255,302
Trade and other receivables	9, 36	405,556	408,893
Other financial assets	10, 36	3,671	12,344
Inventories	11	415,841	435,501
Other current assets	12	68,231	63,797
Sub-total		1,165,726	1,175,840
Assets held for sale	13	27	187
Total current assets		1,165,753	1,176,028
Non-current assets:			
Property, plant and equipment	14	696,103	708,663
Right-of-use assets	23	-	97,359
Goodwill	15	867,986	857,328
Intangible assets	15	1,422,962	1,405,341
Investments accounted for using the equity method	16	42,411	46,217
Other financial assets	10, 36	120,483	122,950
Deferred tax assets	17	71,300	73,729
Other non-current assets	12	34,861	29,161
Total non-current assets		3,256,110	3,340,751
Total assets		4,421,864	4,516,779

See notes to consolidated financial statements.

Consolidated statement of financial position
Suntory Holdings Limited and its subsidiaries
As at December 31, 2019 (continued)

(Millions of yen)

	Notes	December 31, 2018	December 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities:			
Bonds and borrowings	18, 36	243,396	148,861
Trade and other payables	19	529,616	564,412
Other financial liabilities	20, 36	98,190	121,775
Accrued income taxes		24,499	27,432
Provisions	21	16,490	13,985
Other current liabilities	22	84,765	86,327
Total current liabilities		996,959	962,794
Non-current liabilities:			
Bonds and borrowings	18, 36	1,348,629	1,278,013
Other financial liabilities	20, 36	66,286	126,683
Post-employment benefit liabilities	24	40,670	43,618
Provisions	21	7,190	6,882
Deferred tax liabilities	17	288,542	289,537
Other non-current liabilities	22	21,895	15,362
Total non-current liabilities		1,773,215	1,760,098
Total liabilities		2,770,175	2,722,892
Equity			
Share capital	25	70,000	70,000
Share premium	25	133,944	133,909
Retained earnings	25	1,198,492	1,329,315
Treasury shares	25	(938)	(938)
Other components of equity	25	(128,728)	(133,752)
Total equity attributable to owners of the Company		1,272,770	1,398,534
Non-controlling interests		378,918	395,352
Total equity		1,651,689	1,793,887
Total liabilities and equity		4,421,864	4,516,779

See notes to consolidated financial statements.

Consolidated statement of profit or loss
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2019

(Millions of yen)

	Notes	Year ended December 31, 2018	Year ended December 31, 2019
Revenue (including excise taxes)	6, 27	2,517,258	2,569,230
Less: excise taxes		(266,475)	(274,525)
Revenue (excluding excise taxes)	6, 27	2,250,782	2,294,704
Cost of sales		(1,172,720)	(1,199,321)
Gross profit		1,078,062	1,095,383
Selling, general and administrative expenses	29	(832,899)	(840,306)
Share of the profit and loss on investments accounted for using the equity method	16	7,916	8,703
Other income	28	18,888	15,825
Other expenses	30	(21,108)	(19,959)
Operating income	6	250,859	259,646
Finance income	31	6,305	4,008
Finance costs	31	(24,817)	(22,148)
Profit before income taxes		232,347	241,505
Income tax benefit (expenses)	17	(50,959)	(59,070)
Profit for the year		181,387	182,435
Attributable to:			
Owners of the Company		140,151	140,940
Non-controlling interests		41,236	41,494
Profit for the year		181,387	182,435
Earnings per share (Yen)	33	204.39	205.53

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, 2019

(Millions of yen)

	Notes	Year ended December 31, 2018	Year ended December 31, 2019
Profit for the year		181,387	182,435
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial assets	32	(5,064)	6,261
Remeasurement of post-employment benefit plans	32	(1,941)	(689)
Changes in comprehensive income of investments accounted for using the equity method	16, 32	852	(287)
Total		(6,152)	5,284
Items that may be reclassified to profit or loss:			
Translation adjustments of foreign operations	32	(71,691)	(10,084)
Changes in the fair value of cash flow hedges	32	1,093	(782)
Changes in comprehensive income of investments accounted for using the equity method	16, 32	(1,716)	376
Total		(72,314)	(10,490)
Other comprehensive income (loss) for the year, net of tax		(78,467)	(5,205)
Comprehensive income for the year		102,920	177,229
Attributable to:			
Owners of the Company		75,497	135,751
Non-controlling interests		27,423	41,477
Comprehensive income for the year		102,920	177,229

See notes to consolidated financial statements.

Consolidated statement of changes in equity
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2019

(Millions of yen)

		Attributable to owners of the Company							
	Notes	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total	Non-controlling interests	Total equity
Balance at December 31, 2017		70,000	133,885	1,064,603	(1,006)	(62,735)	1,204,747	340,965	1,545,713
Cumulative effect of adopting new accounting standards				1,356			1,356		1,356
Balance at January 1, 2018		70,000	133,885	1,065,959	(1,006)	(62,735)	1,206,103	340,965	1,547,069
Profit for the year				140,151			140,151	41,236	181,387
Other comprehensive income						(64,654)	(64,654)	(13,813)	(78,467)
Total comprehensive income for the year		-	-	140,151	-	(64,654)	75,497	27,423	102,920
Disposals of treasury shares			90		68		159		159
Dividends	26			(8,913)			(8,913)	(16,401)	(25,315)
Increase due to business combinations	7						-	26,881	26,881
Transfer from other components of equity to retained earnings				1,295		(1,295)	-		-
Changes in ownership interests in subsidiaries that do not involve loss of control			(32)			(43)	(76)	50	(25)
Total transactions with owners of the Company		-	58	(7,618)	68	(1,338)	(8,829)	10,529	1,699
Balance at December 31, 2018		70,000	133,944	1,198,492	(938)	(128,728)	1,272,770	378,918	1,651,689
Cumulative effect of adopting new accounting standards				(1,041)			(1,041)	(453)	(1,494)
Balance at January 1, 2019		70,000	133,944	1,197,451	(938)	(128,728)	1,271,729	378,464	1,650,194
Profit for the year				140,940			140,940	41,494	182,435
Other comprehensive income						(5,188)	(5,188)	(17)	(5,205)
Total comprehensive income for the year		-	-	140,940	-	(5,188)	135,751	41,477	177,229
Dividends	26			(8,914)			(8,914)	(24,277)	(33,192)
Incorporation of a new subsidiary							-	274	274
Transactions with non-controlling interests			(34)				(34)	(583)	(618)
Transfer from other components of equity to retained earnings				(161)		164	3	(3)	-
Total transactions with owners of the Company		-	(34)	(9,076)	-	164	(8,946)	(24,589)	(33,536)
Balance at December 31, 2019		70,000	133,909	1,329,315	(938)	(133,752)	1,398,534	395,352	1,793,887

See notes to consolidated financial statements.

Consolidated statement of cash flows
Suntory Holdings Limited and its subsidiaries
For the year ended December 31, 2019

(Millions of yen)

	Notes	Year ended December 31, 2018	Year ended December 31, 2019
Cash flows from operating activities			
Profit before income taxes		232,347	241,505
Depreciation and amortization		98,417	121,506
Impairment losses (reversal of impairment losses)		4,318	2,623
Interest and dividend income		(2,435)	(2,771)
Interest expense		22,970	21,547
Gain on investments accounted for using the equity method		(7,916)	(8,703)
Increase in inventories		(14,118)	(20,516)
Increase in trade and other receivables		(9,990)	(3,968)
Increase in trade and other payables		11,409	20,033
Other		(6,327)	23,777
Sub-total		328,676	395,032
Interest and dividends received		6,988	6,932
Interest paid		(24,217)	(23,785)
Income taxes paid		(61,061)	(56,565)
Net cash flow provided by operating activities		250,384	321,613
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(110,712)	(120,814)
Proceeds from sales of property, plant and equipment and intangible assets		5,741	3,075
Payments for acquisition of investment securities		(1,404)	(2,016)
Proceeds from sales of investment securities		3,539	603
Payments for acquisition of shares in subsidiaries involving changes in the scope of consolidation	7	(26,890)	(925)
Proceeds from disposals of shares in subsidiaries involving changes in the scope of consolidation	7	24,216	-
Other		1,313	(446)
Net cash flow used in investing activities		(104,196)	(120,525)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	35	405	(7,826)
Proceeds from long-term borrowings and bonds	35	112,937	195,754
Repayment of long-term borrowings	35	(311,123)	(343,072)
Payments of finance lease liabilities	35	(10,014)	(31,444)
Proceeds from disposals of treasury shares		159	-
Dividends paid to owners of the Company	26	(8,913)	(8,914)
Dividends paid to non-controlling interests		(16,388)	(23,605)
Other		(0)	141
Net cash flow used in financing activities		(232,938)	(218,969)
Net increase (decrease) in cash and cash equivalents		(86,750)	(17,881)
Cash and cash equivalents at the beginning of the year	8	359,518	272,425
(Amounts stated in the consolidated statement of financial position)			
Reversal of cash and cash equivalents included in assets held for sale at the beginning of the year		3,439	-
Cash and cash equivalents at the beginning of the year		362,958	272,425
Effects of exchange rate changes on cash and cash equivalents		(3,782)	758
Cash and cash equivalents at the end of the year	8	272,425	255,302

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting entity

Suntory Holdings Limited ("the Company") is a corporation, which has been established based on Japanese Corporate law and is domiciled in Japan. The addresses of its registered office and principal place of business are disclosed on the Company's website (URL https://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 6. Segment information."

2. Basis of preparation

(1) Compliance with Accounting Standards

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, President & Chief Executive Officer, and Masuo Kawasaki, Managing Executive Officer, on March 17, 2020.

(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 does not result in the Group losing control over the subsidiary 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 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, which is the power to participate in the financial and operating policy of the associate, but does not have control or joint control of those policies. Investments in an associate are initially recognized at cost upon the acquisition and are subsequently accounted for using the equity method. Investments in an associate include goodwill recognized upon the acquisition, net of accumulated impairment losses.

