Asahi

FINANCIAL SECTION 2017

ASAHI GROUP HOLDINGS, LTD.

CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries
As of December 31, 2016 and December 31, 2017

	Notes	Millions of yen Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Assets			
Current assets			
Cash and cash equivalents	9	48,459	**58,054**
Trade and other receivables	10 33	397,340	**433,436**
Inventories	11	136,460	**155,938**
Income tax receivables		14,161	**12,354**
Other financial assets	15	3,428	**6,896**
Other current assets	16	31,934	**27,104**
Subtotal		631,784	**693,785**
Assets held for sale	12	3,241	**118,641**
Total current assets		635,026	**812,426**
Non-current assets			
Property, plant and equipment	13	570,771	**717,914**
Goodwill and intangible assets	14	499,489	**1,538,679**
Investments accounted for using equity method	39	141,398	**4,846**
Other financial assets	15	198,586	**219,142**
Deferred tax assets	30	18,825	**11,388**
Net defined benefit assets	20	18,942	**26,055**
Other non-current assets	16	11,293	**16,368**
Total non-current assets		1,459,305	**2,534,396**
Total assets		2,094,332	**3,346,822**

See accompanying notes.

	Notes	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
		Millions of yen	
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17	332,639	**433,582**
Bonds and borrowings	18 33 36	281,870	**359,722**
Income tax payables		34,957	**51,856**
Provisions	21	4,870	**15,451**
Other financial liabilities	18	26,352	**29,224**
Other current liabilities	22	137,957	**144,355**
Subtotal		818,649	**1,034,191**
Liabilities directly related to assets held for sale	12	907	**17,965**
Total current liabilities		819,556	**1,052,157**
Non-current liabilities			
Bonds and borrowings	18 33 36	288,490	**902,203**
Net defined benefit liabilities	20	25,789	**25,488**
Deferred tax liabilities	30	57,252	**156,780**
Other financial liabilities	18	54,127	**52,997**
Other non-current liabilities	22	3,009	**4,446**
Total non-current liabilities		428,670	**1,141,917**
Total liabilities		1,248,226	**2,194,074**
Equity			
Issued capital	23	182,531	**182,531**
Share premium	23	118,668	**119,051**
Retained earnings	23	589,935	**713,146**
Treasury shares	23	(76,709)	**(76,747)**
Other components of equity		21,927	**210,592**
Other components of equity related to disposal groups held for sale	12	—	**(3,440)**
Total equity attributable to owners of parent		836,354	**1,145,135**
Non-controlling interests		9,750	**7,612**
Total equity		846,105	**1,152,748**
Total liabilities and equity		2,094,332	**3,346,822**

See accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2017

Millions of yen

	Notes	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Revenue	26	1,706,901	**2,084,877**
Cost of sales		(1,098,173)	**(1,295,399)**
Gross profit		608,728	**789,477**
Selling, general and administrative expenses	27	(460,241)	**(593,108)**
Other operating income	28	8,004	**12,530**
Other operating expense	28	(19,600)	**(25,706)**
Operating profit		136,889	**183,192**
Finance income	29	3,106	**5,206**
Finance costs	29	(4,066)	**(10,368)**
Share of profit (loss) of entities accounted for using equity method		1,974	**1,055**
Gain on sales of investments accounted for using equity method		12,163	**17,898**
Profit before tax		150,068	**196,984**
Income tax expense	30	(62,952)	**(58,135)**
Profit		87,115	**138,848**
Profit attributable to:			
Owners of parent		89,221	**141,003**
Non-controlling interests		(2,105)	**(2,155)**
Total		87,115	**138,848**
Basic earnings per share (Yen)	31	194.75	**307.78**
Diluted earnings per share (Yen)	31	194.75	**307.78**

See accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2017

Millions of yen

	Notes	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Profit		87,115	**138,848**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value of financial instruments measured at fair value through other comprehensive income	32	(3,010)	**23,083**
Remeasurements of defined benefit plans	20 32	(6,333)	**5,154**
Share of other comprehensive income of entities accounted for using equity method	32	30	**(6)**
Items that might be reclassified to profit or loss			
Cash flow hedges	32 33	(7,628)	**(12,364)**
Costs of hedging	32 33	—	**(1,179)**
Translation difference on foreign operations	32	10,137	**158,263**
Share of other comprehensive income of entities accounted for using equity method	32	(18,683)	**9,180**
Total other comprehensive income	32	(25,488)	**182,131**
Total comprehensive income		61,627	**320,979**
Total comprehensive income attributable to:			
Owners of parent		64,366	**323,211**
Non-controlling interests		(2,738)	**(2,232)**

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2017

Millions of yen

	Notes	Equity attributable to owners of parent						
						Other components of equity		
		Issued capital	Share premium	Retained earnings	Treasury shares	Changes in fair value of financial instruments measured at fair value through OCI	Remeasurements of defined benefit plans	Cash flow hedges
Balance as of January 1, 2016		182,531	120,524	549,084	(77,377)	36,596	—	(138)
Comprehensive income								
Profit				89,221				
Other comprehensive income						(2,967)	(6,301)	(7,652)
Total comprehensive income		—	—	89,221	—	(2,967)	(6,301)	(7,652)
Transfer to non-financial assets								7,571
Transactions with owners								
Dividends	24			(23,817)				
Purchase of treasury shares					(21)			
Disposal of treasury shares			(302)		689			
Changes through business combinations	38							
Share-based payment transaction	25		44					
Transfer from other components of equity to retained earnings				(24,553)		18,252	6,301	
Other increase (decrease)								
Total contributions by owners and distribution to owners		—	(258)	(48,370)	668	18,252	6,301	—
Acquisition of non-controlling interests without change in control			(1,597)					
Total changes in the ownership interest in subsidiaries		—	(1,597)	—	—	—	—	—
Total transactions with owners		—	(1,855)	(48,370)	668	18,252	6,301	—
Balance as of December 31, 2016		182,531	118,668	589,935	(76,709)	51,881	—	(219)

See accompanying notes.

Millions of yen

	Notes	Equity attributable to owners of parent						
		Other components of equity						
		Costs of hedging	Translation difference on foreign operations	Total other components of equity	Other components of equity related to disposal groups held for sale	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2016		—	(21,800)	14,657	—	789,420	14,261	803,682
Comprehensive income								
Profit				—		89,221	(2,105)	87,115
Other comprehensive income			(7,933)	(24,854)		(24,854)	(633)	(25,488)
Total comprehensive income		—	(7,933)	(24,854)	—	64,366	(2,738)	61,627
Transfer to non-financial assets				7,571		7,571		7,571
Transactions with owners								
Dividends	24			—		(23,817)	(489)	(24,306)
Purchase of treasury shares				—		(21)		(21)
Disposal of treasury shares				—		386		386
Changes through business combinations	38			—		—	155	155
Share-based payment transaction	25			—		44		44
Transfer from other components of equity to retained earnings				24,553		—		—
Other increase(decrease)				—		—	312	312
Total contributions by owners and distribution to owners		—	—	24,553	—	(23,406)	(21)	(23,428)
Acquisition of non-controlling interests without change in control				—		(1,597)	(1,750)	(3,347)
Total changes in the ownership interest in subsidiaries		—	—	—	—	(1,597)	(1,750)	(3,347)
Total transactions with owners		—	—	24,553	—	(25,004)	(1,771)	(26,776)
Balance as of December 31, 2016		—	(29,734)	21,927	—	836,354	9,750	846,105

See accompanying notes.

Millions of yen

	Notes	Equity attributable to owners of parent						
						Other components of equity		
		Issued capital	Share premium	Retained earnings	Treasury shares	Changes in fair value of financial instruments measured at fair value through OCI	Remeasurements of defined benefit plans	Cash flow hedges
Balance as of January 1, 2017		182,531	118,668	589,935	(76,709)	51,881	—	(219)
Comprehensive income								
Profit				141,003				
Other comprehensive income						23,083	5,200	(12,200)
Total comprehensive income		—	—	141,003	—	23,083	5,200	(12,200)
Transfer to non-financial assets								11,795
Transactions with owners								
Dividends	24			(26,571)				
Purchase of treasury shares					(38)			
Disposal of treasury shares			0		0			
Changes through business combinations	38							
Changes through sales of consolidated subsidiaries			332					
Share-based payment transaction	25		48					
Transfer from other components of equity to retained earnings				8,779		(3,578)	(5,200)	
Other components of equity related to disposal groups held for sale	12							
Other increase(decrease)								
Total contributions by owners and distribution to owners		—	380	(17,792)	(38)	(3,578)	(5,200)	—
Acquisition of non-controlling interests without change in control			2					
Total changes in the ownership interest in subsidiaries		—	2	—	—	—	—	—
Total transactions with owners		—	383	(17,792)	(38)	(3,578)	(5,200)	—
Balance as of December 31, 2017		182,531	119,051	713,146	(76,747)	71,386	—	(624)

See accompanying notes.

Millions of yen

	Notes	Equity attributable to owners of parent						
		Other components of equity						
		Costs of hedging	Translation difference on foreign operations	Total other components of equity	Other components of equity related to disposal groups held for sale	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2017		—	(29,734)	21,927	—	836,354	9,750	846,105
Comprehensive income								
Profit				—		141,003	(2,155)	138,848
Other comprehensive income		(1,179)	167,304	182,208		182,208	(76)	182,131
Total comprehensive income		(1,179)	167,304	182,208	—	323,211	(2,232)	320,979
Transfer to non-financial assets				11,795		11,795		11,795
Transactions with owners								
Dividends	24			—		(26,571)	(405)	(26,976)
Purchase of treasury shares				—		(38)		(38)
Disposal of treasury shares				—		0		0
Changes through business combinations	38			—		—	300	300
Changes through sales of consolidated subsidiaries				—		332		332
Share-based payment transaction	25			—		48		48
Transfer from other components of equity to retained earnings				(8,779)		—		—
Other components of equity related to disposal groups held for sale	12		3,440	3,440	(3,440)	—		—
Other increase(decrease)				—		—	242	242
Total contributions by owners and distribution to owners		—	3,440	(5,338)	(3,440)	(26,229)	136	(26,092)
Acquisition of non-controlling interests without change in control				—		2	(42)	(39)
Total changes in the ownership interest in subsidiaries		—	—	—	—	2	(42)	(39)
Total transactions with owners		—	3,440	(5,338)	(3,440)	(26,226)	93	(26,132)
Balance as of December 31, 2017		(1,179)	141,010	210,592	(3,440)	1,145,135	7,612	1,152,748

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2017

	Notes	Millions of yen Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Cash flows from (used in) operating activities			
Profit before tax		150,068	**196,984**
Depreciation and amortization expenses		71,131	**101,813**
Impairment losses		6,336	**10,128**
Interest and dividend income		(2,836)	**(2,975)**
Interest expenses		3,763	**6,725**
Share of loss (profit) of entities accounted for using equity method		(1,974)	**(1,055)**
Gains on sales of investment in an entity accounted for using equity method		(12,163)	**(17,898)**
Gains on sales of shares of subsidiaries and associates		—	**(10,542)**
Losses (gains) on sales and disposals of property, plant and equipment		(1,324)	**5,469**
Decrease (increase) in trade receivables		(9,821)	**(11,536)**
Decrease (increase) in inventories		(607)	**(4,752)**
Increase (decrease) in trade payables		6,369	**7,490**
Increase (decrease) in accrued alcohol tax		497	**(3,834)**
Increase (decrease) in net defined benefit assets and liabilities		(2,096)	**1,358**
Other		(2,623)	**32,304**
Subtotal		204,718	**309,680**
Interest and dividends received		5,546	**5,839**
Interest paid		(3,658)	**(5,601)**
Income taxes paid		(52,153)	**(78,205)**
Net cash flows from (used in) operating activities		154,452	**231,712**
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment		(50,357)	**(76,636)**
Proceeds from sales of property, plant and equipment		11,923	**2,315**
Purchase of intangible assets		(7,791)	**(11,246)**
Purchase of investment securities		(2,286)	**(1,430)**
Proceeds from sales of investment securities		30,870	**11,939**
Proceeds from sales of investment in an entity accounted for using equity method		36,440	**68,972**
Purchase of shares of subsidiaries and others resulting in change in scope of consolidation	35	(290,893)	**(891,555)**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	35	—	**15,318**
Other		3,587	**(3,499)**
Net cash flows from (used in) investing activities		(268,507)	**(885,823)**
Cash flows from (used in) financing activities			
Increase (decrease) in short-term borrowings	36	(10,793)	**41,076**
Payments of finance lease obligations	36	(10,765)	**(9,851)**
Proceeds from long-term borrowings	36	205,310	**303,378**
Repayments of long-term borrowings	36	(7,479)	**(62,600)**
Proceeds from issuance of bonds	36	—	**436,604**
Redemption of bonds	36	(30,000)	**(18,000)**
Purchase of treasury shares		(21)	**(38)**
Dividends paid	24	(23,817)	**(26,571)**
Proceeds from share issuance to non-controlling shareholders		312	**261**
Purchase of shares of subsidiaries not resulting in change in scope of consolidation		(2,773)	**(39)**
Other		(418)	**(2,336)**
Net cash flows from financing activities		119,554	**661,882**
Effect of exchange rate changes on cash and cash equivalents		642	**2,111**
Net increase (decrease) in cash and cash equivalents		6,141	**9,883**
Cash and cash equivalents at beginning of period	9	43,290	**48,459**
Cash and cash equivalents transferred to assets held for sale	12	(972)	**(288)**
Cash and cash equivalents at end of period	9	48,459	**58,054**

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries

1. Reporting Entity

Asahi Group Holdings, Ltd. ('the Company') is a corporation domiciled in Japan. The Company and its subsidiaries ('the Group') are engaged primarily in manufacturing and marketing of alcoholic beverages, soft drinks, and food.

2. Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The Company is qualified as a "Specified Company" as provided in Article 1-2 of "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976). Article 93 of this ordinance allows Specified Companies to prepare consolidated financial statements under IFRS. The Group's consolidated financial statements for the year ended December 31, 2017 were authorized for issue by Akiyoshi Koji, President and Representative Director, and Kenji Hamada, Chief Financial Officer on March 27, 2018.

The Group's consolidated financial statements are prepared on the cost basis, except for the financial instruments and other items as described in "5. Significant Accounting Policies".

The preparation of consolidated financial statements in conformity with IFRS requires accounting estimates on certain critical items. It also requires management to make judgments in applying the Group's accounting policies.

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. Amounts presented in the consolidated financial statements are rounded down to the nearest million yen.

3. Early Application of New Standards and Interpretations

The Group has early applied IFRS 9 "Financial Instruments" (July 2014).

4. Standards and Interpretations which have been issued but not yet applied

Standards and interpretations which have been newly issued or amended by the approval date of the consolidated financial statements and will be effective and applied in the future periods are as follows:

No.	Title	Mandatory Application	The First Application by the Group	Description of the New Standard or the Amendment
IFRS 2	Share-based Payment	Annual periods beginning on or after January 1, 2018	The annual period ending December 31, 2018	Clarification regarding classification and measurements of share-based payments (amendments to IFRS 2)
IFRS 15	Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018	The annual period ending December 31, 2018	Establishment of an accounting standard for revenue recognition (replacement for IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31)
IAS 40	Investment Property	Annual periods beginning on or after January 1, 2018	The annual period ending December 31, 2018	Clarification regarding transfers to, or from, investment property (amendments to IAS 40)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Annual periods beginning on or after January 1, 2018	The annual period ending December 31, 2018	Clarification regarding exchange rate to use on the initial recognition of expenses or profit in a foreign currency when an asset or a liability arisen from the advance consideration has been recognized (establishment of IFRIC 22)
IFRS 16	Leases	Annual periods beginning on or after January 1, 2019	The annual period ending December 31, 2019	Establishment of an accounting standard for lease contracts (replacement for IAS 17, IFRIC 4, SIC 15 and SIC 27)
IFRIC23	Uncertainty over Income Tax Treatments	Annual periods beginning on or after January 1, 2019	The annual period ending December 31, 2019	Clarification of accounting treatments under uncertainty over Income Tax
IAS19	Employee benefits	Annual periods beginning on or after January 1, 2019	The annual period ending December 31, 2019	Clarification of accounting treatments for plan amendments, curtailments or settlements (amendments to IAS 19)
IFRS17	Insurance Contracts	Annual periods beginning on or after January 1, 2021	The annual period ending December 31, 2021	Formulate consistent accounting model for insurance contracts
IFRS 10 IAS 28	Consolidated Financial Statements Investments in Associates and Joint Ventures	To be determined	To be determined	Clarification of accounting for sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)

The standards to be applied in the annual period ending December 31, 2018, the major changes in accounting policies and impact on the consolidated financial statements from the application of IFRS 15 "Revenue from Contracts with Customers" are as follows.

The Company manufactures and sells alcoholic beverages, soft drinks, food and other products, and shall recognize revenue from the sale of these goods when they are delivered to customers, as customers normally obtain control of these goods when they are delivered, and therefore the Company's obligation is judged to have been fulfilled. In addition, revenue shall be measured at net amount after eliminating goods returned, rebates, and trade discounts.

The impact on the Group's consolidated financial statements of the application of the standards to be applied in the annual period ending December 31, 2018 is expected to be immaterial.

The impact of the standards to be applied from annual periods ending on or after December 31, 2019 on the Group's consolidated financial statements is under review, and not estimable at this moment.

5. Significant Accounting Policies

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has control. The Group decides that it controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control is lost. Amounts reported by subsidiaries are adjusted to conform to the Group's accounting policies.

Intra-group transactions, balances and any unrealized gains or losses arising from transactions within the Group are eliminated to prepare the consolidated financial statements.

Subsidiaries whose reporting date is different from that of the Group are consolidated based on the provisional closing information as of the Group's reporting date.

(ii) Associates and Joint Ventures

Associates are entities where the Group has significant influence over the financial and operating policies. It is presumed that the Group has significant influence when it holds between 20 percent and 50 percent of the voting power of the investee. A joint venture is a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method ('equity-accounted investees'). Under the equity method, an investment is initially recognized at cost.

The consolidated financial statements include the Group's share of changes in equity interests from the date that the Group obtained significant influence or joint control until the date on which the Group loses significant influence or joint control.

The Group's investments include goodwill recognized on the acquisition.

Necessary adjustments are made when accounting policies of the associates and joint ventures are different from those of the Group to retain consistency.

(2) Business Combinations

The Group applies the acquisition method to business combinations. The consideration is measured at fair value on the acquisition date which represents the total fair value of the assets transferred, the liabilities assumed and the equity instruments issued by the Group. Goodwill is recognized when the cost exceeds the fair values of the identifiable assets acquired and the liabilities assumed. On the contrary, when the cost is less than the fair values of the identifiable net assets, the excess is recognized in profit or loss. The Group elects to recognize non-controlling interests in the acquiree for each business combination, either at fair value or at the proportionate share of the identifiable net assets at the acquisition date, elected on a transaction-by-transaction basis. Acquisition-related costs are expensed as incurred. Additional acquisition of non-controlling interest after the control obtained is accounted as equity transactions, and goodwill does not arise from such transactions accordingly.

The Group applies book value accounting to acquisitions under common control, which are business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combinations, and that control is not transitory.

(3) Foreign Currency Translation

(i) Functional currency and presentation currency

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'). The consolidated financial statements are presented in 'Japanese Yen', which is the Group's presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement or translation of monetary assets and liabilities denominated in foreign currencies using the exchange rate at the reporting date are recognized in profit or loss, except for exchange differences arising from financial assets measured through other comprehensive income, qualifying cash flow hedges and net investment hedge for foreign operations that are recognized in other comprehensive income.

(iii) Foreign operation

The financial performance and the financial position of all group companies (none of them operates in a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency using following methods:

(a) assets and liabilities are translated using the exchange rate at the reporting date;

(b) income and expenses are translated at an average exchange rate (except for that use of the average exchange rate does not reasonably approximate the cumulative effect of translation at the transaction dates, in which case income and expenses are translated using the exchange rate at each transaction date); and

(c) all resulting exchange differences are recognized in other comprehensive income and accumulated as translation difference on foreign operations within other components of equity.

In the case of partial disposal or sale of foreign operations, exchange differences accumulated through other comprehensive income are reclassified to profit or loss as a part of gains or losses related to the transaction.

(4) Property, Plant and Equipment

Buildings and structures, machinery and vehicles, tools, fixtures and fittings, and land primarily consist of manufacturing and production facilities and properties of the head office. Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost includes the purchase price, the cost directly related to acquisition of the assets, the costs of dismantling and removing the item and restoring the site on which the item has been located and borrowing costs to be capitalized.

Subsequent expenditures are included in the related asset's carrying amount or recognized as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized in profit or loss as incurred.

Land is not depreciated. The cost of each of assets other than land are depreciated to residual value on a straight-line basis over the estimated useful lives, mainly as follows:

Buildings and structures 3–50 years
Machinery and vehicles 2–15 years
Tools, fixtures and fittings 2–20 years

The residual values, useful lives and the depreciation method are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are measured as the difference between the considerations and the carrying amount, and are recognized in profit or loss.

(5) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalized until the assets get ready for their intended use or sale. Income earned on a temporary investment of specific borrowings until they are used for qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss as incurred.

(6) Goodwill and Intangible Assets

(i) Goodwill

Goodwill is reviewed for impairment testing annually and is recognized at acquisition cost less accumulated impairment losses. Any impairment loss recognized on goodwill is not subsequently reversed. Gains or losses arising from sale of a business include the carrying amount of goodwill associated with the business.

Goodwill is allocated to cash generating units or groups of cash generating units which are expected to benefit from of the business combination.

(ii) Trademarks

Separately acquired trademarks are recognized at cost. Trademarks acquired through a business combination are recognized at their acquisition-date fair values. Trademarks are recognized at cost less accumulated amortization and impairment losses. Trademarks are amortized on a straight-line basis over their estimated useful lives mainly from 20 to 40 years, except for items with indefinite useful lives.

(iii) Software

Software is recognized at cost less accumulated amortization and impairment losses.

Development costs that are directly attributable to design and testing of software of the Group are recognized as intangible assets only if the expenditures can be measured reliably, the product or procedure is technically feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use the asset.

Other development expenditures that do not meet these criteria are expensed as incurred. Development costs previously expensed are not recognized as assets in a subsequent period.

Software is amortized mainly over five years which is their estimated useful life.

Costs associated with maintaining software are expensed as incurred.

(iv) Other Intangible Assets

Other intangible assets are measured at cost. They are amortized over the estimated useful lives, and are measured at cost less accumulated amortization and impairment losses. However, there are some assets that are not amortized since they last as long as the business continues, and thereby their useful lives are indefinite (e.g. land leasehold rights). Amortization cost is allocated on a straight-line basis over the estimated useful lives.

The residual values, useful lives and the amortization method of intangible assets are reviewed at each reporting date and adjusted if appropriate.

(7) Leases

The Group leases certain property, plant and equipment and intangible assets as a lessee. Leased property, plant and equipment and intangible assets where the Group holds substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the outstanding liability and finance costs. The interest elements, that are the finance costs, are recognized in profit or loss over the lease term so as to produce a constant rate of interest on the remaining balance of the liability. A property, plant and equipment or an intangible asset under a finance lease is depreciated or amortized over the shorter of the useful life of the asset and the lease term.

Leases other than finance leases are classified as operating leases. A lease payment for operating lease, less any lease incentive received or receivable from the lessor, is recognized in profit or loss on a straight-line basis over the lease term.

(8) Impairment of Non-financial Assets

Goodwill and intangible assets with indefinite useful lives are not amortized but reviewed annually for impairment testing. Assets that are subject to depreciation or amortization are reviewed for impairment when occurrence of an event or a change in circumstances indicates that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.
For the purpose of assessing impairment, assets are divided into the smallest groups of assets that generate independent cash inflows (cash-generating units). Impairment losses on non-financial assets other than goodwill are subsequently reviewed for possible reversal at each reporting date.

(9) Financial Instruments

(i) Financial Assets

a. Initial Recognition and Measurement

The Group recognizes financial assets when it becomes a party to the contract. Financial assets purchased or sold in a regular way are recognized on the trade date. Financial assets are classified as assets measured at amortized cost or measured at fair value.

Financial assets measured at fair value through profit or loss are measured at their fair value upon initial recognition. Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost is recognized at their fair value plus transaction costs that are directly attributable to the transactions.

(a) Financial Assets measured at Amortized Cost

Financial assets are classified as assets measured at amortized cost only if the assets are held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows which are solely payments of principal and interest on the principal amount outstanding.

(b) Financial Assets measured at Fair Value

Assets that do not meet either of the aforementioned two criteria are classified as financial assets measured at fair value.

As for a financial asset measured at fair value, the Group measure such an asset at fair value through profit or loss or may designate it as a financial asset measured at fair value through other comprehensive income on an individual basis, except for equity instrument held for trading purposes which should always be measured at fair value through profit or loss. The designation as a financial asset measured at fair value through other comprehensive income is irrevocable.

Please refer to (v) Derivatives and Hedge Accounting for derivatives.

b. Subsequent Measurement

Financial assets are subsequently measured based on the classification of the asset as follows:

(a) Financial Assets measured at Amortized Cost

Financial assets measured at amortized cost are measured using the effective interest method.

(b) Financial Assets measured at Fair Value

Financial assets measured at fair value are measured at fair value at the reporting date.

Changes in fair value are recognized in profit or loss or in other comprehensive income according to the classification of the financial assets.

Dividends received from equity instruments designated as financial assets measured at fair value through other comprehensive income are recognized in profit or loss. In case that fair value of these financial assets is significantly declined or disposed, gain or loss accumulated in other comprehensive income is reclassified to retained earnings within equity.

c. Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets expire or are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred to another entity.

(ii) Impairment of Financial Assets

The Group assesses recoverability of financial assets measured at amortized cost and estimates expected credit loss at each reporting date.

A loss allowance for expected credit losses is measured at an amount equal to 12-month expected credit losses for financial assets whose credit risk has not increased significantly since initial recognition. A loss allowance is measured at an amount equal to the lifetime credit losses for financial assets whose credit risk has increased significantly since initial recognition. Trade receivables, on the contrary, always require a loss allowance be measured at an amount equal to the lifetime credit losses.

Interest income for financial assets whose credit risk has significantly increased and there is an objective evidence of impairment is measured by applying the effective interest rate to the net carrying amount of the financial asset less loss allowance.

Indicators used by the Group to assess whether there is any objective evidence of impairment includes:

- Significant financial difficulties of the issuer or the borrower;
- A breach of contract, such as default or past due event in interest or principal payments;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties

The Group directly reduce the gross carrying amount of a financial asset when there is no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

A loss allowance may be reversed when credit risk decreases due to a subsequent event which can be objectively related to the past impairment (such as an improvement in the borrower's credit rating). The reversal of the previously recognized impairment loss is recognized in profit or loss.

(iii) Financial Liability

a. Initial Recognition and Measurement

The Group recognizes financial liabilities when the Group becomes a party to the contract. Financial liabilities are classified into liabilities measured at fair value through profit or loss or liabilities measured at amortized cost. Financial liabilities measured at fair value through profit or loss is recognized at their fair value upon initial recognition, and financial liabilities measured at amortized cost is measured at their fair value less transaction costs directly attributable to the acquisition upon initial recognition.

b. Subsequent Measurement

Financial liabilities are subsequently measured according to the classification as follows:

(a) Financial Liabilities measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss are measured at fair value at each reporting date.