[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] Transactions 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, transactions denominated in currencies other than the entity's functional currency are 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 differences arising from translation or settlement of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. However, exchange differences arising from 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, 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 are recognized in other comprehensive income. Any exchange differences arising from translation of foreign operations disposed of by the Group are 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 at the end of each reporting period. 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 assets are disposed of, 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-month 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. 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, a reversal of impairment 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 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. The method for measurement at initial recognition of goodwill is described in "Note 3. Significant 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. The method for impairment of goodwill is described in "Note 3. Significant accounting policies (10) Impairment of non-financial assets."

[2] Intangible assets

Measurement of intangible assets is made by applying the cost model. Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Intangible assets acquired separately are measured inclusive of directly attributable costs of acquiring the asset. The method for measurement at recognition of intangible assets acquired in a business combination is described in "Note 3. Significant 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 assets with finite useful lives are 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. The method for impairment of intangible assets with indefinite useful lives is described in "Note 3. Significant accounting policies (10) Impairment of non-financial assets."

(9) Lease

At the commencement date of a lease, the right-of-use assets are measured at cost and the lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. If ownership of the underlying asset is transferred to the Group by the end of the lease term, or if the cost of the right-of-use asset reflects the exercise of a purchase option, the right-of-use assets are depreciated on a straight-line basis over their useful lives. Otherwise, right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful lives or the end of the lease terms. Lease payments are allocated between finance costs and repayment of the principal portion of the lease liabilities, using the effective interest rate method, and finance costs are recognized in the consolidated statement of profit or loss.

The lease term is determined after adjustment for periods covered by an extension and termination option that the Group is reasonably certain to exercise in the non-cancellable period under the lease contract. In the measurement of the present value, the interest rate implicit in the lease or the incremental borrowing rate is used.

For short-term leases for which the lease term ends within 12 months and leases in which the underlying asset is of low value, total lease payments are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

(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 that it does not exceed 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 subsidiaries have the following 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 is 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. As customers usually obtain control of the goods and the Group's performance obligation is satisfied at the time when the goods are delivered, the Group recognizes revenue at the amount of consideration promised under the contracts with customers after deduction of trade discounts, rebates, taxes collected on behalf of third parties, such as consumption taxes or value added tax, sales incentives, and returned goods.

[2] Interest income

Interest income is recognized using the effective interest method.

(14) Government grants

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

(15) Income taxes

Income taxes are comprised of current and deferred taxes. Current and deferred taxes are 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 affecting 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 each period and is adjusted to the extent that 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 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 the 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 returns 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 is 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.

(19) Changes in accounting policies

The Group has adopted IFRS 16, "Leases" (hereinafter, "IFRS 16"), from the beginning of the fiscal year. With regard to a lessee of lease transactions, IFRS 16, which makes amendments to the previous IAS 17, "Leases" (hereinafter, "IAS 17"), eliminates the classification of leases as operating or finance leases and provides that assets and liabilities related to all significant lease transactions are recorded under a single model. In the application of IFRS 16, the Group has adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed as a transitional measure, without making retrospective adjustments for each reporting period. In addition, the Group adopts the following practical expedients on a regional or business basis to reduce the complexity of implementation.

- Not to reassess whether an expired or existing contract is, or contains, a lease at the date of initial application
- To apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- To exclude initial direct costs from the measurement of the right-of-use asset arising from leases previously classified as operating leases at the date of initial application
- To measure the right-of-use asset arising from leases previously classified as operating leases at the same value as the lease liabilities
- To account in the same way as short-term leases for leases for which the lease term ends within 12 months of the date of initial application
- To use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease

At the commencement date of a lease, the right-of-use assets are measured at cost and the lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. If ownership of the underlying asset is transferred to the Group by the end of the lease term, or if the cost of the right-of-use asset reflects the exercise of a purchase option, the right-of-use assets are depreciated on a straight-line basis over their useful lives. Otherwise, right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful lives or the end of the lease terms. Lease payments are allocated between finance costs and repayment of the principal portion of the lease liabilities, using the effective interest rate method, and finance costs are recognized in the consolidated statement of profit or loss.

The lease term is determined after adjustment for periods covered by an extension and termination option that the Group is reasonably certain to exercise in the non-cancellable period under the lease contract. In the measurement of the present value, the interest rate implicit in the lease or the incremental borrowing rate is used.

For short-term leases for which the lease term ends within 12 months and leases in which the underlying asset is of low value, total lease payments are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

Reconciliation of operating lease commitments disclosed under IAS 17 and lease liabilities recognized on the consolidated statement of financial position as at the adoption date is as follows:

(Millions of yen)

	Amount
Operating lease commitments disclosed at December 31, 2018	63,947
Discounted operating lease commitments disclosed at December 31, 2018	59,415
Finance lease liabilities recognized at December 31, 2018	19,166
Additionally recognized lease liabilities due to reassessment of lease term	40,283
Others	(11,360)
Lease liabilities at January 1, 2019	107,504

"Others" includes short-term leases and low-value leases which are principally lease of pallets used for transport of products and are exempted from the scope of recognition. Current and non-current lease liabilities are included in other financial liabilities.

When measuring the lease liability, the Group discounted the lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied is 1.8%.

With regard to a lessor of lease transactions, IFRS 16 does not require any adjustments on transition from the previous IAS 17, except for subleases. Subleases which were classified as operating leases under IAS 17 and were ongoing at the date of initial application were reassessed on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date by reference to right-of-use assets, rather than underlying assets. As a result of the reassessment, the receivables recorded for subleases as a lessor that were classified as finance leases were included in "Other financial assets" in the consolidated statement of financial position.

Please see "Note 3. Significant accounting policies, (9) Lease" for the accounting policies related to lease.

Upon IFRS 16 adoption, "lease liabilities" are used instead of "lease obligation" in the financial statements for consistency.

At the date of initial application of IFRS 16, the Group additionally recognized right-of-use assets of 82,862 million yen, lease receivables of 3,012 million yen, and lease liabilities of 88,338 million yen, and the balance of retained earnings decreased by 1,041 million yen.

(20) Change in presentation

Related to consolidated statement of cash flows

"Payments for acquisitions of shares in subsidiaries that do not involve loss of control," which was separately presented in "cash flows from financing activities" for the year ended December 31, 2018, has become quantitatively immaterial and was therefore included in "other" for the year ended December 31, 2019.

As a result of this change in presentation, "Payments for acquisitions of shares in subsidiaries that do not involve loss of control" of 54 million yen in the financial statements for the year ended December 31, 2018 was reclassified and presented as "other" for the year ended December 31, 2019.

4. Critical accounting estimates and judgements

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

The following are the judgements and estimates that management has made 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," and "Note 15. Goodwill and intangible assets")
- Measurement of post-employment obligations ("Note 3. Significant accounting policies (11) Post-employment benefit plans" and "Note 24. Post-employment benefit plans")
- Judgements and estimates made for the recognition and measurement of provisions ("Note 3. Significant accounting policies (12) Provisions" and "Note 21. Provisions")
- Judgements made for assessing the recoverability of deferred tax assets ("Note 3. Significant accounting policies (15) Income taxes" and "Note 17. Income taxes")
- Judgements made in determining whether the Group controls another entity ("Note 3. Significant accounting policies (1) Basis of consolidation" and "Note 16. Investments accounted for using the equity method")
- Fair value measurement of financial instruments ("Note 3. Significant accounting policies (4) Financial instruments" and "Note 36. 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 and (8) Goodwill and intangible assets," "Note 14. Property, plant and equipment," and "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" and "Note 7. Acquisition and sale of businesses and purchase of non-controlling interests").

5. New accounting standards and interpretations not yet adopted

There were no new and revised IFRSs, which were publicly announced by the approval date of the consolidated financial statements and give material impacts on the financial statements of the Group.

6. Segment information

(1) Overview of reportable segments

The reportable segments are components of the Group for which separate financial information is available and which are 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 services. The management of each operating company focuses on the type of products and services delivered or provided when establishing its own strategies for domestic and international operations. Therefore, the Group identified "Beverages and foods," and "Alcoholic beverages," and "others" as reportable segments 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.

Beverages and foods ― non-alcoholic beverages, healthy drinks, processed foods, and others

Alcoholic beverages ― 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:

Year ended December 31, 2018

(Millions of yen)

	Reportable segments					
	Beverages and foods	Alcoholic beverages	Others	Segment total	Reconciliations (Note 2)	Consolidated (Note 1)
Revenue (including excise taxes)	1,286,582	1,015,915	214,760	2,517,258	-	2,517,258
Revenue (excluding excise taxes)						
External customers	1,286,582	749,439	214,760	2,250,782	-	2,250,782
Intersegment	7,673	4,655	11,753	24,083	(24,083)	-
Total revenue	1,294,256	754,095	226,514	2,274,865	(24,083)	2,250,782
Segment profit	135,344	133,040	25,370	293,755	(42,896)	250,859
Finance income	-	-	-	-	-	6,305
Finance costs	-	-	-	-	-	(24,817)
Profit before income taxes	-	-	-	-	-	232,347
Others:						
Depreciation and amortization	(65,019)	(27,137)	(3,490)	(95,647)	(2,770)	(98,417)
Share of the profit and loss on investments accounted for using the equity method	137	5,452	2,325	7,916	-	7,916

(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, 2019

(Millions of yen)

	Reportable segments					
	Beverages and foods	Alcoholic beverages	Others	Segment total	Reconciliations (Note 2)	Consolidated (Note 1)
Revenue (including excise taxes)	1,291,732	1,047,908	229,589	2,569,230	-	2,569,230
Revenue (excluding excise taxes)						
External customers	1,291,732	773,382	229,589	2,294,704	-	2,294,704
Intersegment	7,653	5,037	11,666	24,356	(24,356)	-
Total revenue	1,299,385	778,419	241,255	2,319,061	(24,356)	2,294,704
Segment profit	135,726	144,330	25,779	305,836	(46,190)	259,646
Finance income	-	-	-	-	-	4,008
Finance costs	-	-	-	-	-	(22,148)
Profit before income taxes	-	-	-	-	-	241,505
Others:						
Depreciation and amortization	(72,747)	(32,849)	(10,744)	(116,342)	(5,163)	(121,506)
Share of the profit and loss on investments accounted for using the equity method	5	6,535	2,162	8,703	-	8,703

(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, 2018	1,498,126	355,088	321,408	342,634	2,517,258
Year ended December 31, 2019	1,528,825	371,023	297,744	371,635	2,569,230

Revenue (including excise taxes) is allocated into countries or areas based on the customer's 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, 2018	1,306,268	297,650	312,308	334,555	2,250,782
Year ended December 31, 2019	1,329,703	312,674	288,808	363,517	2,294,704

Revenue (excluding excise taxes) is allocated into countries or areas based on the customer's domicile for the analysis above.