(b) Financial Liabilities measured at Amortized Cost

Financial liabilities measured at amortized cost are measured using the effective interest method.

c. Derecognition

Financial liabilities are derecognized when the Group's contractual obligations are discharged, canceled or expired.

(iv) Offset of Financial Instruments

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when there is a legally enforceable right to offset the financial instruments and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(v) Derivatives and Hedge Accounting

Derivatives are initially recognized at fair value on the date when the derivative contract is concluded and subsequently remeasured at fair value at the end of each fiscal period. The method of recognizing gains or losses arising as a result of the remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the hedged item.

The Group designates certain derivatives as hedging instruments of cash flow hedges (hedge of a particular risk associated with recognized assets or liabilities, or hedge of highly probable forecast transactions) and certain borrowings denominated in foreign currencies as hedging instruments of net investments in foreign operations.

The Group documents the relationship between the hedging instrument and the hedged item and the risk management objective and strategy for exercising the hedging transactions at the inception of the transaction. The Group also documents its assessment, both at the inception and on an ongoing basis, of whether the derivatives or non-derivative hedging instruments used in hedging transactions are effective in offsetting changes in cash flows of hedged items or foreign exchange risk in net investments in foreign operations.

The Group assesses the effectiveness of hedges on an ongoing basis, and determines that a hedge is effective when the requirement that there is an economic relationship between the hedged item and the hedging instrument, the requirement that the effect of credit risk does not significantly dominate the value changes that result from the economic relationship, and the requirement that the hedge ratio of the hedging relationship is the same as the ratio resulting from the quantities of the hedged item actually hedged and the hedging instrument actually used are all satisfied.

The effective portion of changes in fair value of derivatives that are designated as a hedging instrument of cash flow hedges and satisfy the requirements as the hedging instrument is recognized in other comprehensive income. Gains or losses on the ineffective portion are immediately recognized in profit or loss.

Accumulated gains or losses recognized through other comprehensive income are transferred to profit or loss in the period during which cash flows arising from the hedged item affect profit or loss. However, when a forecast transaction as the hedged item results in the recognition of non-financial assets (e.g. inventories or property, plant and equipment), gains or losses previously deferred in other comprehensive income are transferred and included in the initial acquisition cost of the asset. The deferred amount is eventually recognized as cost of sales for inventories, or as depreciation expenses for property, plant and equipment.

Application of hedge accounting is discontinued prospectively when the hedge accounting criteria are no longer met including expiry, sale of the hedging instrument. When the hedged future cash flows are still expected to occur, accumulated gains or losses recognized in other comprehensive income remain as accumulated other comprehensive income. When a forecast transaction is no longer expected to occur and in other cases, accumulated gains or losses recognized in other comprehensive income are immediately transferred to profit or loss.

With regard to derivatives or non-derivative hedging instruments, including borrowings, held for hedging foreign exchange risk in net investments in foreign operations, the portion of the foreign exchange gain or loss deemed effective as a hedge is recognized in other comprehensive income as net investments hedge in foreign operations. Of the foreign exchange gain or loss for derivatives or non-derivative hedging instruments, the ineffective portion as a hedge and not subject to the assessment of hedging effectiveness are recognized in profit or loss.

Accumulated gains or losses recognized in other comprehensive income through net investment hedges are transferred to profit or loss upon disposal of foreign operations.

(10) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits withdrawable on demand, and short-term investments that are readily convertible to cash and subject to insignificant risk of change in value with maturities of three months or less.

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. The Group generally measures costs of merchandise, finished goods and work in progress by the weighted-average method, and costs of raw materials and supplies by the moving-average method. Costs of merchandise, finished goods, and work in progress consist of costs of raw materials, direct labor, other direct costs and related production overheads based on the normal capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less expected selling expenses related thereto.

(12) Assets or Disposal Groups Held for Sale

The Group classifies a non-current asset (or disposal groups) as held for sale when its carrying amount will be recovered principally through a sale rather than through continuing use, the sale is highly probable and the asset is available for immediate sale in its present condition. The Group does not depreciate or amortize a non-current asset (or disposal groups) classified as held for sale and measures it at the lower of its carrying amount and fair value less costs to sell.

(13) Employee Benefits

(i) Post-employment Benefits

The Group has various plans. The Group has defined benefit plans, and some consolidated subsidiaries establish retirement benefits trust. In addition to those plans, certain consolidated subsidiaries have defined contribution plans and advance payment system of retirement benefits.

The defined benefit plan is the post-employment plan other than the defined contribution plan. The defined contribution plan is the plan in which the employer pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts.

Under defined benefit plans, the Group estimates the defined benefit obligation as expected future payments resulting from employee service in the current and prior periods for each plan. The defined benefit obligation is discounted to the present value. The Group recognizes net retirement benefit liability (assets) at the present value of defined benefit obligation less the fair value of plan assets. The defined benefit obligation is calculated using the projected unit credit method. The discount rate is determined based on the market interest rates of high quality corporate bonds at the end of the reporting period which have maturities corresponding to the future settlements in each year. The pension plans are generally funded through payments to the fund managed by insurance companies and trust companies based on periodic actuarial review.

In case that net retirement benefit assets may be recognized under defined benefit plans, the asset is limited to the present value of economic benefits which the Group receives in the form of future refund from the plan or reduction of future contribution to the plan. The Group takes into consideration minimum funding requirement applied to the Group's plans when calculating the present value of economic benefits. The Group recognizes economic benefit only when they are realizable within the period in which the plans continue to exist or at the time of settlement of the plan obligation.

The Group recognizes the effect of remeasurement on net assets and net liabilities arising from the defined benefit plans in other comprehensive income and then immediately reclassifies it to retained earnings.

The obligation under the defined contribution plans is recognized as employee benefit expense in profit or loss over the period in which the employees provide services.

(ii) Short-term Employee Benefits

Short-term employee benefits are recognized as an expense in the period that the related services are rendered by the employees. Short-term employee benefits are not discounted. Bonuses are recognized as liabilities for the amount estimated to be paid when the Group has present legal or constructive obligation, and the obligation can be reliably estimated.

(14) Share-based Payment

Equity-settled share-based payments granted to employees are measured at fair value at the grant date, and then generally recognized as an expense over the vesting period. The same amount is recognized as an increase in equity. However, if the equity-settled share-based payments granted are immediately vested, the entire amount is recognized as an expense and an increase in equity at the grant date.

(15) Provisions

The Group recognizes provisions when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by class of similar obligations as a whole. A provision is recognized even if the likelihood of an outflow with a certain item included in the same class of obligations may be small.

Provisions are measured at the present value of the future cash flows expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in the provision due to passage of time is recognized as interest expense.

(16) Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to issuance of new ordinary shares or share options are deducted from equity.

When any company within the Group purchases the Company's share (treasury shares), the consideration paid including any directly attributable incremental costs (net of tax) is deducted from equity attributable to owner of the Company until the shares are canceled or reissued. When such ordinary shares are subsequently reissued, any consideration received, net of directly attributable incremental costs and the related tax effects, is recognized in equity attributable to owners of the Company.

(17) Revenue

Revenue consists of fair value of consideration received or receivable for sales of goods and rendering of services in the Group's normal business operations. Revenue is measured at net amount after eliminating goods returned, rebates, and trade discounts.

(i) Sales of Goods

- Alcoholic Beverages – manufacture and sales of beer, low-malt beer (happo-shu), distilled spirit (shochu), whisky and other alcoholic products, operation of restaurants, wholesales and others
- Soft Drinks – manufacture and sales of soft drinks and others
- Food – manufacture and sales of foods and pharmaceuticals
- Overseas – manufacture and sales of beer and other alcoholic products and soft drinks, and others

The Group recognizes revenue when it has transferred the significant risks and rewards of ownership of the goods to the customer, it is probable that the economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred in respect of the transaction and probability of return of the goods can be measured reliably, it retains neither continuing managerial involvement with the goods and the amount of revenue can be measured reliably. Revenue is ordinarily recognized when the Group delivers goods to customers and unfulfilled obligation no longer exists.

(ii) Rendering of Services

The Group is engaged in real estate business such as property management, and logistic business such as warehousing, and others. Revenue is recognized when the service is rendered.

(iii) Gross and Net Presentation of Revenue

Revenue is presented in gross amount when the Group is exposed to significant risks and rewards of the sales of goods or rendering of services and thereby considered acting as a principal in the transaction. Under transactions where the Group is not exposed to significant risks and rewards of the sales of goods or rendering of services and thereby considered acting as an agent in the transaction, revenue is presented in net amount of the consideration received and payment to the third party.

(iv) Interest Income

Interest income is recognized based on the effective interest method.

(v) Dividend Income

Dividend income is recognized when the right to receive the payment is established.

(18) Government Grants

Government grants are recognized when there is reasonable assurance that the Group complies with the conditions attaching to them and that the grants will be received. Government grants which are intended to compensate specific costs are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the corresponding expenses. Government grants related to assets are recognized as deferred income, and then recognized in profit or loss on a straight-line basis over the estimated useful lives of the related assets. Non-monetary grants measured at fair value are accounted for in the same way. Grants related to income are recognized and presented in 'Other operating income' in the period when the Group recognizes the corresponding expenses.

(19) Dividends

Dividends payable to the shareholders of the Company are recognized as liabilities in the period in which the dividends are approved at the shareholder's meeting for annual dividends and in the period in which the dividends are approved at the board of directors meeting for interim dividends.

(20) Income Tax

Income tax expenses comprise current and deferred taxes. Income tax is recognized in profit or loss for the period, except to the extent it relates to a transaction which is recognized in other comprehensive income or directly in equity. In those cases, income tax is also recognized in other comprehensive income or directly in equity.

Current tax is measured at the amount that is expected to be paid to or recovered from tax authorities. The taxes are calculated at tax rates under applicable tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. However, deferred tax liability is not recognized for a temporary difference arising from the initial recognition of goodwill. Similarly, deferred tax asset or liability is not recognized for a temporary difference arising from initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable profit (tax loss). Deferred tax is measured at tax rates that have been enacted or substantively enacted at the reporting date and expected to apply in the period when the related deferred income tax asset is realized or the deferred income tax liability is settled under applicable tax laws.

Deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized.

Deferred tax asset and liability is recognized for temporary differences arising from investments in subsidiaries and associates although deferred tax liability is not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liability, and income taxes are levied by the same taxation authority on the same taxable entity.

(21) Accounting for Consumption Tax

Consumption tax received as an agent from customers which will be paid to tax authorities is excluded from revenue, cost of sales and related expenses in the consolidated statement of profit or loss.

6. Significant Accounting Estimates and Judgments

In the preparation of the consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of the accounting policies and the reporting amounts of assets, liabilities, revenue and expenses. The estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of a change in accounting estimates are recognized in the period in which the estimate is revised and in the future periods. The estimates and the underlying assumptions that have significant risks which could result in a material adjustment to the carrying amounts of assets and liabilities within the next year are as follows:

- Impairment of non-financial assets (Notes 13, 14)
- Provisions (Note 21)
- Recoverability of deferred tax assets (Note 30)
- Fair value of financial instruments (Note 33)
- Employee benefits (Note 20)
- Contingencies (Note 41)

7. Changes in Presentation Methods

"Provisions" was included in "Other current liabilities" in the previous year (ended December 31, 2016) however is separately presented from the current year (ended December 31, 2017) due to its increased materiality. In order to reflect this change in presentation method, ¥4,870 million has been reclassified from "Other current liabilities" to "Provisions" in the consolidated statement of financial position for the previous year included as comparative information of the consolidated statement of financial position for the current year.

8. Segment Information

(1) General Information

The Group determines operating segments based on the report that is reviewed by the management and utilized in its strategic decision making.

The operating segments are components of the Group for which separate financial information is available and regularly reviewed by the management so as to make decisions about how to allocate resources.

The Group mainly manufactures and sells alcoholic beverages, soft drinks and food in the domestic market, and alcoholic beverages and soft drinks in overseas markets.

The Group has identified 4 reportable segments, "Alcoholic Beverages", "Soft Drinks", "Food" and "Overseas" accordingly.

- Alcoholic Beverages – manufacture and sales of beer, low-malt beer (happo-shu), distilled spirit (shochu), whisky and other alcoholic products, operation of restaurants, wholesales, and others
- Soft Drinks – manufacture and sales of soft drinks and others
- Food – manufacture and sales of food and pharmaceuticals
- Overseas – manufacture and sales of beer and other alcoholic products and soft drinks, and others
- Other – logistics and others

The management evaluates performance of each operating segment based on the results of measure of segment profit or loss.

Previous year (ended December 31, 2016)

Millions of yen

	Alcoholic Beverages	Soft Drinks	Food	Overseas	Other	Segment Total	Adjustments	Consolidated
Revenue:								
External customers	950,438	355,991	109,130	247,760	43,581	1,706,901	—	1,706,901
Intersegment	26,211	7,914	1,693	2,556	58,698	97,073	(97,073)	—
Total revenue	976,649	363,905	110,824	250,316	102,279	1,803,975	(97,073)	1,706,901
Segment profit (loss)	111,192	32,775	11,377	(8)	1,983	157,320	(20,430)	136,889
Segment assets	718,898	291,331	89,833	961,721	25,552	2,087,337	6,994	2,094,332
Other items								
Depreciation and amortization expenses	27,249	22,222	3,265	14,744	436	67,918	3,212	71,131
Impairment losses	3,063	—	—	3,272	—	6,336	—	6,336
Share of profit (loss) of entities accounted for using equity method	66	—	—	1,842	—	1,908	65	1,974
Investments accounted for using equity method	882	—	—	139,707	—	140,590	807	141,398
Additions to non-current assets other than financial instruments and deferred tax assets	36,981	18,691	3,763	18,003	445	77,886	4,569	82,455

Adjustments to the segment profit or (loss) of ¥(20,430) million include overhead costs of ¥(20,410) million which are not allocated to the reportable segments, and elimination of intersegment transactions of ¥(20) million. Overhead costs are primarily group management expenses incurred at the Company that is a pure holding company. The price in intersegment transactions is in accordance with the transaction price with external customers.