Non-current assets were as follows:

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
December 31, 2018	512,027	1,637,516	676,223	161,284	2,987,052
December 31, 2019	580,573	1,641,789	672,664	173,664	3,068,692

Non-current assets (property, plant and equipment, right-of-use assets, 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) which represented 10% or more to the Group's revenue.

7. Acquisition and sale of businesses and purchase of non-controlling interests

Year ended December 31, 2018

(Acquisition of beverage business in Thailand)

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

The consideration paid in cash for the acquisition was 33,551 million yen (315 million U.S. dollars).

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

(Millions of yen)

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

Intangible assets were recognized by assessing the fair value of "Exclusive Bottling Appointment," with PepsiCo, Inc. and others.

Since this appointment is expected to contribute to the Group as long as the business continues, this is deemed to have indefinite lives for accounting purposes and are not amortized.

Goodwill of 5,573 million yen was recorded in association with this transaction. The goodwill reflects the expected synergies to be created through future business expansion. Non-controlling interests of 26,881 million yen were recorded, with the amount measured as the ownership ratio of non-controlling shareholders of the fair value of identifiable net assets of the acquired business.

Cash flow analysis of the share acquisition

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

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

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

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

Had this business consolidation taken effect from the beginning of the year, the Group's revenues (excluding excise taxes), revenues (including excise taxes), and operating profit for the year ended December 31, 2018 would have been 2,262,760 million yen, 2,529,235 million yen, and 251,951 million yen, respectively. Since these amounts do not represent actual results of operation, the amounts are out of scope of the audit by the independent auditor.

(Disposal of the food and instant coffee business)

The Group completed the transfer of all of the shares of its three subsidiaries operating food and instant coffee businesses to The Kraft Heinz Company as at March 9, 2018. As a result, the balances of assets held for sale and liabilities directly associated with assets held for sale as at December 31, 2017 were decreased.

The consideration received in cash at the transfer date was 26,285 million yen (313 million Australian dollars), and a gain on transfer of 12,038 million yen was recorded in "Other income."

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

	(Millions of yen) Amount
Assets:	
Current assets	9,044
Non-current assets	9,345
Liabilities:	
Current liabilities	4,275
Non-current liabilities	29

Cash flow analysis of the sales of shares

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

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

Year ended December 31, 2019

There was no material business combination to disclose for the year ended December 31, 2019.

8. Cash and cash equivalents

The balance of cash and cash equivalents in the consolidated statements of financial position as 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)

	December 31, 2018	December 31, 2019
Trade receivables	379,635	382,569
Other	27,961	28,509
Loss allowance	(2,040)	(2,184)
Total	405,556	408,893

10. Other financial assets

(1) Other financial assets

Other financial assets were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Financial assets at amortized cost		
Guarantee deposits	19,751	20,333
Other	2,378	5,609
Loss allowance	(329)	(276)
Financial assets designated as hedging instruments		
Derivative assets	16,847	12,973
Financial assets at FVTPL		
Derivative assets	339	327
Other	6,318	6,976
Financial assets carried at FVTOCI		
Equity instruments (shares)	78,802	89,306
Other	47	45
Total	124,155	135,295
Current assets	3,671	12,344
Non-current assets	120,483	122,950
Total	124,155	135,295

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 FVTOCI.

(2) Fair values of major financial assets

Fair values of major equity instruments (shares) designated as financial assets measured at FVTOCI were as follows:

(Millions of yen)

Type	December 31, 2018	December 31, 2019
Listed shares	52,944	59,869
Unlisted shares	25,858	29,437

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

(Millions of yen)

Shares	December 31, 2018	December 31, 2019
Palace Hotel Co., Ltd.	4,744	6,964
Hankyu Hanshin Holdings, Inc.	2,900	3,719
TOHO Co., Ltd.	2,031	2,320
The Royal Hotel, Ltd.	1,705	1,695
Tokyo Kaikan Co., Ltd.	1,224	1,091

Please see "Note 36. 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 recognized in other comprehensive income in other components of equity at the time of disposal were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Fair value	3,444	281
Cumulative gains	2,169	173

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) during the year ended December 31, 2018 was 1,295 million yen, and cumulative loss (net of tax) recognized in other comprehensive income in other components of equity during the year ended December 31, 2019 was 161 million yen.

11. Inventories

Inventories were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Merchandise and finished goods	355,524	374,544
Work in progress	13,786	15,658
Raw materials	40,550	38,627
Consumables	5,980	6,671
Total	415,841	435,501

Merchandise and finished goods included 256,768 million yen (242,220 million yen as at December 31, 2018) 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, 2018 and 2019 were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Inventories recognized as an expense	998,305	1,011,200
Write-down of inventories to net realizable value	1,891	1,591
Reversal of write-down	-	-

12. Other assets

Other assets were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Prepaid expenses	38,074	33,314
Consumption taxes receivable	10,172	9,025
Others	54,845	50,618
Total	103,092	92,958
Current assets	68,231	63,797
Non-current assets	34,861	29,161
Total	103,092	92,958

13. Assets held for sale

There was no material assets held for sale as at December 31, 2018 and 2019.

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, 2018	263,530	367,467	20,239	9,244	660,481
Additions	5,176	47,836	55,362	1,636	110,011
Acquisitions through business combinations	13,834	15,465	461	3,937	33,699
Depreciation	(13,423)	(65,847)	-	(3,011)	(82,282)
Disposals	(1,607)	(7,592)	(33)	(101)	(9,335)
Reclassified as assets held for sale	-	(27)	-	-	(27)
Reclassifications	15,891	28,705	(45,750)	1,327	174
Exchange differences	(4,645)	(7,182)	(858)	(898)	(13,585)
Other	(134)	(2,805)	(65)	(25)	(3,031)
Balance at December 31, 2018	278,620	376,018	29,355	12,109	696,103
Cumulative effect of adopting new accounting standards	(3,364)	(15,399)	-	-	(18,763)
Balance at January 1, 2019	275,256	360,618	29,355	12,109	677,339
Additions	8,139	53,516	59,930	2,246	123,832
Depreciation	(13,658)	(59,456)	-	(3,124)	(76,238)
Disposals	(1,432)	(7,764)	(5)	(256)	(9,458)
Reclassifications	22,105	33,840	(56,628)	686	3
Exchange differences	(540)	(1,149)	(2,746)	15	(4,421)
Other	652	(3,322)	375	(99)	(2,393)
Balance at December 31, 2019	290,523	376,284	30,279	11,575	708,663

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
January 1, 2018	479,993	941,140	20,239	22,422	1,463,795
December 31, 2018	505,590	983,351	29,355	22,329	1,540,625
December 31, 2019	526,895	991,914	30,283	26,233	1,575,326

Accumulated depreciation and impairment losses

(Millions of yen)

	Land, buildings and structures	Machinery and equipment	Assets under construction	Other	Total
January 1, 2018	216,463	573,673	-	13,177	803,313
December 31, 2018	226,969	607,332	-	10,220	844,522
December 31, 2019	236,372	615,630	3	14,657	866,663

(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
January 1, 2018	3,254	20,613	23,868
December 31, 2018	3,364	15,399	18,763

Please refer to "Note 23. Leases" for the balance as at December 31, 2019.

(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, 2019, impairment losses of 1,642 million yen were recognized primarily in the "Beverages and foods" segment and "Others" segment.

During the year ended December 31, 2018, impairment losses of 566 million yen were recognized primarily in the "Beverages and foods" segment.

Impairment losses were recognized in the years ended December 31, 2018 and 2019, by decreasing the carrying amount of the assets to their recoverable amounts as a result of the decision to dispose of the assets. The recoverable amount is primarily measured at 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, 2018	882,123	1,363,225	105,885	1,469,110
Additions	-	42	6,707	6,749
Acquisitions through business combinations	5,891	-	19,751	19,751
Amortization	-	(6,566)	(9,514)	(16,080)
Impairment loss	(962)	(2,062)	(891)	(2,954)
Disposals	-	-	(127)	(127)
Reclassified as assets held for sale	(19,078)	(51,448)	(1,899)	(53,348)
Other	12	2	(140)	(138)
Balance at December 31, 2018	867,986	1,303,191	119,770	1,422,962
Cumulative effect of adopting new accounting standards	-	-	(131)	(131)
Balance at January 1, 2019	867,986	1,303,191	119,639	1,422,830
Additions	-	-	8,624	8,624
Acquisitions through business combinations	185	-	-	-
Amortization	-	(6,263)	(9,048)	(15,312)
Impairment loss	-	(1,036)	(30)	(1,067)
Disposals	(64)	-	(285)	(285)
Reclassified as assets held for sale	(10,777)	(10,172)	608	(9,564)
Other	(1)	32	82	115
Balance at December 31, 2019	857,328	1,285,751	119,589	1,405,341

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 25,192 million yen and 25,554 million yen during the years ended December 31, 2018 and 2019, respectively, which were included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss. There were no significant internally generated intangible assets recorded at each year end.

Cost

(Millions of yen)

	Goodwill	Intangible assets		
		Trademarks	Other	Total
January 1, 2018	1,074,325	1,426,792	178,743	1,605,536
December 31, 2018	1,052,878	1,372,232	199,386	1,571,618
December 31, 2019	1,037,957	1,360,265	206,486	1,566,751

Accumulated amortization and impairment losses

(Millions of yen)

	Goodwill	Intangible assets		
		Trademarks	Other	Total
January 1, 2018	192,201	63,567	72,858	136,425
December 31, 2018	184,892	69,040	79,615	148,656
December 31, 2019	180,628	74,513	86,896	161,410

The breakdown of goodwill was as follow:

(Millions of yen)

Reportable segments	December 31, 2018	December 31, 2019
Beverages and foods	250,685	247,851
(Details)		
Japan business	130,680	130,680
Orangina Schweppes Group	84,792	81,814
Alcoholic beverages	617,300	609,292
(Details)		
Spirits business	617,300	609,292
Other	-	184
Total	867,986	857,328

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

The value in use is calculated as the discounted future cash flows estimated based on the business plans for one to three years which have been approved by management and discount rates determined with reference to the pre-tax weighted-average cost of capital ("WACC") of 4.5%−18.5% (4.8%−23.4% for the year ended December 31, 2018) of the cash-generating units or cash-generating groups.

The value in use of goodwill recorded on the consolidated statement of financial position sufficiently exceeds the carrying amount of all of the cash-generating units or groups of cash-generating units. 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	December 31, 2018	December 31, 2019
Beverages and foods	352,617	350,357
(Details)		
(Trademarks) Lucozade and Ribena	144,842	147,956
(Trademarks) Schweppes	76,250	73,573
Alcoholic beverages	922,137	915,782
(Details)		
(Trademarks) Jim Beam	293,517	289,709
(Trademarks) Maker's Mark	290,320	286,554
Other	-	-
Total	1,274,755	1,266,139

Intangible assets with indefinite useful lives for the "Beverages and foods" segment mainly consist 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 consist of those recognized through the acquisition of Beam Inc. (currently Beam Suntory Inc.).

It has been deemed appropriate to treat those assets as having indefinite lives for as long as the business is a going concern. Thus, they are not amortized.

The value in use is calculated as the discounted future cash flows which are estimated based on the business plans for one to three years, which have been approved by management and discount rates determined with reference to the pre-tax WACC of 4.8%−9.6% (3.9%−10.3% for the year ended December 31, 2018) of the cash-generating units or groups of cash-generating units.

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 except for the intangible assets on which the impairment losses were recorded for the current year. The Group assesses that the value in use would exceed the carrying amount even though the discount rate and the growth rate may fluctuate at a reasonably assumable level.

As a result of annual impairment tests, the Group recorded impairment losses for intangible assets of 2,954 million yen and 1,067 million yen for the years ended December 31, 2018 and 2019, respectively. The impairment losses were recognized as the excess amount of the carrying amounts of trademarks in the "Beverages and foods" segment over their recoverable amounts based on the most updated business plan. Recoverable amounts were calculated to represent the value in use of these brands, applying discount rates of 7.6% (3.9% and 6.8% for the year ended December 31, 2018), in the impairment test of the trademarks.

No impairment losses for goodwill was recognized for the year ended December 31, 2019. The Group also recognized impairment losses for goodwill of 962 million yen during the year ended December 31, 2018. This was for certain areas in the "Beverages and foods" segment. Due to stiff competition in those areas, part of goodwill was assessed to be uncollectible. Recoverable amounts were calculated to represent the value in use of the business, applying a discount rate of 23.4%, in the impairment test of the goodwill. These expenses are recorded in other expenses in the consolidated statement of profit and loss.

16. Investments accounted for using the equity method

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

(Millions of yen)

	December 31, 2018	December 31, 2019
Carrying amount		
Associates	25,723	28,949
Joint ventures	16,687	17,267
Total	42,411	46,217

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

(Millions of yen)

	December 31, 2018	December 31, 2019
Profit for the year		
Associates	4,594	5,484
Joint ventures	3,321	3,219
Total	7,916	8,703
Other comprehensive income		
Associates	(703)	364
Joint ventures	(160)	(275)
Total	(863)	88
Comprehensive income for the year		
Associates	3,890	5,849
Joint ventures	3,161	2,943
Total	7,052	8,792

17. Income taxes

(1) Deferred tax assets and deferred tax liabilities

Balances and movements of deferred tax assets and deferred tax liabilities by nature were as follows:

Year ended December 31, 2018

(Millions of yen)

	January 1, 2018	Recognized in profit or loss	Recognized in OCI	Other (Note)	December 31, 2018
Deferred tax assets					
Tax loss carryforwards	36,362	(5,901)	-	(372)	30,088
Post-employment benefit liabilities	11,339	(705)	76	(81)	10,629
Unrealized gain	7,269	(768)	-	(35)	6,465
Accrued expenses	13,404	230	-	(86)	13,548
Translation differences on foreign operations	16,133	-	(2,387)	-	13,745
Other	37,750	(1,448)	1,270	5,813	43,386
Total	122,260	(8,593)	(1,040)	5,236	117,862
Deferred tax liabilities					
Intangible assets	(292,272)	15,130	-	2,875	(274,266)
Temporary differences associated with investments in subsidiaries	(8,108)	(251)	-	153	(8,206)
Property, plant and equipment	(23,756)	786	-	(339)	(23,309)
Changes in the fair value of financial assets	(12,887)	-	1,553	137	(11,197)
Other	(16,955)	(225)	(952)	9	(18,124)
Total	(353,981)	15,439	600	2,836	(335,104)

(Note) "Other" in the schedule above primarily comprise foreign exchange movement.

Year ended December 31, 2019

(Millions of yen)

	January 1, 2019	Recognized in profit or loss	Recognized in OCI	Other (Note)	December 31, 2019
Deferred tax assets					
Tax loss carryforwards	30,088	6,557	-	(930)	35,715
Post-employment benefit liabilities	10,629	29	494	110	11,263
Unrealized gain	6,465	290	-	(20)	6,735
Accrued expenses	13,548	1,485	-	374	15,408
Translation differences on foreign operations	13,745	-	1,661	-	15,407
Other	43,386	(1,207)	(4,984)	2,613	39,807
Total	117,862	7,155	(2,828)	2,147	124,338
Deferred tax liabilities					
Intangible assets	(274,266)	(3,181)	-	2,451	(274,997)
Temporary differences associated with investments in subsidiaries	(8,206)	(661)	-	200	(8,667)
Property, plant and equipment	(23,309)	(1,399)	-	47	(24,661)
Changes in the fair value of financial assets	(11,197)	-	(1,644)	18	(12,823)
Other	(18,124)	(2,007)	2,657	(1,521)	(18,995)
Total	(335,104)	(7,250)	1,013	1,195	(340,145)

(Note) "Other" in the schedule above primarily comprise foreign exchange movement and cumulative effect of adopting new accounting standards.

Unused tax losses, unused tax credits and deductible temporary differences for which no deferred tax asset is recognized were as follows. The amounts below are presented on their tax base.

(Millions of yen)

	December 31, 2018	December 31, 2019
Tax loss carryforwards	44,704	16,694
Unused tax credits	5,510	6,092
Deductible temporary differences	88,526	90,863
Total	138,741	113,650

Expiration schedule of tax loss carryforwards for which no deferred tax asset is recognized were as follows:

(Millions of yen)

Unused tax losses (tax basis)	December 31, 2018	December 31, 2019
Expires within 1 year	684	688
Expires between 1 and 2 years	985	1,065
Expires between 2 and 3 years	1,267	553
Expires between 3 and 4 years	1,066	459
Expire after 4 years	40,699	13,926
Total	44,704	16,694

Taxable temporary differences (tax basis) associated with investments in subsidiaries for which deferred tax liabilities are not recognized as at December 31, 2018 and 2019 were 38,599 million yen and 39,017 million yen, respectively. Deferred tax liabilities were not recognized since the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

(2) Income tax expenses

Income tax expenses were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Current tax expense	57,805	58,976
Deferred tax expense	(6,845)	94
Total	50,959	59,070

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

	December 31, 2018	December 31, 2019
	(%)	(%)
Effective statutory tax rate	30.9	30.6
Permanent differences (e.g. non-taxable dividends received)	(2.9)	(1.3)
Unrecognized deferred tax assets	1.5	(2.7)
Differences in overseas tax rates	(4.2)	(1.6)
Other	(3.4)	(0.5)
Average effective tax rate	21.9	24.5

Income tax, inhabitant tax and business tax are the main components of income tax expenses imposed on the Group, and the effective statutory tax rate based on those taxes was 30.6% for the year ended December 31, 2019 (30.9% for the year ended December 31, 2018). Foreign subsidiaries are subject to income tax expenses in the tax jurisdiction in which they are located.

Due to the enactment of tax amendments in the Netherland and some states in the U.S. for the year ended December 31, 2018, the Group reassessed deferred tax assets and liabilities, and credited deferred tax expenses by 14,847 million yen.

[Change in presentation]

"Tax rate change," which was separately presented for the year ended December 31, 2018, has become quantitatively immaterial and was therefore included in "other" for the year ended December 31, 2019.

As a result of this change in presentation, "tax rate change" by (6.4)% and "other" by 3.0% in the consolidated financial statements for the year ended December 31, 2018 were reclassified to and presented as "other" by (3.4)% for the year ended December 31, 2019.