Adjustments to the segment assets of ¥6,994 million include the corporate assets of ¥33,093 million, which are not allocated to the reportable segments, and elimination of ¥(26,099) million to offset intersegment receivables and payables. The corporate assets are primarily assets held by the Company, which is a pure holding company.

Current Year (ended December 31, 2017)

Millions of yen

	Alcoholic Beverages	Soft Drinks	Food	Overseas	Other	Segment Total	Adjustments	Consolidated
Revenue:								
External customers	942,016	366,012	112,184	618,526	46,137	2,084,877	—	2,084,877
Intersegment	26,841	8,505	1,601	2,585	60,003	99,537	(99,537)	—
Total revenue	968,858	374,517	113,785	621,112	106,141	2,184,415	(99,537)	2,084,877
Segment profit (loss)	113,560	44,407	10,893	34,837	1,979	205,677	(22,484)	183,192
Segment assets	733,352	284,048	91,145	2,178,030	26,024	3,312,600	34,222	3,346,822
Other items								
Depreciation and amortization expenses	27,459	22,295	3,368	44,737	599	98,460	3,353	101,813
Impairment losses	915	—	43	9,149	20	10,128	—	10,128
Share of profit (loss) of entities accounted for using equity method	100	—	—	938	—	1,038	16	1,055
Investments accounted for using equity method	681	—	—	3,391	—	4,073	773	4,846
Additions to non-current assets other than financial instruments and deferred tax assets	32,456	29,634	4,807	42,140	552	109,591	2,188	111,779

Adjustments to the segment profit or (loss) of ¥(22,484) million include overhead costs of ¥(22,405) million which are not allocated to the reportable segments, and elimination of intersegment transactions of ¥(79) million. Overhead costs are primarily group management expenses incurred at the Company that is a pure holding company. The price in intersegment transactions is in accordance with the transaction price with external customers.

Adjustments to the segment assets of ¥34,222 million include the corporate assets of ¥62,015 million, which are not allocated to the reportable segments, and elimination of ¥(27,793) million to offset intersegment receivables and payables. The corporate assets are primarily assets held by the Company, which is a pure holding company.

As described in “38. Business Combination”, the provisional accounting treatment of business combinations was completed in the current year (ended December 31, 2017), and accordingly the amount shown for the previous year (ended December 31, 2016) has been adjusted to reflect revisions to the initial allocation of the consideration owing to the completion.

(2) Information about Products and Services

Please refer to (1) General Information.

(3) Information about Geographical Areas

With regard to information about geographical areas, revenue to external customers and non-current assets are classified into Japan or overseas based on customers’ locations and asset locations, respectively.

Revenue from External Customers

Millions of yen

	Previous year (for the year ended December 31, 2016)	Current year (for the year ended December 31, 2017)
Japan	1,439,716	1,442,901
Overseas	267,185	641,975
Total	1,706,901	2,084,877

Non-current Assets

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Japan	531,798	**526,060**
Overseas (Note)	549,755	**1,746,902**
Among above, Czech Republic and Slovakia	—	**378,420**
Total	1,081,553	**2,272,962**

(Note) Goodwill of ¥479,916 million arising from the acquisition of Plzeňský Prazdroj, a.s. and the 15 other companies, which is included in Overseas, is provisional and its allocation to each country has not been completed as of December 31, 2017.
As described in "38. Business Combination", the provisional accounting treatment of business combinations was completed in the current year (ended December 31, 2017), and accordingly the amount shown for the previous year (ended December 31, 2016) has been adjusted to reflect revisions to the initial allocation of the consideration owing to the completion.

(4) Information about Major Customers

Millions of yen

Name of customer	Segment	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Kokubu Group Corp.	Alcoholic Beverages		
	Soft Drinks		
	Food	202,116	**201,255**
ITOCHU-SHOKUHIN Co., Ltd.	Alcoholic Beverages		
	Soft Drinks		
	Food	195,136	**218,766**

9. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position at the end of the previous year and the current year are consistent with those in the consolidated statement of cash flows.
Cash and cash equivalents are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Cash and cash equivalents	48,459	**58,054**
Total	48,459	**58,054**

Cash and cash equivalents are classified as financial assets measured at amortized cost.

10. Trade and Other Receivables

Trade and other receivables are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Notes and accounts receivables	384,529	**421,198**
Others	13,732	**15,323**
Less: Loss allowance	(921)	**(3,084)**
Total	397,340	**433,436**

Trade and other receivables are classified as financial assets measured at amortized cost.

11. Inventories

Inventories are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Merchandise and finished goods	63,840	**71,703**
Work in progress	31,390	**37,685**
Raw materials	33,356	**36,359**
Supplies	7,872	**10,189**
Total	136,460	**155,938**

Whisky and equivalents which are to be sold after 12 months from the year end account for 64.8% (Previous year: 68.4%) of work in progress.

The Group recognized ¥1,163,707 million of inventories as an expense in the current year (Previous year: ¥925,927 million). It is included in “Cost of sales”.

No inventory is pledged as collateral for liabilities.

‘Cost of sales’ includes cost of raw materials amounting to ¥490,128 million (Previous year: ¥381,872 million).

12. Disposal Groups Held for Sale

Disposal groups held for sale are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Cash and cash equivalents	972	**288**
Inventories	124	**1,520**
Plant, property and equipment	2,040	**9,332**
Goodwill and intangible assets	2	**2,928**
Investments accounted for using equity method	—	**98,880**
Others	102	**5,693**
Total assets	3,241	**118,641**
Trade and other payables	243	**3,487**
Bonds and borrowings	—	**12,733**
Others	663	**1,745**
Total liabilities	907	**17,965**
Translation difference on foreign operations	—	**(3,440)**

The disposal groups held for sale in the current year are composed of assets and liabilities held by 3 subsidiaries (PT Asahi Indofood Beverage Makmur, PT Prima Cahaya Indobeverages and PT Tirta Sukses Perkasa) and of 2 interests in associates (Tsingtao Brewery Company Limited and PT Indofood Asahi Sukses Beverage) belonging to the Overseas segment. The Group pursues to select and focus its core business, and has determined to sell the shares in those 5 companies. The Group plans to sell the shares within 1 year from the end of the current year, and those plans have already been initiated. Furthermore, the sale of Tsingtao Brewery Co., Ltd.`s shares was completed on March 19, 2018.

Of the disposal groups held for sale, the fair value of the disposal groups whose fair value less costs to sell was lower than the carrying amount was ¥1,840 million, and the Group recognized impairment losses of ¥2,957 million. These impairment losses are included in “Other operating expense” in the consolidated statement of profit or loss. The fair value is based on the sale price under the sales contract and the fair value hierarchy level is level 3.

13. Property, Plant and Equipment

Property, plant and equipment is analyzed as follows:

Carrying Amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
Previous year (as of January 1, 2016)	159,721	141,274	82,012	126,084	9,339	144	518,576
Separate acquisitions	7,165	17,165	19,560	364	22,237	—	66,494
Acquisitions through business combinations	16,706	23,416	8,036	8,426	26	—	56,613
Disposals	(2,045)	(1,492)	(435)	(6,631)	(16)	—	(10,622)
Exchange differences	(106)	(710)	182	196	(592)	7	(1,022)
Transfers from construction in progress	3,490	6,274	2,251	—	(12,016)	—	—
Impairment losses*	(215)	(266)	(17)	—	—	—	(499)
Depreciation expenses	(13,872)	(22,750)	(18,947)	—	—	(38)	(55,609)
Transfers to assets held for sale	(1,885)	(263)	(36)	—	(84)	(119)	(2,389)
Other	(19)	(54)	(39)	—	(663)	7	(770)
Previous year (as of December 31, 2016)	168,939	162,593	92,567	128,440	18,229	0	570,771
Separate acquisitions	**8,004**	**21,872**	**21,966**	**601**	**36,122**	**—**	**88,567**
Acquisitions through business combinations	**36,258**	**43,605**	**29,566**	**11,651**	**4,292**	**—**	**125,376**
Disposals	**(2,425)**	**(1,773)**	**(9,390)**	**(345)**	**(53)**	**—**	**(13,988)**
Decrease resulting from exclusion of consolidation	**(1,169)**	**(1,482)**	**(34)**	**(1,516)**	**(27)**	**—**	**(4,230)**
Exchange differences	**9,508**	**10,136**	**11,613**	**2,653**	**1,081**	**—**	**34,993**
Transfers from construction in progress	**4,836**	**24,661**	**3,606**	**—**	**(33,249)**	**145**	**—**
Impairment losses*	**(15)**	**(43)**	**(28)**	**—**	**—**	**—**	**(86)**
Depreciation expenses	**(16,275)**	**(30,312)**	**(26,008)**	**—**	**—**	**(12)**	**(72,609)**
Transfers to assets held for sale	**(4,117)**	**(4,375)**	**(123)**	**(2,100)**	**(808)**	**—**	**(11,524)**
Other	**3,861**	**(2,121)**	**667**	**(1,516)**	**(107)**	**(133)**	**646**
Current year (as of December 31, 2017)	**207,404**	**222,762**	**124,402**	**137,864**	**25,479**	**0**	**717,914**

* Please refer to “14. Goodwill and intangible Assets” regarding recognition of impairment losses etc.

Cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
Previous year (as of January 1, 2016)	436,702	565,367	194,851	133,130	9,339	222	1,339,613
Previous year (as of December 31, 2016)	451,069	587,882	210,410	132,857	18,229	84	1,400,534
Current year (as of December 31, 2017)	**498,511**	**664,359**	**249,201**	**142,239**	**25,479**	**1**	**1,579,792**

Accumulated Depreciation and Accumulated Impairment losses

	Millions of yen						
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Other	Total
Previous year (as of January 1, 2016)	276,980	424,093	112,838	7,046	—	78	821,036
Previous year (as of December 31, 2016)	282,129	425,289	117,843	4,416	—	83	829,763
Current year (as of December 31, 2017)	**291,106**	**441,596**	**124,798**	**4,375**	**—**	**0**	**861,878**

The above includes leased assets as follows:

Carrying Amount

	Millions of yen				
	Buildings and structures	Machinery and vehicles	Tools, fixtures and fittings	Land	Total
Previous year (as of January 1, 2016)	1	273	26,376	—	26,651
Previous year (as of December 31, 2016)	578	56	24,074	—	24,708
Current year (as of December 31, 2017)	**572**	**1,343**	**20,495**	**—**	**22,411**

Depreciation expenses 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.

Items of property, plant and equipment are grouped together into cash-generating units generally by location of business facilities such as plants and offices taking into account mutual complementary nature in cash flow.

14. Goodwill and Intangible Assets

(1) Carrying Amount, Cost and Accumulated Amortization and Accumulated Impairment losses

Goodwill and intangible assets are analyzed as follows:

Carrying Amount

	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
Previous year (as of January 1, 2016)	125,008	64,550	15,644	18,282	223,485
Separate acquisitions	—	0	4,853	3,737	8,591
Acquisitions through business combinations	123,000	151,096	204	(6)	274,295
Disposals	—	(1)	(118)	(445)	(565)
Exchange differences	4,042	9,043	335	(139)	13,281
Impairment losses	(4,729)	—	—	—	(4,729)
Amortization expenses	—	(5,076)	(5,369)	(5,075)	(15,522)
Transfers to assets held for sale	—	—	—	(2)	(2)
Other	—	(58)	46	666	654
Previous year (as of December 31, 2016)	247,322	219,553	15,596	17,016	499,489
Separate acquisitions	**—**	**2,057**	**7,276**	**4,159**	**13,493**
Acquisitions through business combinations	**427,995**	**476,651**	**6,659**	**1,354**	**912,660**
Disposals	**—**	**(0)**	**(1,082)**	**(196)**	**(1,280)**
Decrease resulting from exclusion of consolidation	**—**	**—**	**—**	**(54)**	**(54)**
Exchange differences	**66,637**	**86,906**	**1,628**	**(812)**	**154,359**
Impairment losses	**(4,007)**	**(581)**	**0**	**(2,494)**	**(7,083)**
Amortization expenses	**—**	**(18,343)**	**(6,235)**	**(4,625)**	**(29,204)**
Transfers to assets held for sale	**—**	**—**	**—**	**(3,694)**	**(3,694)**
Other	**—**	**941**	**8**	**(956)**	**(6)**
Current year (as of December 31, 2017)	**737,947**	**767,184**	**23,850**	**9,696**	**1,538,679**

Cost

	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
Previous year (as of January 1, 2016)	172,795	92,048	61,694	34,058	360,596
Previous year (as of December 31, 2016)	299,838	251,636	66,051	35,790	653,317
Current year (as of December 31, 2017)	**794,471**	**821,417**	**75,625**	**33,245**	**1,724,760**

Accumulated Amortization and Accumulated Impairment losses

	Millions of yen				
	Goodwill	Trademarks	Software	Other	Total
Previous year (as of January 1, 2016)	47,787	27,498	46,050	15,775	137,111
Previous year (as of December 31, 2016)	52,516	32,083	50,455	18,773	153,828
Current year (as of December 31, 2017)	**56,523**	**54,233**	**51,774**	**23,548**	**186,081**

As described in "38. Business Combination", the provisional accounting treatment of business combinations was completed in the current year (ended December 31, 2017), and accordingly the amount shown for the previous year (ended December 31, 2016) has been adjusted to reflect revisions to the initial allocation of the consideration owing to the completion.

The above includes leased assets as follows:

Carrying Amount

	Millions of yen		
	Software	Other	Total
Previous year (as of January 1, 2016)	295	—	295
Previous year (as of December 31, 2016)	241	—	241
Current year (as of December 31, 2017)	**170**	**0**	**170**

There are no significant internally generated intangible assets as of the end of the previous year and that of the current year, respectively. Amortization expenses are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Intangible assets with indefinite useful lives are included in the above, and the carrying amounts were ¥5,320 million as of December 31, 2017 (¥6,768 million as of December 31, 2016, respectively). They primarily consist of trademarks and land leasehold right. They basically last as long as the business continues, and thereby their useful lives are considered as indefinite.

Significant intangible assets recognized in the consolidated statement of financial position are mainly trademarks derived from the acquisition of the Central and Eastern European business in the current year and the acquisition of Birra Peroni S.r.l. in the previous year. The carrying amount of trademarks recognized due to the acquisition of the Central and Eastern European business is ¥538,649 million (Note). The carrying amount of trademarks recognized due to the acquisition of Birra Peroni S.r.l. is ¥70,602 million (¥66,222 million as of December 31, 2016).

The above mentioned trademarks are amortized using the straight-line method, the remaining amortization periods of the trademarks related to Birra Peroni S.r.l and Central and Eastern European business are 39 years.

(Note) The carrying amount of trademarks derived from the acquisition related to the Central and Eastern European business is still provisional as described in "38. Business combination".

(2) Impairment

Previous year (as of December 31, 2016)

Segment	Cash-generating unit	Impairment loss amount (Millions of yen)	Type of assets
Overseas	Myanmar soft drink business	2,883	Goodwill, others
Alcoholic Beverages	Korean alcoholic beverage business	2,830	Goodwill

With regard to impairment of the Myanmar soft drink business, the carrying amount of the relevant assets has been reduced to the recoverable amount (¥1,538 million) due to a decline in the future cash flows. With regard to impairment of the Korean alcoholic beverage business, the carrying amount of the relevant assets has been reduced to the recoverable amount (¥1,616 million) due to a decline in the future cash flows affected by change in foreign exchange rates.

The recoverable amount is measured at value in use. The value in use is calculated as discounted future cash flows to reflect past experience and external information. Future cash flows are estimated based on business plans which have been approved by the management and extrapolated for future periods based on the growth rates. Growth rates have been determined with reference to factors such as inflation rates in the markets to which cash-generating units belong. Discount rates are determined with reference to the pre-tax weighted average cost of capital of cash-generating units. The discount rate of Myanmar soft drink business and Korean alcoholic beverage business used in the calculation of value in use are 21.5% and 13.4%, respectively.

(Note) Impairment losses are included in "Other operating expense" in the consolidated statement of profit or loss.

Current year (ended December 31, 2017)

Segment	Cash-generating unit	Impairment loss amount (Millions of yen)	Type of assets
Overseas	Malaysia soft drink business	**5,686**	Goodwill, Other Intangible assets and others

Due to the reclassification on management unit within the Malaysia soft drink business and Malaysia dairy business, cash-generating unit has been integrated as Malaysia soft drink business in the current year.

With regard to impairment losses of the Malaysia soft drink business, the carrying amount of the relevant assets has been reduced to the recoverable amount (¥20,730 million) due to a decline in the future cash flows.

The recoverable amount is measured at value in use. The value in use is calculated as discounted future cash flows to reflect past experience and external information. Future cash flows are estimated based on business plans which have been approved by the management and the growth rates. Growth rates have been determined with reference to factors such as inflation rates in the markets to which cash-generating unit belongs. Discount rates are determined with reference to the pre-tax weighted average cost of capital of cash-generating unit. The discount rate of Malaysia soft drink business used in the calculation of value in use is 15.2%.

(Note) Impairment losses are included in "Other operating expense" in the consolidated statement of profit or loss.

Impairment test for goodwill and intangible assets with indefinite useful lives

As of December 31, 2017, significant items among goodwill and intangible assets with indefinite useful lives allocated to each cash-generating units are as below.

Goodwill allocated to the Oceania business in the overseas segment was ¥72,962 million as of December 31, 2017. (¥71,407 million as of December 31, 2016.)

The recoverable amount is measured at value in use. The value in use is calculated by discounting at 12.5% (12.6% as of December 31, 2016). Discount rates are determined with reference to the pre-tax weighted average cost of capital of cash-generating unit.
The future cash flows are based on business plans for 5 years or less and growth rates that reflect past experience and external information and have been approved by the management. Growth rate is 2.5% (2.5% as of December 31, 2016) and it has been determined with reference to factors such as inflation rates in the markets to which cash-generating unit belongs.

The recoverable amount exceeds the carrying amount by ¥50,312 million (¥29,383 million as of December 31, 2016), however if the discount rate were to increase by 2.7% (1.7% as of December 31, 2016), then the carrying amount would exceed the recoverable amount.

Goodwill allocated to the Western Europe (International) business in the overseas segment was ¥57,484 million.

The recoverable amount is measured at value in use. The value in use is calculated by discounting at 8.0%. Discount rates are determined with reference to the pre-tax weighted average cost of capital of cash-generating unit.

The future cash flows are based on business plans for 5 years or less and growth rates that reflect past experience and external information and have been approved by the management. Growth rate is 2.0% and it has been determined with reference to factors such as inflation rates in the markets to which cash-generating unit belong.

As of December 31, 2017, the recoverable amount exceeds the carrying amount by ¥87,434 million, however if the discount rate were to increase by 4.5%, then the carrying amount would exceed the recoverable amount.

As the amount was provisional for the previous year (ended December 31, 2016), goodwill was not allocated to this cash-generating unit.

Goodwill allocated to the Western Europe (Italy) business in the overseas segment was ¥53,301 million.

The recoverable amount is measured at value in use. The value in use is calculated by discounting at 7.9%. Discount rates are determined with reference to the pre-tax weighted average cost of capital of cash-generating unit.

The future cash flows are based on business plans for 5 years or less and growth rates that reflect past experience and external information and have been approved by the management. Growth rate is 1.3% and it has been determined with reference to factors such as inflation rates in the markets to which cash-generating units belong.

As of December 31, 2017, the recoverable amount of the cash-generating unit to which significant goodwill was allocated exceeds the carrying amount by ¥22,587 million, however if the discount rate were to increase by 1.0%, then the carrying amount would exceed the recoverable amount.

As the amount was provisional for the previous year (ended December 31, 2016), goodwill was not been allocated to this cash-generating unit.

The total carrying amount of insignificant items among goodwill and intangible assets with indefinite useful lives allocated to each cash-generating unit is ¥74,284 million as of December 31, 2017 (¥45,820 million as of December 31, 2016) and ¥5,320 million as of December 31, 2017 (¥6,768 million as of December 31, 2016), respectively.

The carrying amount of goodwill derived from acquisition of the Central and Eastern European business in the current year is ¥479,916 million. The amount is still provisional as described in ”38. Business combination”.

(3) Research and Development

Research and development expenses recognized on the consolidated statement of profit or loss in the previous year (ended December 31, 2016) and the current year (ended December 31, 2017) are as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
	9,550	**11,665**

15. Other Financial Assets

Other financial assets are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Derivative assets	2,484	**5,468**
Equity instruments	186,284	**205,415**
Bonds	0	**0**
Other	13,244	**15,155**
Total	202,014	**226,039**
Current assets	3,428	**6,896**
Non-current assets	198,586	**219,142**
Total	202,014	**226,039**

Derivative assets are classified as financial assets measured at fair value through profit or loss, except for items to which hedge accounting is applied. Equity instruments are classified as financial assets measured at fair value through other comprehensive income. Bonds are classified as financial assets measured at amortized cost.

Equity instruments are held for strategic purposes, and thus designated as financial assets measured at fair value through other comprehensive income.

Details of fair values of major financial assets measured at fair value through other comprehensive income and dividends received on these assets are as follows:

Previous Year (ended December 31, 2016)

Millions of yen

Description	Fair value
Ting Hsin (Cayman Islands) Holding Corp.	33,420
DAIICHIKOSHO CO., LTD.	9,794
OHSHO FOOD SERVICE CORP.	9,049
SPC Kappa Co., LTD.	8,598
IMPERIAL HOTEL, LTD.	7,107
ORION BREWERIES, LTD.	6,891
The Dai-ichi Life Insurance Company, Limited	6,811
COLOWIDE CO.,LTD.	6,489
SKYLARK CO.,LTD.	5,275
CHIMNEY CO., LTD.	5,060

Current Year (ended December 31, 2017)

Millions of yen

Description	Fair value
Ting Hsin (Cayman Islands) Holding Corp.	**39,064**
SPC Kappa Co., LTD.	**12,724**
DAIICHIKOSHO CO., LTD.	**11,914**
OHSHO FOOD SERVICE CORP.	**11,069**
ORION BREWERIES, LTD.	**7,650**
IMPERIAL HOTEL, LTD.	**7,463**
COLOWIDE CO.,LTD.	**7,072**
The Dai-ichi Life Insurance Company, Limited	**6,972**
SKYLARK CO.,LTD.	**5,476**
CHIMNEY CO., LTD.	**5,023**

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Dividends received	2,505	**2,122**

Certain items designated as financial assets measured at fair value through comprehensive income have been disposed of during the year as a process of reviewing business relationships. The fair values, cumulative gain or loss at the disposal date and dividends received up to the disposal date are as follows:

Millions of yen

Previous year (ended December 31, 2016)			Current year (ended December 31, 2017)		
Fair value	Cumulative gain or loss	Dividends received	Fair value	Cumulative gain or loss	Dividend received
30,632	11,616	287	**11,871**	**5,098**	**119**

Cumulative gain or loss previously recognized in other components of equity is reclassified to retained earnings in case that fair value of these financial assets is significantly declined or disposed. Such amount was ¥(3,578) million in the current year (¥18,252 million in the previous year ended December 31, 2016).

16. Other Assets

"Other current assets" and "Other non-current assets" are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Prepaid expenses	19,151	**22,632**
Other	24,075	**20,839**
Total	43,227	**43,472**
Current assets	31,934	**27,104**
Non-current assets	11,293	**16,368**
Total	43,227	**43,472**

17. Trade and Other Payables

Trade and other payables are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Notes and accounts payable	159,455	**206,342**
Other payables and accrued expenses	173,184	**227,239**
Total	332,639	**433,582**

Trade and other payables are classified as financial liabilities measured at amortized cost.

18. Bonds and Borrowings (including Other Financial Liabilities)

(1) Financial Liabilities

"Bonds and borrowings" and "Other financial liabilities" are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)	Average interest rate* (%)	Maturity date
Derivative liabilities	695	**2,137**	—	—
Short-term borrowings	189,972	**98,208**	0.81	up to Dec. 14, 2018
Current portion of long-term borrowings	63,916	**98,530**	0.27	up to Dec. 28, 2018
Current portion of bonds	17,980	**19,984**	0.76	up to Oct. 19, 2018
Commercial paper	10,000	**143,000**	(0.00)	up to Feb. 20, 2018
Long-term borrowings	188,819	**382,242**	0.34	up to Nov. 29, 2024
Bonds	99,670	**519,961**	0.36	up to Jun. 11, 2027
Other	79,784	**80,084**	—	—
Total	650,840	**1,344,148**	—	—
Current liabilities	308,222	**388,946**	—	—
Non-current liabilities	342,617	**955,201**	—	—
Total	650,840	**1,344,148**	—	—

* Average interest rate" is the weighted average interest rate to the aggregate balance at the reporting date. Borrowings with floating interest rate among the bonds and borrowings stated above amounted to ¥70,205 million.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss, except for items to which hedge accounting is applied. Commercial paper, bonds, and borrowings are classified as financial liabilities measured at amortized cost.

There are no covenants attached to the bonds and borrowings which have a significant effect on the Group's financing activities.

The table above does not include the carrying amount of financial liabilities included in "Liabilities directly related to assets held for sale." Please refer to "12. Disposal Groups Held for Sale" regarding the carrying amount of financial liabilities.

(2) Bonds

Millions of yen

Issuer	Type	Issue date	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)	Maturity date (Interest rate)
the Company	the 2nd Issue of Unsecured Corporate Bond	October 21, 2011	19,968 (—)	**19,984 (19,984)**	October 19, 2018 (0.76%)
the Company	the 3rd Issue of Unsecured Corporate Bond	July 13, 2012	17,980 (17,980)	**—**	July 13, 2017 (0.33%)
the Company	the 4th Issue of Unsecured Corporate Bond	July 13, 2012	9,973 (—)	**9,982 (—)**	July 12, 2019 (0.55%)
the Company	the 5th Issue of Unsecured Corporate Bond	July 15, 2014	24,923 (—)	**24,949 (—)**	July 12, 2019 (0.23%)
the Company	the 6th Issue of Unsecured Corporate Bond	July 15, 2014	9,956 (—)	**9,964 (—)**	July 15, 2021 (0.37%)
the Company	the 7th Issue of Unsecured Corporate Bond	May 28, 2015	24,899 (—)	**24,924 (—)**	May 28, 2020 (0.24%)
the Company	the 8th Issue of Unsecured Corporate Bond	May 28, 2015	9,948 (—)	**9,957 (—)**	May 27, 2022 (0.35%)
the Company	the 9th Issue of Unsecured Corporate Bond	Jun 13, 2017	—	**99,712 (—)**	Jun 12, 2020 (0.08%)
the Company	the 10th Issue of Unsecured Corporate Bond	Jun 13, 2017	—	**129,554 (—)**	Jun 13, 2022 (0.17%)
the Company	the 11th Issue of Unsecured Corporate Bond	Jun 13, 2017	—	**19,907 (—)**	Jun 13, 2024 (0.23%)
the Company	the 12th Issue of Unsecured Corporate Bond	Jun 13, 2017	—	**29,851 (—)**	Jun 11, 2027 (0.33%)
the Company	Euro denominated straight corporate bonds due 2021	Sep 19, 2017	—	**80,623 (—)**	Sep 19, 2021 (0.32%)
the Company	Euro denominated straight corporate bonds due 2025	Sep 19, 2017	—	**80,534 (—)**	Sep 19, 2025 (1.15%)
Total	—	—	117,651 (17,980)	**539,945 (19,984)**	

(Note)The amounts presented in () represent the current portion payable within 1 year.