18. Bonds and borrowings

(1) Bonds and borrowings

Bonds and borrowings were as follows:

	December 31, 2018	December 31, 2019	Average interest rate (Note 1)	Maturity date
	(Millions of yen)		(%)	
Short-term borrowings	36,350	27,471	2.69	—
Current portion of long-term borrowings	104,450	121,389	1.77	—
Current portion of bonds (Note 2)	102,596	-	-	—
Long-term borrowings	992,835	843,266	1.26	2021 - 2078
Bonds (Note 2)	355,794	434,747	2.19	2021 - 2079
Total	1,592,026	1,426,874		
Current liabilities	243,396	148,861		
Non-current liabilities	1,348,629	1,278,013		
Total	1,592,026	1,426,874		

(Note 1) The average interest rate is calculated as the weighted-average interest rate as at the end of the fiscal year.

(Note 2) The summary of the terms of bonds was as follows:

Issuer	Type	Issue date	December 31, 2018	December 31, 2019	Interest rate	Collateral	Maturity date
			(Millions of yen)	(Millions of yen)	(%)		
Suntory Holdings Limited	Publicly offered corporate bonds	June 2, 2016	49,858	49,884	0.15 - 0.22	None	June 2, 2023 - June 2, 2026
Suntory Holdings Limited	Euro U.S. dollar bonds	May 9, 2014	22,199 [200,000 thousand U.S. dollars] (22,199 [200,000 thousand U.S. dollars])	-	3.14	None	May 9, 2019
Suntory Holdings Limited	U.S. dollar bonds	October 1, 2014	55,406 [499,847 thousand U.S. dollars] (55,406 [499,847 thousand U.S. dollars])	-	2.55	None	September 29, 2019
Suntory Holdings Limited	U.S. dollar bonds	June 28, 2017	66,099 [600,000 thousand U.S. dollars]	65,381 [600,000 thousand U.S. dollars]	2.55	None	June 27, 2022
Suntory Holdings Limited	Interest deferrable and early redeemable subordinated bonds	April 25, 2018	71,606	71,699	0.68	None	April 25, 2078
Suntory Holdings Limited	Interest deferrable and early redeemable subordinated bonds	August 2, 2019	-	27,824	0.39	None	August 2, 2079
Suntory Holdings Limited	U.S. dollar bonds	October 16, 2019	-	54,182 [500,000 thousand U.S. dollars]	2.25	None	October 15, 2024
Suntory Beverage & Food Limited	Publicly offered corporate bonds	June 26, 2014 - July 26, 2018	69,845 (24,989)	44,893 -	0.00 - 0.07	None	July 26, 2021 - June 26, 2024
Beam Suntory Inc.	Publicly offered corporate U.S. dollar bonds	November 15, 1991 - June 10, 2013	123,373 [1,111,472 thousand U.S. dollars]	120,881 [1,103,337 thousand U.S. dollars]	3.25 - 8.63	None	November 15, 2021 - January 15, 2036
Total	-	-	458,390 (102,596)	434,747	-	-	-

Amounts enclosed in ( ) in the table above represent current portion of long-term bonds.

(2) Assets pledged as collateral

Secured borrowings and assets pledged as collateral were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Property, plant and equipment	512	506

(Millions of yen)

	December 31, 2018	December 31, 2019
Bonds and borrowings	123	57

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)

	December 31, 2018	December 31, 2019
Other financial assets	320	320

19. Trade and other payables

Trade and other payables were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Trade payables	215,711	219,593
Accrued expenses	313,905	344,818
Total	529,616	564,412

20. Other financial liabilities

Other financial liabilities were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Financial liabilities measured at amortized cost		
Lease liabilities	19,166	100,879
Deposits received	122,518	129,694
Other	6,203	4,649
Financial liabilities designated as hedging instruments		
Derivative liabilities	16,248	12,537
Financial liabilities measured at FVTPL		
Derivative liabilities	339	699
Total	164,477	248,459
Current liabilities	98,190	121,775
Non-current liabilities	66,286	126,683
Total	164,477	248,459

21. Provisions

Changes of provisions were as follows:

(Millions of yen)

	Asset retirement obligations	Other	Total
Balance at January 1, 2018	5,203	15,160	20,363
Additional provisions recognized	235	8,038	8,273
Interest expense	19	-	19
Utilized during the period	(175)	(2,205)	(2,381)
Reversed during the period	(56)	(2,003)	(2,060)
Other	(63)	(469)	(533)
Balance at December 31, 2018	5,162	18,519	23,681
Additional provisions recognized	204	4,695	4,900
Interest expense	143	-	143
Utilized during the period	(21)	(6,517)	(6,539)
Reversed during the period	(69)	(1,282)	(1,351)
Other	227	(193)	33
Balance at December 31, 2019	5,646	15,221	20,868

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, such disbursement is affected by the execution of the Group's business plan in the future.

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

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

(Millions of yen)

	December 31, 2018	December 31, 2019
Current liabilities	16,490	13,985
Non-current liabilities	7,190	6,882
Total	23,681	20,868

22. Other liabilities

Other liabilities were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Accrued excise taxes	52,602	53,044
Consumption taxes payable	19,727	19,274
Other	34,330	29,371
Total	106,661	101,690
Current liabilities	84,765	86,327
Non-current liabilities	21,895	15,362
Total	106,661	101,690

23. Leases

(As a lessee)

The Group leases land, buildings, vending machines, vehicles, and other assets as a lessee.

The information of the year ended December 31, 2018 is based on IAS 17.

As at December 31, 2018

(1) Finance leases

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

(Millions of yen)

	Total minimum lease payments	Total minimum lease payments, at present value
	December 31, 2018	December 31, 2018
Within 1 year	7,529	7,285
Between 1 and 5 years	10,102	9,953
More than 5 years	2,066	1,927
Total	19,698	19,166
Future finance charge	(531)	
The present value of lease liabilities	19,166	

(2) Non-cancellable operating leases

The Group leases land, 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)

	December 31, 2018
Within 1 year	13,876
Between 1 and 5 years	33,822
More than 5 years	16,248
Total	63,947

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

(Millions of yen)

	December 31, 2018
Total minimum lease payments	15,251

As at December 31, 2019

Profit or loss of leases is as follows.

(Millions of yen)

	December 31, 2019
Depreciation of right-of-use assets	
Land, buildings and structures	21,204
Machinery and equipment	5,461
Others	3,255
Total	29,921
Variable lease payments not included in measurement of lease liabilities	2,472
Others (Note)	17,172

(Note) "Others" includes lease payments for short-term leases and leases of low-value assets.

Please refer to "Note 31. Finance income and costs" as for finance costs of lease liabilities.

Depreciation of right-of-use assets are included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

Carrying amount of right-of-use assets are as follows.

(Millions of yen)

	December 31, 2019
Land, buildings and structures	79,746
Machinery and equipment	9,376
Others	8,236
Total	97,359

The amount of increase in right-of-use assets for the year ended December 31, 2019 is 25,238 million yen.

The total amount of lease cash outflow for the year ended December 31, 2019 is 52,486 million yen.

Please refer to "Note 36. Financial instruments (2) Risk management for financial instruments [2] Liquidity risk management" as for the maturity analysis of lease liabilities.

Lease payments is variable based on revenue amounts at stores in the contracts of real estate leases of the Group.

The rate against revenue defers depending on contracts within the certain range.

Some of the property leases (mainly sales operations and warehouses) in which the Group is a lessee contain an extension option and a termination option. An extension option enables the Group to extend the lease term unless either of a lessor or the Group makes an objection. A termination option enables the Group to terminate a lease agreement by informing a lessor of the termination prior to the expiration date. These terms and conditions differ by lease agreement.

(As a lessor)

The Group leases buildings and other assets as a lessor.

The Group receives security deposits to collect certainly the assets restoration costs from lessee.

As at December 31, 2018

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

(Millions of yen)

	December 31, 2018
Within 1 year	373
Between 1 and 5 years	803
More than 5 years	1,436
Total	2,612

As at December 31, 2019

Maturity analysis of operating lease payments is as follows:

(Millions of yen)

	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
December 31, 2019	2,905	552	403	266	242	132	1,309

24. Post-employment benefit plans

(1) Defined benefit plans

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

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

[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)

	December 31, 2018	December 31, 2019
Present value of funded defined benefit obligations	182,303	188,073
Fair value of plan assets	(174,182)	(179,032)
	8,120	9,041
Present value of unfunded defined benefit obligation	29,247	32,737
Net defined benefit liability	37,367	41,779
Balance in consolidated statement of financial position		
Post-employment benefit liabilities	40,670	43,618
Post-employment benefit assets	(3,303)	(1,838)
Net of liabilities and assets	37,367	41,779

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

Changes in the present value of the defined benefit obligations were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Balance at beginning of the year	216,321	211,550
Current service cost	7,654	7,396
Interest expense	3,293	3,261
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	(2,630)	(241)
Actuarial gains and losses arising from changes in financial assumptions	(2,827)	13,354
Past service cost	(52)	22
Benefits paid	(8,155)	(12,814)
Exchange differences	(2,142)	(206)
Other	89	(1,510)
Balance at end of the year	211,550	220,811

The weighted-average duration of the defined benefit obligation as at December 31, 2018 and 2019 was 15.7 years and 15.9 years, respectively.

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

Changes in the fair value of plan assets were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Balance at beginning of the year	181,308	174,182
Interest income	2,566	2,574
Remeasurements:		
Return on plan assets (other than interest income)	(7,068)	11,117
Employer contributions	6,576	3,065
Employee contributions	23	9
Benefits paid	(7,414)	(11,742)
Exchange differences	(1,727)	(160)
Other	(80)	(14)
Balance at end of the year	174,182	179,032

The contribution by the Group to defined benefit plans is expected to be 4,413 million yen in the next fiscal year.