(3) Secured borrowings and the assets pledged as collateral are as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Secured borrowings		
Short-term borrowings	217	**1,460**
Current portion of long-term borrowings	320	**1,781**
Long-term borrowings	—	**967**
Total	537	**4,209**
Assets pledged as collateral		
Buildings and structures	823	**1,410**
Machinery and vehicles	886	**2,354**
Land	40	**133**
Cash and cash equivalents	—	**138**
Total	1,750	**4,037**

19. Leases

The Group leases machinery, vehicles and other assets as a lessee. Some lease contracts contain renewable options. There is no material clauses including purchase option, sub-lease contracts, variable lease payments, escalation and any other restrictions associated with these lease contracts.

(1) Finance Leases

Finance lease obligations are analyzed as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Less than 1 year		
Minimum lease payments payable	9,250	**8,612**
Future finance charge	(393)	**(378)**
Minimum lease payments payable, at present value	8,857	**8,233**
Between 1 and 5 years		
Minimum lease payments payable	17,145	**15,204**
Future finance charge	(681)	**(648)**
Minimum lease payments payable, at present value	16,463	**14,555**
More than 5 years		
Minimum lease payments payable	498	**211**
Future finance charge	(24)	**(10)**
Minimum lease payments payable, at present value	474	**201**
Total		
Minimum lease payments payable	26,894	**24,028**
Future finance charge	(1,099)	**(1,037)**
Minimum lease payments payable, at present value	25,795	**22,990**

(2) Operating Leases

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

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Less than 1 year	4,713	**6,931**
Between 1 and 5 years	8,671	**15,932**
More than 5 years	7,402	**2,663**
Total	20,787	**25,527**

Operating lease expenses recognized during the current year and the previous year are ¥22,388 million and ¥29,185 million, respectively.

20. Employee Benefits

(1) Overview of Defined Benefit Plans

The Group has defined benefit plans such as corporate pension plan and lump-sum retirement benefit plan. In addition, some consolidated subsidiaries have defined contribution plans and advance payment system of retirement benefits. For entities incorporated in Japan, the defined benefit plan has been established in accordance with the Defined-Benefit Corporate Pension Act of Japan. The Group pays out lump-sum benefit upon the retirements of employees and then annuity for a certain period of time after retirement in accordance with the terms of the Group's plans based on the Act. The benefits are calculated based on the pension points reflecting the length of service periods and compensation for each period.

The Group manages plan assets for the purpose of increasing the value of plan assets within the acceptable range of risks in order to ensure the benefits for participants (including potential pensioners in the future periods). The Group has developed a basic policy for the management of plan assets and implements the policy consistently. The Group considers expected rate of return and risks inherent in the investments, and then develops optimum combination of plan assets called the policy asset mix. The Group controls the asset management through appointing appropriate asset managers, reviewing the financial status on a regular basis, developing the long-term asset management policy and monitoring the situation of asset allocation. The policy asset mix is regularly reviewed in order to correspond with the market environment or funding status, which can change from the initial assumption. Lump-sum retirement benefit plans are to pay out lump-sum benefit when an employee retires due to reaching retirement age or voluntary retirement. These payments are settled by internal reserves, but not by external funds. Lump-sum retirement benefit is paid based on the Group's rules and regulations of retirement.

(2) Defined Benefit Plans

(i) Reconciliation

Present value of defined benefit obligation is analyzed as follows:

	Millions of yen	
	Previous year (ended December 31, 2016)	**Current year (ended December 31, 2017)**
Balance at beginning of period	108,636	**159,909**
Current service cost	5,822	**6,482**
Interest expense	1,281	**1,832**
Remeasurements		
Actuarial gains and losses*	8,167	**(880)**
Past service cost	16	**455**
Benefits paid	(4,635)	**(6,412)**
Acquisitions through business combinations	38,242	**—**
Other	2,377	**4,263**
Balance at end of period	159,909	**165,650**

* Actuarial gains and losses are mainly due to changes in financial assumptions.

Fair value of plan assets is analyzed as follows:

	Millions of yen	
	Previous year (ended December 31, 2016)	**Current year (ended December 31, 2017)**
Balance at beginning of period	110,600	**159,259**
Interest income	1,402	**1,578**
Remeasurements		
Gains on plan assets	(1,012)	**8,290**
Contribution to plan by employer	5,930	**6,236**
Contribution to plan by employees	75	**241**
Benefits paid	(3,745)	**(5,585)**
Acquisitions through business combinations	43,446	**—**
Other	2,563	**4,825**
Balance at end of period	159,259	**174,845**

(ii) Asset ceiling

Asset ceiling is analyzed as follows:

	Millions of yen	
	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Balance at beginning of period	—	**6,197**
Acquisitions through business combinations	6,646	**—**
Changes in the asset ceiling	(449)	**2,430**
Balance at end of period	6,197	**8,628**

(iii) Details of Plan Assets

Plan assets held by the Group are analyzed into categories as follows:

Previous Year (as of December 31, 2016)

	Millions of yen		
	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Cash and cash equivalents	—	1,880	1,880
Equity instruments	38,202	25,361	63,563
Domestic	32,481	4,635	37,116
Overseas	5,720	20,725	26,446
Debt instruments	13,882	42,336	56,219
Domestic	727	5,267	5,995
Overseas	13,154	37,069	50,224
Life insurance—General accounts	—	26,789	26,789
Other	1,878	8,928	10,807
Total	53,963	105,296	159,259

Current Year (as of December 31, 2017)

	Millions of yen		
	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Cash and cash equivalents	**—**	**1,319**	**1,319**
Equity instruments	**37,790**	**29,503**	**67,293**
Domestic	**31,099**	**5,664**	**36,764**
Overseas	**6,690**	**23,838**	**30,529**
Debt instruments	**16,269**	**43,273**	**59,542**
Domestic	**1,014**	**3,759**	**4,774**
Overseas	**15,254**	**39,513**	**54,768**
Life insurance—General accounts	**—**	**28,057**	**28,057**
Other	**7,417**	**11,214**	**18,632**
Total	**61,477**	**113,368**	**174,845**

(iv) Significant Actuarial Assumptions

Significant actuarial assumptions are analyzed as follows:

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Discount rate	1.07%	**1.05%**

A rise by 0.5% in the discount rate will lead to a decrease of defined benefit obligation by ¥10,408 million at the end of the current year (a decrease of ¥10,232 million at the year end of the previous year). This analysis is based on the assumption that only the discount rate is variable, and no other factors are considered to be variable. Thus actual results may differ as it could be influenced by fluctuations in other variables.

(v) Influence in the Future

Under the defined benefit plans, the Group is required to maintain the plan assets at a certain level of funding against pension obligations in accordance with continuation or non-continuation criteria of the Defined Benefit Corporation Pension Act.

For example, the Group makes certain contribution to the plan every month in accordance with the terms of Group's plans. The contribution is calculated based on the future estimates of interest rate, mortality rate, withdrawal rate and other assumptions that could affect the plan assets which need to balance with the expected future payments and returns on the plan assets. The contribution is reviewed every 3 years (actuarial review).

In case that funding is below the minimum funding requirement, additional contribution is required to keep the balance at a certain level.

The contribution by the Group is expected to be ¥5,171 million for the year from January 1, 2018 to December 31, 2018.

The weighted average duration of the defined benefit obligations is 16.49 years (previous year: 16.58 years).

(3) Other Post-retirement Benefit Plans

Pension cost for the defined contribution plans is ¥2,312 million (previous year: ¥2,152 million).

(4) Employee Benefits Expense

Employee benefits expense recognized in the consolidated statement of profit or loss are ¥220,663 million (previous year: ¥170,579 million).

Employee benefits expense are primarily composed of salaries, bonuses, legal welfare costs and post-employment costs. They are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

21. Provisions

Provisions are analyzed as follows: Provisions classified as non-current liabilities are included in "Other non-current liabilities" in the consolidated statement of financial position.

Current year (ended December 31, 2017)

Millions of yen

	Environmental measures	Litigation related	Tax related	Other	Total
Balance as of January 1, 2017	**—**	**1,539**	**51**	**3,682**	**5,272**
Increase	**212**	**1,133**	**1,647**	**5,864**	**8,856**
Increase owing to business combinations	**2,351**	**1,023**	**4,223**	**805**	**8,402**
Utilization	**—**	**(54)**	**(24)**	**(1,507)**	**(1,585)**
Reversal	**(896)**	**(19)**	**(432)**	**(1,449)**	**(2,796)**
Other	**(38)**	**(103)**	**(367)**	**(455)**	**(963)**
Balance as of December 31, 2017	**1,629**	**3,518**	**5,097**	**6,940**	**17,184**

Environmental Measures

These are mainly provisions to prepare for future payments that may arise in line with compliance with laws and regulations overseas aimed at environmental measures.

The outflow of economic benefits is mainly expected to occur in the following year.

Litigation Related

These are mainly provisions to prepare for payments of litigation related expenses that may arise, and amounts reasonably estimated to arise are reported based on the amount recognized as necessary at the end of each year.

The timing of the outflow of economic benefits will be affected by future developments in litigation.

Tax Related

These are mainly provisions to prepare for payments such as interest tax, penalties, arising from income tax exposure.

The timing of the outflow of economic benefits will be affected by the judgements of each tax authority.

Other

Other includes provisions mainly related to business integration.

22. Other Liabilities

"Other current liabilities" and "Other non-current liabilities" are analyzed as follows;

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Accrued alcohol tax	113,944	**115,788**
Accrued consumption tax	17,395	**19,174**
Accrued bonus	4,313	**4,755**
Other	5,312	**9,083**
Total	140,966	**148,802**
Other current liabilities	137,957	**144,355**
Other non-current liabilities	3,009	**4,446**
Total	140,966	**148,802**

For the previous year, the amount reflects the contents described in "7. Changes in Presentation Methods".

23. Equity and Other Equity Interest

(1) Issued Capital and Reserves

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

	Shares authorized (in thousands of shares)	Shares Issued (in thousands of shares)
Previous year (as of January 1, 2016)	972,305	483,585
Increase (Decrease)	—	—
Previous year (as of December 31, 2016)	972,305	483,585
Increase (Decrease)	—	**—**
Current year (as of December 31, 2017)	972,305	**483,585**

There are no par-value shares. Issued shares are fully paid.

Reserves are analyzed as follows:

(i) Share premium

Under the Companies Act of Japan, share premium is composed of capital reserve and other capital surplus. The Act stipulates that one-half or more of the proceeds from issuing a share should be recognized as share capital, and the rest should be recognized as capital reserve.

(ii) Retained earnings

Retained earnings are composed of legal reserve and other retained earnings. Under the Companies Act of Japan, one-tenth of appropriation should be reserved in capital reserve or legal reserve until the total of these amount reaches one-fourth of the share capital, and the rest of the appropriation can be distributed as dividends.

(2)Treasury shares

Treasury shares held by the Company, subsidiaries and associates are as follows:

in thousands of shares

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
	Number of shares	Number of shares
Held by the Company	25,453	**25,461**
Held by subsidiaries and associates	9	**9**

24. Dividends

Previous Year (ended December 31, 2016)

(1) Dividends Paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on March 24, 2016	Ordinary shares	11,905	26.00	Dec. 31, 2015	Mar. 25, 2016
Board of Directors held on August 3, 2016	Ordinary shares	11,911	26.00	Jun. 30, 2016	Sep. 1, 2016

(2) Dividends that will be Effective in the Following Year of the Reference Date

Resolution	Type of shares	Resources of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on March 28, 2017	Ordinary shares	Retained earnings	12,827	28.00	Dec. 31, 2016	Mar. 29, 2017

Current Year (ended December 31, 2017)

(1) Dividends Paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on March 28, 2017	Ordinary shares	**12,827**	**28.00**	Dec. 31, 2016	Mar. 29, 2017
Board of Directors held on August 3, 2017	Ordinary shares	**13,743**	**30.00**	Jun. 30, 2017	Sep. 1, 2017

(2) Dividends that will be Effective in the Following Year of the Reference Date

Resolution	Type of shares	Resources of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on March 27, 2018	Ordinary shares	Retained earnings	**20,615**	**45.00**	Dec. 31, 2017	Mar. 28, 2018

25. Share-based Payments

The Company has implemented Performance-Linked Stock Compensation Plan.

Details of Performance-Linked Share Compensation Plan

In order to increase motivation to work toward sustainable growth and the increase of corporate value over the mid- to long-term of the Group, the Company introduced a Performance-Linked Stock Compensation Plan ("the Plan") in the year ended December 31, 2016. Under the Plan, the Company will grant share points (one point = one share) to directors that fulfill certain criteria, and shares of the Company will be delivered to them on their retirement in exchange for the cumulative number of share points granted to them. Shares are distributed or payments are made in cash as compensation under the Plan, therefore there is no exercise price under the Plan.

The number of points to be granted is calculated based on the Share Distribution Regulations. The regulation stipulates to refer to the rank of each director excluding outside directors and the level of achievement of target basic earnings per share (EPS) for the year that is the subject of evaluation. The Board of Directors shall make a resolution regarding the granting of points as well as an approval of the financial results at the board meeting held in the following year of the vesting period. The aggregate number of share points to be granted by the Company to directors shall be 21,000 points at a maximum for each year.