[4] Breakdown of major items in plan assets

Fair value of plan assets was as follows:

(Millions of yen)

	December 31, 2018			December 31, 2019		
	Quoted market price	Unquoted market price	Total	Quoted market price	Unquoted market price	Total
Cash and cash equivalents	944	-	944	2,450	-	2,450
Equity instruments	-	35,193	35,193	-	39,165	39,165
Domestic	-	8,237	8,237	-	9,935	9,935
Overseas	-	26,956	26,956	-	29,229	29,229
Debt instruments	55	73,140	73,195	64	74,021	74,086
Domestic	-	12,102	12,102	-	13,983	13,983
Overseas	55	61,037	61,093	64	60,038	60,102
Life insurance-General accounts	-	21,335	21,335	-	23,486	23,486
Other	-	43,513	43,513	-	39,843	39,843
Total	1,000	173,182	174,182	2,514	176,517	179,032

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

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

	December 31, 2018	December 31, 2019
Discount rate	0.5%〜9.1%	0.4%〜7.2%

The sensitivity analysis below illustrates the impact on defined benefit obligations when key actuarial assumptions change. 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	December 31, 2018	December 31, 2019
Discount rate	Increase by 0.5%	(14,999)	(16,058)
	Decrease by 0.5%	15,614	16,404

[6] Defined benefit cost

Defined benefit costs were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Current service cost	7,654	7,396
Interest expense	3,293	3,261
Interest income	(2,566)	(2,574)
Past service cost	(52)	22
Total	8,329	8,106

The Group's contribution to the plans for the years ended December 31, 2018 and 2019 were 20,084 million yen and 18,088 million yen, respectively, and those are not included in the defined benefit costs analyzed above.

(2) Employee benefit expenses

Employee benefit expenses for the years ended December 31, 2018 and 2019 were 344,549 million yen and 335,226 million yen, respectively. Employee benefits are primarily composed of salaries, bonuses, legal welfare costs, welfare expenses, 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, 2018	1,305,600,000	687,136,196
Increase (decrease)	-	-
Balance at December 31, 2018	1,305,600,000	687,136,196
Increase (decrease)	-	-
Balance at December 31, 2019	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, 2018	1,480,748	1,006
Increase (decrease)	(100,748)	(68)
Balance at December 31, 2018	1,380,000	938
Increase (decrease)	-	-
Balance at December 31, 2019	1,380,000	938

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	Changes in the fair value of financial assets	Remeasurement of defined benefit obligation	Total
Balance at January 1, 2018	(66,111)	(6,175)	29,664	(20,113)	(62,735)
Other comprehensive income	(59,718)	846	(4,765)	(1,017)	(64,654)
Total comprehensive income for the period	(59,718)	846	(4,765)	(1,017)	(64,654)
Transfer from other components of equity to retained earnings	-	-	(1,295)	-	(1,295)
Changes in ownership interests in subsidiaries that do not involve loss of control	(43)	-	-	-	(43)
Total transactions with owners of the parent	(43)	-	(1,295)	-	(1,338)
Balance at December 31, 2018	(125,873)	(5,328)	23,604	(21,130)	(128,728)
Other comprehensive income	(9,745)	(895)	5,724	(271)	(5,188)
Total comprehensive income for the period	(9,745)	(895)	5,724	(271)	(5,188)
Transfer from other components of equity to retained earnings	-	-	164	-	164
Total transactions with owners of the parent	-	-	164	-	164
Balance at December 31, 2019	(135,619)	(6,224)	29,493	(21,402)	(133,752)

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, 2018 Annual General Meeting of Shareholders held on March 26, 2018	8,913	13	December 31, 2017	March 27, 2018
Year ended December 31, 2019 Annual General Meeting of Shareholders held on March 25, 2019	8,914	13	December 31, 2018	March 26, 2019

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, 2018 Annual General Meeting of Shareholders held on March 25, 2019	8,914	13	December 31, 2018	March 26, 2019
Year ended December 31, 2019 Annual General Meeting of Shareholders held on March 25, 2020	8,914	13	December 31, 2019	March 26, 2020

27. Revenue

Relation between disaggregated revenue and segment revenue

The subsidiaries of the Group in each region carry out its operation in conformity with the nature of local markets and consumers in the reportable segments, "Beverages and foods," "Alcoholic beverages," and "Other." Revenue of each reportable segment is disaggregated into the geographical areas, "Japan," "Americas," "Europe," and "Asia and Oceania," based on customer locations.

(1) Revenue including excise taxes from external customers

Year ended December 31, 2018

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Beverages and foods	701,054	85,025	245,175	255,328	1,286,582
Alcoholic beverages	604,367	266,259	76,233	69,054	1,015,915
Others	192,703	3,804	-	18,252	214,760
	1,498,126	355,088	321,408	342,634	2,517,258

Year ended December 31, 2019

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Beverages and foods	696,601	87,750	228,531	278,848	1,291,732
Alcoholic beverages	628,588	279,402	69,213	70,704	1,047,908
Others	203,635	3,870	-	22,082	229,589
	1,528,825	371,023	297,744	371,635	2,569,230

(2) Revenue excluding excise taxes from external customers

Year ended December 31, 2018

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Beverages and foods	701,054	85,025	245,175	255,328	1,286,582
Alcoholic beverages	412,510	208,820	67,133	60,975	749,439
Others	192,703	3,804	-	18,252	214,760
	1,306,268	297,650	312,308	334,555	2,250,782

Year ended December 31, 2019

(Millions of yen)

	Japan	Americas	Europe	Asia and Oceania	Total
Beverages and foods	696,601	87,750	228,531	278,848	1,291,732
Alcoholic beverages	429,465	221,053	60,277	62,586	773,382
Others	203,635	3,870	-	22,082	229,589
	1,329,703	312,674	288,808	363,517	2,294,704

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

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

There has been no significant cost incurred to obtain or fulfil a contract with a customer during the years ended December 31, 2018 and 2019. The Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Group otherwise would have recognized is one year or less, as allowed as practical expedients.

28. Other income

Other income was as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Insurance income	975	9,825
Gain on sales of investments in subsidiaries and associates	12,173	15
Other	5,739	5,983
Total	18,888	15,825

Insurance income for the year ended December 31, 2019 mainly comprises the insurance claim for the damage of the fire in July 2019.

Please see "Note 7. Acquisition and sale of businesses and purchase of non-controlling interests" for gain on sales of investments in subsidiaries and associates for the year ended December 31, 2018.

[Change in presentation]

"Gain on sale of property, plant equipment and intangible assets," which was separately presented for the year ended December 31, 2018, has become quantitatively immaterial and was therefore included in "Other" for the year ended December 31, 2019. "Insurance income" which was included in "Other" for the year ended December 31, 2018, has become quantitatively material and was separately presented for the year ended December 31, 2019.

As a result of this change in presentation, the amount of 1,517 million yen of "Gain on sale of property, plant equipment and intangible assets" and 5,198 million yen of "Other" in the consolidated financial statements for the fiscal year ended December 31, 2018 were reclassified and presented as "Insurance income" of 975 million yen and "Others" of 5,739 million yen.

29. Selling, general and administrative expenses

Selling, general and administrative expenses were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Advertising and sales promotion expenses	380,118	385,853
Employee benefits expenses	262,534	266,409
Depreciation and amortization	46,952	60,216
Other	143,293	127,827
Total	832,899	840,306

30. Other expenses

Other expenses were as follows:

(Millions of yen)

	December 31, 2018	December 31, 2019
Loss on disposal of property, plant and equipment and intangible assets	4,544	5,499
Restructuring charges	3,926	4,451
Impairment losses	4,482	2,815
Other	8,154	7,192
Total	21,108	19,959

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

Please see "Note 14. Property, plant and equipment" and "Note 15. Goodwill and intangible assets" for impairment losses.

31. Finance income and costs

Finance income and costs were as follows:

(Millions of yen)

Finance income	December 31, 2018	December 31, 2019
Interest received		
From financial assets measured at amortized cost	1,454	1,878
Fair value gains		
From financial assets measured at FVTPL	380	236
Dividends received		
From financial assets measured at FVTOCI		
From financial liabilities derecognized during the year	18	3
From financial assets held at the end of the year	962	889
Other	3,489	1,000
Total	6,305	4,008

(Millions of yen)

Finance costs	December 31, 2018	December 31, 2019
Interest paid		
From financial liabilities measured at amortized cost	22,970	21,547
Fair value losses		
From financial assets and liabilities measured at FVTPL	1	-
Other	1,845	601
Total	24,817	22,148

Financial costs of lease liabilities were 1,396 million yen for the year ended December 31, 2019 and are included in the interest paid from financial liabilities measured at amortized cost in the table above.

32. Other comprehensive income

Year ended December 31, 2018

(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	(7,605)	-	(7,605)	2,541	(5,064)
Remeasurement of post-employment benefit plans	(1,609)	-	(1,609)	(331)	(1,941)
Changes in comprehensive income of investments accounted for using the equity method	852	-	852	-	852
Total	(8,362)	-	(8,362)	2,209	(6,152)
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	(68,421)	(882)	(69,303)	(2,387)	(71,691)
Changes in the fair value of cash flow hedges	5,675	(4,320)	1,355	(261)	1,093
Changes in comprehensive income of investments accounted for using the equity method	(1,716)	-	(1,716)	-	(1,716)
Total	(64,462)	(5,203)	(69,665)	(2,649)	(72,314)
Grand total	(72,824)	(5,203)	(78,027)	(440)	(78,467)

Year ended December 31, 2019

(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	9,050	-	9,050	(2,788)	6,261
Remeasurement of post-employment benefit plans	(1,995)	-	(1,995)	1,305	(689)
Changes in comprehensive income of investments accounted for using the equity method	(287)	-	(287)	-	(287)
Total	6,767	-	6,767	(1,482)	5,284
Items that may be reclassified to profit or loss:					
Translation adjustments of foreign operations	(8,606)	183	(8,423)	(1,661)	(10,084)
Changes in the fair value of cash flow hedges	6,332	(8,444)	(2,111)	1,329	(782)
Changes in comprehensive income of investments accounted for using the equity method	376	-	376	-	376
Total	(1,897)	(8,261)	(10,158)	(332)	(10,490)
Grand total	4,870	(8,261)	(3,391)	(1,814)	(5,205)

33. Earnings per share

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

	December 31, 2018	December 31, 2019
Profit for the year attributable to owners of the Company (Millions of yen)	140,151	140,940
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)	140,151	140,940
Weighted-average number of ordinary shares (share)	685,694,197	685,756,196
Earnings per share (Yen)	204.39	205.53

34. Non-cash transactions

Non-cash transactions were as follows:

(Millions of yen)

	December 31, 2018
Assets acquired through finance lease	5,286

Please refer to "Note 23. Leases" for the amounts for the year ended December 31, 2019.

35. Liabilities for financing activities

Liabilities for financing activities were as follows:

(Millions of yen)

	Balance at January 1, 2018	Cash flows	Non-cash movements				Other changes	Balance at December 31, 2018
			Foreign exchange adjustments	Fair value movement	Amortized cost movement	New finance leases etc.		
Bonds and borrowings	1,831,265	(205,995)	(33,881)	(786)	1,423	-	-	1,592,026
Derivatives	(27,005)	8,215	-	532	-	-	11,172	(7,084)
Lease liabilities	25,161	(10,014)	(4)	-	-	4,024	-	19,166

(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.

(Millions of yen)

	Balance at December 31, 2018	Cumulative effect of adopting new accounting standards	Balance at January 1, 2019	Cash flows	Non-cash movements				Other changes	Balance at December 31, 2019
					Foreign exchange adjustments	Fair value movement	Amortized cost movement	New finance leases etc.		
Bonds and borrowings	1,592,026	-	1,592,026	(126,728)	(37,653)	(1,000)	230	-	-	1,426,874
Derivatives	(7,084)	-	(7,084)	(28,417)	-	17,345	-	-	10,152	(8,005)
Lease liabilities	19,166	88,338	107,504	(31,444)	296	-	-	24,522	-	100,879

(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.

36. 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 as the balance of bonds and borrowings, adjusted the net valuation gain (loss) arising from derivative transactions under hedge accounting, extracted the cash and cash equivalents, and added lease liabilities and equity credit for hybrid bonds and subordinated loans. Total equity (adjusted for hybrid bonds and subordinated loans) is 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)

	December 31, 2018	December 31, 2019
Interest bearing liabilities	1,592,026	1,426,874
Net valuation loss arising from derivative transactions	(9,371)	(8,126)
Interest bearing liabilities (adjusted)	1,582,654	1,418,748
Cash and cash equivalents	(272,425)	(255,302)
Lease liabilities	-	100,879
Equity credit for hybrid bonds and subordinated loans	(227,810)	(223,011)
Interest bearing liabilities (adjusted for hybrid bonds and subordinated loans)	1,082,418	1,041,313
Total equity	1,651,689	1,793,887
Equity credit for hybrid bonds and subordinated loans	227,810	223,011
Total equity (adjusted for hybrid bonds and subordinated loans)	1,879,499	2,016,898
Net debt-to-equity ratio	0.58	0.52
(Reference)		
Net debt-to-equity ratio (including lease obligations)	0.63	

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.

Lease liabilities have become quantitatively material upon the adoption of IFRS 16 "Lease," and were therefore included in the interest bearing liabilities to calculate the net debt-to-equity ratio for the year ended December 31, 2019.

Net debt-to-equity ratio as at January 1, 2019 based on the interest bearing liabilities including lease liabilities was 0.63 times.

(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 it deposits surplus capital. However, since the Group controls the impact from credit risks of such financial institutions by entering into transactions only with highly credible financial institutions, the impact on credit risks is immaterial. The Group sets credit lines for each business counterparty based on internal guidelines for credit management by business and country or region, focusing on management of overdue debtors and outstanding balances. The Group's receivables are due from many business counterparties which reside in a wide range of countries and regions. The Group does not have any excessively concentrated credit risk for a single counterparty or 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 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 significantly increased its credit risks 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
Balance at January 1, 2018	47,260	570	373,197
Balance at December 31, 2018	49,385	72	379,635
Balance at December 31, 2019	53,777	42	382,569

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, 2018	287	570	1,893
Increased (decreased) due to financial assets incurred or collected	(29)	(138)	241
Write off	(0)	(359)	(38)
Exchange differences	-	-	(56)
Balance at December 31, 2018	257	72	2,040
Increased (decreased) due to financial assets incurred or collected	(20)	(30)	254
Write off	(2)	-	(101)
Exchange differences	0	-	(8)
Balance at December 31, 2019	234	42	2,184

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 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, 2018

(Millions of yen)

	Carrying amount	Contractual amount	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Non-derivative financial liabilities								
Trade and other payables	529,616	529,616	529,616	-	-	-	-	-
Borrowings	1,133,636	1,239,936	160,697	135,233	92,085	114,924	39,760	697,234
Bonds	458,390	563,375	115,071	10,618	42,246	107,114	94,389	193,935
Lease liabilities	19,166	19,698	7,529	4,637	2,694	1,702	1,068	2,066
Derivative financial liabilities								
Currency derivatives	2,083	(3,609)	(3,351)	(170)	392	(480)	-	-
Interest rate swaps	(2,687)	(29,188)	(5,075)	(13,634)	(4,862)	(3,071)	(1,010)	(1,535)
Total	2,140,206	2,319,829	804,488	136,683	132,556	220,190	134,208	891,702

As at December 31, 2019

(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	564,412	564,412	564,412	-	-	-	-	-
Borrowings	992,127	1,099,950	182,648	90,993	114,888	49,548	373,757	288,114
Bonds	434,747	563,152	11,807	43,243	107,075	95,096	104,329	201,600
Lease liabilities	100,879	106,137	28,463	19,334	13,785	10,829	9,091	24,631
Derivative financial liabilities								
Currency derivatives	894	(4,684)	(277)	211	(1,131)	(1,131)	(2,355)	-
Interest rate swaps	(931)	(18,178)	(11,738)	(4,601)	(1,303)	(207)	(326)	-
Total	2,092,129	2,310,789	775,314	149,181	233,314	154,134	484,497	514,346

[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 management

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

The 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, 2018	December 31, 2019
Floating-rate bonds and borrowings	197,269	91,498

Interest rate sensitivity analysis

The Group's sensitivity to a one percent increase or 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 that all other variable factors (e.g., balances, foreign exchange rates) remain the same.

(Millions of yen)

	December 31, 2018	December 31, 2019
Profit before income taxes	1,972	914

[5] Management of market price fluctuation risks

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

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

(3) Hedge accounting

Please refer to "Note 36. Financial instruments (2) Risk management for financial instruments" for the Group's risk management policy over hedge accounting, determined for each class of risk exposure. Foreign currency exchange risks are managed by focusing on controlling risk exposures according to foreign currency risk management policies and hedge policies. Exposure to interest rate risk is managed considering financial market trends, asset-liability composition, interest rate fluctuation risks, and other factors.

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

[1] Cash flow hedges

Details of hedging instruments designated as cash flow hedges

December 31, 2018

(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	19,812	-	195	97
Short position				
Yen and Australian dollar	6,250	-	254	-
Currency swap contracts				
Payment in U.S. dollar (hedged currency)	117,172	50,052	1,156	1,550
Receipt in yen				
Payment in yen	2,970	-	52	-
Receipt in Australian dollar (hedged currency)				
Payment in yen	4,990	-	103	27
Receipt in N.Z. dollar (hedged currency)				
Interest rate risks				
Interest rate swap transactions				
Receiving on a floating interest and paying on a fixed interest	531,243	322,970	1,955	6,749
Interest rate currency swap transactions				
Receiving on a floating interest and paying on a fixed interest	201,978	174,228	3,858	2,880
Payment in U.S. dollar (hedged currency)				
Receipt in yen				
Receiving on a floating interest and paying on a fixed interest	50,473	42,853	80	2,535
Payment in U.S. dollar (hedged currency)				
Receipt in euro				
Receiving on a floating interest and paying on a fixed interest	25,419	25,419	6,231	223
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 for receivable/payable after one year are classified under non-current assets or non-current liabilities.

December 31, 2019

(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	11,612	-	259	28
Short position				
Yen and Australian dollar	8,254	-	109	72
Currency swap contracts				
Payment in U.S. dollar (hedged currency)	103,607	103,607	999	416
Receipt in yen				
Payment in yen	17,217	-	266	15
Receipt in British pound sterling (hedged currency)				
Payment in yen	9,190	-	184	8
Receipt in euro (hedged currency)				
Payment in yen	2,907	-	-	83
Receipt in Australian dollar (hedged currency)				
Payment in yen	1,984	-	-	109
Receipt in N.Z. dollar (hedged currency)				
Interest rate risks				
Interest rate swap transactions				
Receiving on a floating interest and paying on a fixed interest	321,861	233,346	188	6,564
Interest rate currency swap transactions				
Receiving on a floating interest and paying on a fixed interest	182,539	141,259	2,851	1,388
Payment in U.S. dollar (hedged currency)				
Receipt in yen				
Receiving on a floating interest and paying on a fixed interest	41,348	25,973	102	1,282
Payment in U.S. dollar (hedged currency)				
Receipt in euro				
Receiving on a floating interest and paying on a fixed interest	25,966	8,748	5,263	72
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 for 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	Market price fluctuation risks	Total
Balance at January 1, 2018	5,500	(11,975)	-	(6,475)
Other comprehensive income				
Incurred for the period (Note 1)	(2,146)	7,910	(5)	5,759
Reclassified (Note 2)	(3,174)	(1,146)	-	(4,320)
Tax effects	(22)	(241)	2	(261)
Balance at December 31, 2018	157	(5,453)	(2)	(5,298)
Other comprehensive income				
Incurred for the period (Note 1)	5,043	1,068	0	6,113
Reclassified (Note 2)	(4,027)	(4,417)	-	(8,444)
Tax effects	(23)	1,354	(1)	1,329
Balance at December 31, 2019	1,149	(7,447)	(4)	(6,301)

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

(Note 2) "Reclassified" in the schedule above represents 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, 2018

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Bonds denominated in U.S. dollars	USD 290 mil.	USD 150 mil.	-	32,190
Borrowings denominated in U.S. dollars	USD 1,586 mil.	USD 858 mil.	-	176,048
Currency derivatives	USD 245 mil.	USD 206 mil.	-	1,889

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 for receivable/payable after one year is classified under non-current liabilities.