The Company contribute cash up to ¥220 million at a maximum to a trust ("the Trust") between December 2016 and June 2018. The Trust will be funded with the cash contribution in order to acquire shares of the Company. Shares of the Company will be distributed by the Trust to each director when he/she completes the beneficiary determination procedures as prescribed on his/her retirement. However, a certain proportion of such shares will be sold and converted into cash by the Trust, and will be distributed in cash instead of the shares to directors. Also, the Trust is allowed to make a distribution in cash instead of shares when shares of the Company held by the Trust are sold for a tender offer or any other reasons.

Transactions settled by shares under the Plan are accounted for as equity-settled share-based payment transactions and those settled in cash as cash-settled share-based payment transactions. The Company recognized ¥60 million (previous year: ¥56 million) as share-based payment expense in selling, general and administrative expenses in the current year, of which ¥48 million (previous year: ¥44 million) related to equity-settled share-based payments were recognized in capital surplus and ¥12 million (previous year: ¥11 million) related to cash-settled share-based payments were recognized in other non-current liabilities, respectively.

Share points were preliminarily granted as cash contribution has not yet been made to the Trust. Therefore, information about the number of share points and the weighted average fair value of the share points is omitted.

26. Revenue

Revenue is analyzed as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Sale of goods	1,676,467	**2,053,138**
Rendering of services	30,433	**31,739**
Total	1,706,901	**2,084,877**

27. Selling, General and Administrative Expenses

Selling, general and administrative expenses are analyzed as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Sales commissions	106,991	**128,582**
Advertising	48,092	**60,284**
Transportation	59,621	**71,796**
Employee benefits expense	117,039	**154,199**
Depreciation and amortization expenses	31,836	**49,276**
Other	96,660	**128,968**
Total	460,241	**593,108**

28. Other Operating Income and Expense

'Other operating income' and 'Other operating expense' are analyzed as follows:

(1) Other Operating Income

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Gains on sales of property, plant and equipment	6,096	**1,005**
Gains on sales of shares of subsidiaries and associates	—	**10,542**
Other	1,907	**981**
Total	8,004	**12,530**

(2) Other Operating Expense

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Losses on disposals of property, plant and equipment	4,771	**6,475**
Impairment losses	6,336	**10,128**
Other	8,493	**9,102**
Total	19,600	**25,706**

29. Finance Income and Finance Costs

'Finance income' and 'Finance costs' are analyzed as follows:

(1) Finance Income

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Interest received		
Financial assets measured at amortized cost	331	**852**
Dividends received		
Financial assets measured at fair value through other comprehensive income	2,505	**2,122**
Gains on change in fair value of derivatives		
Financial assets measured at fair value through profit or loss	251	**2,231**
Other	18	**—**
Total	3,106	**5,206**

(2) Finance Costs

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Interest paid		
Financial liabilities measured at amortized cost	3,763	**6,725**
Foreign exchange loss	706	**1,382**
Other	(403)	**2,259**
Total	4,066	**10,368**

30. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

'Deferred tax assets' and 'Deferred tax liabilities' are mainly composed of the followings:

Previous Year (ended December 31, 2016)

Millions of yen

	Previous year (as of January 1, 2016)	Recognized in profit or loss	Recognized in OCI	Other*	Previous year (as of December 31, 2016)
Deferred tax assets					
Loss allowance for credit losses	1,926	(125)	—	858	2,659
Retirement benefits	3,995	(986)	2,691	325	6,025
Property, plant and equipment and intangible assets	35,431	(8)	—	6,773	42,196
Unused tax losses	4,618	(548)	—	(179)	3,890
Income tax payable-enterprise tax	2,116	984	—	(29)	3,071
Accrued bonus	1,901	(143)	—	(529)	1,228
Other	14,392	823	(309)	(101)	14,806
Total of DTA	64,382	(3)	2,382	7,116	73,878
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(39,850)	(314)	—	(32,702)	(72,866)
Equity instruments	(26,371)	—	6,011	413	(19,946)
Retained earnings of subsidiaries and associates	(10,748)	(11,966)	6,985	—	(15,730)
Other	(2,724)	(1,900)	(121)	983	(3,762)
Total of DTL	(79,694)	(14,181)	12,875	(31,304)	(112,306)
Net amount of DTA and DTL	(15,312)	(14,185)	15,258	(24,188)	(38,427)

* Amounts in the column 'Other' are primarily deferred tax assets and deferred tax liabilities recognized through business combination. Exchange rate fluctuations are also included in other.

Current Year (ended December 31, 2017)

Millions of yen

	Current year (as of January 1, 2017)	Recognized in profit or loss	Recognized in OCI	Other*	Current year (as of December 31, 2017)
Deferred tax assets					
Loss allowance for credit losses	**2,659**	**(691)**	—	**(631)**	**1,336**
Retirement benefits	**6,025**	**1,180**	**(2,312)**	**1,025**	**5,919**
Property, plant and equipment and intangible assets	**42,196**	**3,273**	—	**508**	**45,977**
Unused tax losses	**3,890**	**(2,529)**	—	**(406)**	**954**
Income tax payable-enterprise tax	**3,071**	**(1,747)**	—	**440**	**1,765**
Accrued bonus	**1,228**	**45**	—	**362**	**1,637**
Other	**14,806**	**11,745**	**959**	**5,185**	**32,696**
Total of DTA	**73,878**	**11,276**	**(1,352)**	**6,485**	**90,287**
Deferred tax liabilities					
Property, plant and equipment and intangible assets	**(72,866)**	**3,748**	—	**(115,575)**	**(184,693)**
Equity instruments	**(19,946)**	—	**(6,169)**	—	**(26,115)**
Retained earnings of subsidiaries and associates	**(15,730)**	**11,708**	**(4,630)**	—	**(8,653)**
Other	**(3,762)**	**(1,369)**	**43**	**(11,128)**	**(16,217)**
Total of DTL	**(112,306)**	**14,086**	**(10,756)**	**(126,703)**	**(235,679)**
Net amount of DTA and DTL	**(38,427)**	**25,363**	**(12,108)**	**(120,217)**	**(145,391)**

* Amounts in the column 'Other' are primarily deferred tax assets and deferred tax liabilities recognized through business combination. Exchange rate fluctuations are also included in other.

As described in "38 Business Combination", the provisional accounting treatment of business combinations was completed in the current year (ended December 31, 2017), and accordingly the amount shown for the previous year (ended December 31, 2016) has been adjusted to reflect revisions to the initial allocation of the consideration owing to the completion.

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

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Deductible temporary differences	263,845	**236,104**
Unused tax losses		
Expires within 1 year	627	**101**
Expires between 1 and 5 years	15,028	**5,700**
Expires after 5 years	3,033	**12,478**
Total	18,689	**18,280**
Unused tax credits		
Expires within 1 year	4	**0**
Expires between 1 and 5 years	15	**—**
Expires after 5 years	494	**—**
Total	513	**0**

Deferred tax liability is not recognized for taxable temporary difference associated with investments in subsidiaries if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Taxable temporary differences associated with investments in subsidiaries which deferred tax liabilities are not recognized for are ¥521,829 million (previous year: ¥417,158 million).

(2) Tax Expense

Tax expense are analyzed as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Current tax expense		
Current year	51,953	**83,499**
Previous year	(3,186)	**—**
Total of current tax expense	48,767	**83,499**
Deferred tax expense		
Recognition and reversal of temporary differences	15,613	**(26,189)**
Recognition of previously unrecognized tax losses	(1,708)	**—**
Revision of recoverability of deferred tax assets	(496)	**731**
Change in tax rate	776	**94**
Total deferred tax expense	14,185	**(25,363)**
Total	62,952	**58,135**

Difference between the effective statutory tax rate and the average effective tax rate are analyzed as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Effective statutory tax rate	33.1%	**30.9%**
Tax rate effect of foreign subsidiaries	0.2	**(2.5)**
Tax effect of non-taxable or non-deductible items for tax purposes	0.8	**0.9**
Profit (loss) of entities accounted for using equity method	(0.4)	**(0.2)**
Gains on sales of investments accounted for using equity method	1.7	**5.4**
Tax effect from change in tax rate	0.5	**0.0**
Impairment of goodwill and other items	1.3	**1.6**
Retained earnings of subsidiaries and associates	8.0	**(5.9)**
Income tax for previous years	(2.1)	**—**
Recognition of tax losses not recognized in the past	(1.1)	**—**
Other	0.1	**(0.7)**
Average effective tax rate	41.9%	**29.5%**

Income tax, inhabitant tax and business tax are main components of income taxes imposed on the Group, and the effective statutory tax rate based on those taxes is 33.1% for the previous year and 30.9% for the current year, respectively. Foreign subsidiaries are subject to income taxes in the tax jurisdiction that it is located.

31. Earnings per Share

(1) Basic Earnings per Share and Diluted Earnings per Share

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Basic earnings per share (Yen)	194.75	**307.78**
Diluted earnings per share (Yen)	194.75	**307.78**

(2) Basis of Calculation for Basic and Diluted Earnings per Share

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Profit attributable to owners of parent (Millions of yen)	89,221	**141,003**
Weighted average number of ordinary shares outstanding (Shares)	458,122,963	**458,128,279**
Effect of dilution (Shares):		
Warrant	16,663	**—**
Trust for share issuance to executives	—	**8,937**
Adjusted weighted average number of ordinary shares outstanding (Shares)	458,139,626	**458,137,216**
Description of equity instruments not included in calculation of diluted earnings per share because they were not dilutive for the year	—	**—**

32. Other Comprehensive Income

Other comprehensive income and related tax effects are analyzed as follows:

Millions of yen

	Previous year (ended December 31, 2016)			Current year (ended December 31, 2017)		
	Before Tax	Tax Effects	After Tax	Before Tax	Tax Effects	After Tax
Items that will not be reclassified to profit or loss						
Changes in fair value of financial instruments measured at fair value through other comprehensive income						
Increase and decrease	(9,115)	6,104	(3,010)	**29,068**	**(5,984)**	**23,083**
Changes	(9,115)	6,104	(3,010)	**29,068**	**(5,984)**	**23,083**
Remeasurements of defined benefit plans						
Increase and decrease	(9,180)	2,846	(6,333)	**7,502**	**(2,347)**	**5,154**
Changes	(9,180)	2,846	(6,333)	**7,502**	**(2,347)**	**5,154**
Share of other comprehensive income of entities accounted for using equity method Increase and decrease	30	—	30	**(6)**	**—**	**(6)**
Changes	30	—	30	**(6)**	**—**	**(6)**
Items that might be reclassified to profit or loss						
Cash flow hedges						
Increase and decrease	(11,411)	3,747	(7,664)	**(19,641)**	**6,106**	**(13,535)**
Reclassification to profit or loss	53	(17)	35	**1,791**	**(621)**	**1,170**
Changes	(11,358)	3,729	(7,628)	**(17,850)**	**5,485**	**(12,364)**
Costs of hedging						
Increase and decrease	—	—	—	**(1,663)**	**509**	**(1,153)**
Reclassification to profit or loss	—	—	—	**(37)**	**11**	**(25)**
Changes	—	—	—	**(1,700)**	**520**	**(1,179)**
Translation difference on foreign operations						
Increase and decrease	10,130	7	10,137	**157,256**	**289**	**157,546**
Reclassification to profit or loss	—	—	—	**730**	**(14)**	**716**
Changes	10,130	7	10,137	**157,987**	**275**	**158,263**
Share of other comprehensive income of entities accounted for using equity method						
Increase and decrease	(30,339)	8,631	(21,707)	**9,934**	**(3,282)**	**6,652**
Reclassification to profit or loss	4,677	(1,654)	3,023	**3,864**	**(1,336)**	**2,528**
Changes	(25,661)	6,977	(18,683)	**13,798**	**(4,618)**	**9,180**
Total other comprehensive income	(45,154)	19,665	(25,488)	**188,799**	**(6,668)**	**182,131**

33. Financial Instruments

(1) Capital Management

The Group sets objectives on capital management as providing shareholders with returns as well as providing other stakeholders with benefits and maintaining an optimal capital structure to reduce the capital cost. It enables the Group to continue its business as a going concern.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, make a redemption of capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity. Net debt is calculated as interest-bearing liabilities less cash and cash equivalents. Equity is total equity attributable to owners of parent.

The gearing ratios are as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Interest-bearing liabilities	632,691	**1,321,801**
Less: Cash and cash equivalents	(48,459)	**(58,054)**
Net debt	584,231	**1,263,746**
Equity attributable to owners of parent	836,354	**1,145,135**
Gearing ratio	69.9%	**110.4%**

There are no capital adequacy requirements imposed by external organizations on the Group.

(2) Risk Management

The Group is exposed to a variety of financial risks such as market risk including foreign exchange risk, price rate risk and interest rate risk, credit risk and liquidity risk. The Group's risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative transactions to hedge certain risk exposures.

The Company and its major subsidiaries consider direct and indirect finance, or short-term and long-term finance balances in terms of financing costs and risk diversification to respond to changes in the operating environment, and fund required capital using commercial paper, bonds and borrowings. The Group implements a cash management system among the Company and major subsidiaries in Japan in order to efficiently utilize the funds and to reduce interest-bearing liabilities at the Group level. The Company invests in only highly secured financial instruments when any surplus cash exists as a result.

The Group uses derivative transactions as a method to mitigate foreign exchange risk, price risk of raw materials and interest rate risk and also to minimize financing costs, within the outstanding balances of assets and liabilities denominated in foreign currencies, bonds and borrowings. Derivatives transactions are generally entered into only with highly rated financial institutions.

The Finance Section of the Company manages derivative transactions in accordance with the Group's policy. Each derivative contract is approved in accordance with the Company's authorization criteria. Finance Section also reviews the situation of derivative transactions such as contract provisions and outstanding balances, and reports to the General Manager of the Finance Section and the Chief Financial Officer in a timely manner.