December 31, 2019

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Bonds denominated in U.S. dollars	USD 150 mil.	USD 150 mil.	-	16,434
Borrowings denominated in U.S. dollars	USD 798 mil.	USD 350 mil.	-	87,428
Currency derivatives	USD 206 mil.	USD 147 mil.	-	1,669

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 for 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, 2018	44,609
Other comprehensive income	
Incurred during the period (Note 1)	9,331
Tax effects	(2,387)
Balance at December 31, 2018 (Note 2)	51,553
Other comprehensive income	
Incurred during the period (Note 1)	3,397
Tax effects	1,661
Balance at December 31, 2019 (Note 2)	56,612

(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 17,364 million yen of exchange losses as at December 31, 2019 from hedging instruments with discontinued hedging relationships (13,388 million yen of exchange losses as at December 31, 2018).

[3] Fair value hedges

Details of hedging instruments designated as fair value hedges

December 31, 2018

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Interest rate risks				
Interest rate swap transactions				
Receiving on a fixed interest and paying on a floating interest	80,000	80,000	2,947	-

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 for receivable/payable after one year are classified under non-current assets or non-current liabilities.

December 31, 2019

(Millions of yen)

	Contractual amount	Receivable/ payable after one year	Carrying amount	
			Assets	Liabilities
Interest rate risks				
Interest rate swap transactions				
Receiving on a fixed interest and paying on a floating interest	80,000	80,000	1,947	-

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 for 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 periods were as follows:

December 31, 2018

(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	-	82,781	-	2,947	Bonds and borrowings

December 31, 2019

(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	-	81,834	-	1,947	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 were as follows:

December 31, 2018

(Millions of yen)

Risk	Change in the value of hedged items	Change in the value of hedging instruments
Interest rate risks	786	(786)

December 31, 2019

(Millions of yen)

Risk	Change in the value of hedged items	Change in the value of hedging instruments
Interest rate risks	1,000	(1,000)

The amount of the ineffective hedge portions recognized in profit or loss was immaterial for the years ended December 31, 2018 and 2019.

(4) Fair value of financial instruments

[1] Classification by the fair value hierarchy level

For financial instruments measured at fair value, their fair values are classified into Level 1 through 3 based on the observability of inputs used for their measurement and 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 values 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 counterparties of the Group. 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 values 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 input used for measurement of the fair value of unlisted shares is EBITDA ratio in the comparative multiple valuation, which was 10 times for the year ended December 31, 2018 and from 10 to 13 times for the year ended December 31, 2019. The illiquidity discount rate employed was 15%. We do not expect any significant change in the fair value of equity instruments to arise if one or more of the unobservable inputs changes 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, 2018

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets designated as hedging instruments				
Derivative assets	-	16,847	-	16,847
Financial assets measured at FVTPL				
Derivative assets	-	339	-	339
Other	3,118	1,724	1,476	6,318
Financial assets measured at FVTOCI				
Equity instruments	52,944	-	25,858	78,802
Other	-	-	47	47
Liabilities:				
Financial liabilities designated as hedging instruments				
Derivative liabilities	-	16,248	-	16,248
Financial liabilities measured at FVTPL				
Derivative liabilities	-	339	-	339

As at December 31, 2019

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets designated as hedging instruments				
Derivative assets	-	12,973	-	12,973
Financial assets measured at FVTPL				
Derivative assets	-	327	-	327
Other	3,409	1,721	1,844	6,976
Financial assets measured at FVTOCI				
Equity instruments	59,869	-	29,437	89,306
Other	-	-	45	45
Liabilities:				
Financial liabilities designated as hedging instruments				
Derivative liabilities	-	12,537	-	12,537
Financial liabilities measured at FVTPL				
Derivative liabilities	-	699	-	699

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

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

Year ended December 31, 2018

(Millions of yen)

	Financial assets measured at FVTPL	Financial assets measured at FVTOCI
Balance at January 1, 2018	979	27,314
Total gains and losses	446	(2,322)
Profit or loss (Note 1)	446	-
Other comprehensive income (Note 2)	-	(2,322)
Purchased	128	1,100
Sold	-	(175)
Other	(78)	(10)
Balance at December 31, 2018	1,476	25,905

Year ended December 31, 2019

(Millions of yen)

	Financial assets measured at FVTPL	Financial assets measured at FVTOCI
Balance at January 1, 2019	1,476	25,905
Total gains and losses	161	2,609
Profit or loss (Note 1)	161	-
Other comprehensive income (Note 2)	-	2,609
Purchased	263	977
Sold	-	(9)
Other	(56)	-
Balance at December 31, 2019	1,844	29,483

(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 FVTOCI in the consolidated statement of comprehensive income.

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

[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 values reasonably approximate their carrying amounts and those which are immaterial are excluded from the table below.

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

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values due to their short-term maturities.

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

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

Year ended December 31, 2018

(Millions of yen)

	Carrying amount	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities measured at amortized cost					
Bonds	458,390	-	462,442	-	462,442
Borrowings	1,133,636	-	1,138,315	-	1,138,315

Year ended December 31, 2019

(Millions of yen)

	Carrying amount	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities measured at amortized cost					
Bonds	434,747	-	447,603	-	447,603
Borrowings	992,127	-	998,486	-	998,486

37. Principal 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	
		December 31, 2018	December 31, 2019
Suntory Beverage & Food Limited	Japan	59.4	59.4
Suntory Foods Co., Ltd.	Japan	100.0	100.0
Suntory Beverage Solution Ltd.	Japan	100.0	100.0
Suntory Beverage Service Co., Ltd.	Japan	99.0	99.0
Japan Beverage Holdings Inc.	Japan	82.7	82.7
Suntory Products Ltd.	Japan	100.0	100.0
Orangina Schweppes Holding B.V.	Netherland	100.0	100.0
Lucozade Ribena Suntory Limited	United Kingdom	100.0	100.0
Suntory Beverage & Food Asia Pte. Ltd.	Singapore	100.0	100.0
BRAND'S SUNTORY INTERNATIONAL CO., LTD.	Thailand	100.0	100.0
PT Suntory Garuda Beverage	Indonesia	75.0	75.0
Suntory PepsiCo Vietnam Beverage Co., Ltd.	Vietnam	100.0	100.0
Suntory PepsiCo Beverage (Thailand) Co., Ltd.	Thailand	51.0	51.0
FRUCOR SUNTORY NEW ZEALAND LIMITED	New Zealand	100.0	100.0
Pepsi Bottling Ventures LLC	United States	65.0	65.0
Beam Suntory Inc.	United States	100.0	100.0
Suntory Spirits Ltd.	Japan	100.0	100.0
Suntory Beer, Wine & Spirits Japan Ltd.	Japan	100.0	100.0
Suntory Beer Ltd.	Japan	100.0	100.0
Suntory Wine International Ltd.	Japan	100.0	100.0
Suntory Liquors Ltd.	Japan	100.0	100.0
Suntory Wellness Ltd.	Japan	100.0	100.0
DYNAC HOLDINGS CORPORATION	Japan	61.7	61.7
Suntory Flowers Ltd.	Japan	100.0	100.0
Suntory (China) Holding Co., LTD.	China	100.0	100.0
Suntory MONOZUKURI Expert Ltd.	Japan	100.0	100.0
Suntory Business System Ltd.	Japan	100.0	100.0
Suntory Communications Ltd.	Japan	100.0	100.0
Suntory Global Innovation Center Ltd.	Japan	100.0	100.0

(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 following summarized consolidated financial information represents amounts before eliminating inter-company transactions.

Suntory Beverage & Food Limited and its consolidated Group companies.

[1] General information

(Millions of yen)

	December 31, 2018	December 31, 2019
Proportion of ownership interests held by non-controlling interests (%)	40.5	40.5
Accumulated non-controlling interests	373,686	387,543

(Millions of yen)

	December 31, 2018	December 31, 2019
Profit allocated to non-controlling interests of the subsidiary	41,233	39,104
Dividends paid to non-controlling interests of the subsidiary	16,157	23,404

[2] Summarized consolidated financial information

(Millions of yen)

	December 31, 2018	December 31, 2019
Current assets	443,363	446,314
Non-current assets	1,096,052	1,120,984
Current liabilities	439,117	461,905
Non-current liabilities	301,421	267,828
Equity	798,877	837,565

(Millions of yen)

	December 31, 2018	December 31, 2019
Revenue	1,294,256	1,299,385
Profit for the year	88,833	80,080
Comprehensive income for the year	56,128	78,599

(Millions of yen)

	December 31, 2018	December 31, 2019
Cash flows generated by operating activities	146,354	170,596
Cash flows used in investing activities	(58,543)	(59,382)
Cash flows used in financing activities	(56,868)	(115,156)
Net increase (decrease) in cash and cash equivalents	30,941	(3,942)

38. Related-party transactions

(1) Related-party transactions

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

(2) Remuneration for principal executives

(Millions of yen)

	December 31, 2018	December 31, 2019
Basic remuneration and bonus	1,331	1,339

39. Commitments

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

(Millions of yen)

	December 31, 2018	December 31, 2019
Acquisition of property, plant and equipment	25,487	40,505
Total	25,487	40,505

Other than the commitment represented above, the Group entered into a lease contract for warehouses and other lease assets for the year ended December 31, 2019. The commencement date of those contracts is in the following fiscal year, and therefore, no right-of-use asset and lease liability was recorded as at December 31, 2019. Those contracts have no cancelable period and the total lease payments over that non-cancelable period amount to 22,453 million yen.

40. Subsequent event

There were no material subsequent events to disclose.