Derivative transactions at subsidiaries are also entered into based on the Group's authorization criteria. The Company monitors these derivatives by obtaining reports from those subsidiaries on a regular basis.

(i) Market Risks

a. Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk mainly associated with the US dollar, Euro and Czech koruna. Foreign exchange risk arises from forecast transactions such as purchases, sales, financing and repayments, as well as assets and liabilities which have been already recognized.

The Group uses foreign currency exchange contracts and currency swaps to hedge exposures to foreign exchange risks. Hedge accounting is applied to transactions which qualify for hedge accounting. When designating hedging instruments, the currency basis spread of currency swaps is excluded as costs of hedging.

Receivables and payables in foreign currencies are exposed to fluctuation of foreign currency rates, however the risk is offset by foreign exchange rate contracts and its effect is limited.

Exposure to Foreign Exchange Risk

The exposure to the US dollar, Euro and Czech koruna, major foreign currencies of the companies in the Group which use Japanese yen as the functional currency, is as follows. These amounts do not include amounts associated with foreign exchange risk which is hedged by derivative transactions, etc.

functional currency: Japanese yen

Millions of yen

	Previous year (as of December 31, 2016)		
	US dollar	Euro	Czech koruna
Net exposure	(6,648)	1,040	—

Millions of yen

	Current year (as of December 31, 2017)		
	US dollar	Euro	Czech koruna
Net exposure	**956**	**196**	**14**

In addition to the above, the major exposure to foreign exchange risk of subsidiaries that use Euro as the functional currency is described below.

functional currency: Euro

Millions of yen

	Previous year (as of December 31, 2016)	
	US dollar	Czech koruna
Net exposure	—	—

Millions of yen

	Current year (as of December 31, 2016)	
	US dollar	Czech koruna
Net exposure	**(976)**	**15,101**

Sensitivity Analysis

Assuming that the Japanese yen appreciates by 1% against the US dollar, Euro and Czech koruna, it will affect profit before tax of the Group as follows. The effect will be reversed in cases of depreciation by 1% given that all other variables remain constant.

functional currency: Japanese yen

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
US dollar	66	**(9)**
Euro	(10)	**(1)**
Czech koruna	—	**(0)**

Assuming that the Euro appreciates by 1% against the US dollar and Czech koruna, it will affect profit before tax of the Group as follows. The effect will be reversed in case of depreciation by 1% given that all other variables remain constant.

functional currency: Euro

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
US dollar	—	**9**
Czech koruna	—	**(151)**

b. Price Risk

The Group is exposed to price risk of equity instruments measured at fair value on the consolidated statement of financial position. The Group assesses their fair values and the financial conditions of the issuers as well as reviews the outstanding balance on an ongoing basis to manage price risk arising from investments in equity instruments.

The Group does not hold equity instruments for short-term trading purposes, and does not actively trade these investments. With an increase or a decrease in share price of 5% and all other variables remaining constant, other components of equity (before tax) will increase or decrease by ¥6,016 million (previous year: ¥5,831 million) as a result of changes in fair value.

Prices of major raw materials used for the Group's products fluctuate in relation to factors such as climate and natural disasters. The Group uses commodity swap transactions to mitigate price risk associated with the raw materials.

c. Interest Rate Risk

The Group is exposed to interest rate risk for some finances with variable interest rates. The interest rate risk arises mainly from long-term borrowings.

The Group uses interest rate swaps which practically fix the interest rate in order to mitigate the interest rate risk. Hedge accounting is applied to transactions that qualify for hedge accounting.

Assuming that interest rates fluctuate by 1% for financial instruments held by the Group at the end of the current year, it will affect on profit before tax as set out below. The analysis relates only to the financial instruments influenced by interest-rate fluctuation, and given that the other factors such as foreign exchange effects remain constant. The table below shows a sensitivity analysis for the outstanding balance of floating rate borrowings less the balance whose interest rate is practically fixed by an interest rate swap.

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Profit before tax	48	**337**

(ii) Credit Risk

The Group is exposed to credit risk associated with trade receivables (notes and accounts receivable), other receivable (non-trade receivables) and other financial assets (such as loans receivable to customers).

The Group monitors the financial situation of major customers on a regular basis in accordance with the Group's accounting regulations for trade receivables and loans receivable to customers, and also controls due dates and outstanding balances for each customer on a daily basis. The Group also identifies credit-impaired receivables and acts in a timely manner to collect them.

The Group enters into derivative transactions generally only with highly rated financial institutions in order to reduce credit risk. The Group classifies receivables based on customers' credit risk features and measures loss allowance.

Loss allowance for trade receivables is always measured at an amount equal to lifetime expected credit losses. Loss allowance for receivables other than trade receivables are measured at an amount equal to 12-month expected credit losses in principle, except for receivables, for example overdue, whose credit risk has significantly increased after the initial recognition. Loss allowance for those receivables are measured at an amount equal to lifetime expected credit losses.

Loss allowance is measured as follows:

- Trade Receivables
  The simplified approach is applied. Trade receivables are categorized according to customers' credit risk features, and loss allowance is measured based on the historical credit loss ratio and expected future economic conditions for each category.
- Receivables other than Trade Receivables
  The general approach is applied. Loss allowance for receivables whose credit risk is considered not significantly increased is measured based on the historical credit loss ratio of similar receivables and expected future economic conditions. Loss allowance for receivables whose credit risk is considered significantly increased and credit-impaired financial instruments is measured as the difference between the present value of expected future cash flow discounted by the initial interest rate and the carrying amount.

Carrying amounts of financial assets subject to impairment and the amount of loss allowance are as follows:
The table below includes the carrying amount included in "Assets held for sale."

Trade and Other Receivables

Carrying amount	Millions of yen Financial assets with loss allowance measured at 12-month expected credit losses	Financial assets with loss allowance measured at lifetime expected credit losses	Financial assets to which the simplified approach is applied
Previous year (as of January 1, 2016)	11,843	158	361,447
Previous year (as of December 31, 2016)	13,491	240	384,529
Current year (as of December 31, 2017)	**14,523**	**838**	**425,086**

Financial assets with loss allowance measured at lifetime expected credit losses consist mainly of credit-impaired financial assets.

Credit Risk Rating

The credit risk rating of financial assets with loss allowance measured at lifetime expected credit losses is relatively low compared to that of financial asset with loss allowance measured at 12-month expected credit losses, whereas that of financial assets to which the simplified approach is applied is equivalent to that of financial asset with loss allowance measured at 12-month expected credit losses. Credit risk of financial assets within the same stage is approximately the same.

The Group includes impairment loss related to credit risk in "Other operating expense" in the consolidated statement of profit or loss in the light of its immateriality.

Loss allowance	Millions of yen Financial assets with loss allowance measured at 12-month expected credit losses	Financial assets with loss allowance measured at lifetime expected credit losses	Financial assets to which the simplified approach is applied
Previous year (as of January 1, 2016)	25	140	1,239
Increase	1	102	665
Utilization	—	(0)	(307)
Reversal	(25)	(10)	(1,174)
Other	0	(12)	277
Previous year (as of December 31, 2016)	1	219	700
Increase	**6**	**98**	**2,129**
Utilization	**—**	**(163)**	**(254)**
Reversal	**(1)**	**—**	**(742)**
Other	**70**	**(10)**	**1,029**
Current Year (as of December 31, 2017)	**77**	**144**	**2,862**

Other Financial Assets

Carrying amount	Millions of yen Financial assets with loss allowance measured at 12-month expected credit losses	Financial assets with loss allowance measured at lifetime expected credit losses
Previous year (as of January 1, 2016)	9,842	4,991
Previous year (as of December 31, 2016)	9,443	6,490
Current year (as of December 31, 2017)	**9,239**	**1,866**

Financial assets with loss allowance measured at lifetime expected credit losses consist mainly of credit-impaired financial assets.

Credit Risk Rating

The credit risk rating of financial assets with loss allowance measured at lifetime expected credit losses is relatively low compared to that of financial asset with loss allowance measured at 12-month expected credit losses. Credit risk of financial assets within the same stage is approximately the same.

The Group includes impairment loss related to credit risk in “Other operating expense” in the consolidated statement of profit or loss in the light of its immateriality.

Millions of yen

Loss allowance	Financial assets with loss allowance measured at 12-month expected credit losses	Financial assets with loss allowance measured at lifetime expected credit losses
Previous year (as of January 1, 2016)	298	4,230
Increase	233	124
Utilization	—	(2)
Reversal	(298)	(119)
Other	—	(781)
Previous year (as of December 31, 2016)	233	3,451
Increase	**158**	**11**
Utilization	**(84)**	**(2,300)**
Reversal	**(152)**	**(221)**
Other	**8**	**(239)**
Current Year (as of December 31, 2017)	**162**	**702**

Effect of Significant Changes in Gross Carrying Amount of Financial Instruments during the Year

There was no significant increase or decrease in gross carrying amount of the financial instruments which contributed to changes in the loss allowance during the current year and the previous year.

Maximum Exposure to Credit Risk

The maximum exposure to the credit risk associated with financial assets is the carrying amount presented in the consolidated statement of financial position unless considering collateral and other credit enhancement held by the Group as of the reporting date. The maximum exposure to the credit risk with guarantees is as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Guarantees	2,713	**2,981**

Provision for expected credit losses on financial guarantees which may occur as a result of fulfillment of debt guarantee contracts stated above is not recorded because the amount is not expected to be material.

The amount of collateral and other credit enhancement held as a guarantee for the financial assets is ¥4,578 million at the end of the current year (¥5,918 million as of December 31, 2016 (previous year)).

The collateral held as guarantee is mainly composed of deposit money.

(iii) Liquidity Risk

The Group raises funds through borrowings, commercial paper and bonds. The Group is exposed to liquidity risk, such as an adverse financing environment, that might lead the Group to default in repayment in a timely manner.

The Company and its primary subsidiaries have implemented a joint cash management system. The Company centrally manages liquidity risk for the participants.

The Group prepares and updates financing plans based on the reports provided by each entity. The Group monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group’s debt financing plans, covenants, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

Surplus funds in excess of the necessary headroom in working capital are operated within the cash management system at the Group level. The Group selects financial instruments with appropriate maturities and sufficient liquidity that would provide sufficient headroom as determined by the abovementioned forecasts, and invests surplus funds in financial instruments such as current deposits, fixed deposits, money market deposits and marketable securities.

Maturity analysis of non-derivative financial liabilities and net-settled derivative liabilities held by the Group based on the remaining period to the maturity is as follows:

Previous Year (as of December 31, 2016)

Millions of yen

	Carrying amount	Contractual cash flow	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years
Trade and other payables	332,639	332,639	332,639	—	—	—	—	—
Bonds and borrowings	570,360	570,708	281,889	65,948	76,557	71,872	58,689	15,750
Derivative liabilities	695	695	678	14	2	—	—	—

Current Year (as of December 31, 2017)

The table below includes the carrying amount included in “Liabilities directly related to assets held for sale.” Please refer to “12. Disposal Groups Held for Sale” regarding the carrying amount.

Millions of yen

	Carrying amount	Contractual cash flow	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years
Trade and other payables	**437,070**	**437,070**	**437,070**	—	—	—	—	—
Bonds and borrowings	**1,274,659**	**1,288,612**	**365,243**	**134,234**	**229,534**	**262,079**	**153,558**	**143,964**
Derivative liabilities	**2,137**	**2,137**	**2,105**	**30**	**1**	—	—	—

(3) Fair Value of Financial Instruments

The Group uses observable data in the market as much as possible in fair value measurements. Fair value measurements are categorized into the following levels based on the level of the input.

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

Level 2: inputs other than quoted prices, either directly or indirectly observable

Level 3: inputs that are not based on observable market data

A fair value measurements is reclassified to a different level of the fair value hierarchy on the date when the triggering event or change in circumstances occurred.

Fair values of financial instruments measured at amortized cost are analyzed as follows:

The table below includes the carrying amount included in “Liabilities directly related to assets held for sale.” Please refer to “12. Disposal Groups Held for Sale” regarding the carrying amount.

Millions of yen

	Previous year (as of December 31, 2016)		Current year (as of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans receivable	2,337	2,274	**1,485**	**1,445**
Long-term borrowings	252,736	255,336	**492,456**	**492,372**
Bonds	117,651	118,727	**539,945**	**542,279**
Lease obligations	25,795	25,838	**22,990**	**23,385**

The above table includes outstanding balances expected to be reimbursed or recovered within 1 year.

Financial instruments whose carrying amount is a reasonable approximation of fair value are not included in the above table.

The fair value of long-term loans receivable is measured at an amount of principal and interest expected to receive discounted by an expected interest rate that will be applied to a similar new loan at the time.

The fair value of long-term borrowings is measured at an amount of principal and interest expected to be paid discounted by an expected interest rate that will be applied to a similar new loan at the time.

The fair value of bonds is based on the price on bond markets, if available.

The fair value of finance lease obligations is measured at the present value of the total amount of principal and interest discounted by an expected interest rate which will be applied to a similar new lease transaction at the time.

In the above measurement of fair value, bonds are classified as Level 2 and other items as Level 3. The fair value of Level 2 bonds is estimated using statistical prices announced by Japan Securities Dealers Association. The fair value of Level 3 financial instruments is measured by discounting contractual cash flows at market interest rates, and the difference form the carrying amount is due to the difference between market interest rates and contractual interest rates.

Financial assets and liabilities measured at fair value are as follows:

Previous Year (as of December 31, 2016)

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Derivatives designated as hedging instruments	—	587	—	587
Derivatives not designated as hedging instruments	—	1,897	—	1,897
Equity instruments	116,625	71	69,588	186,284
Others	151	682	—	833
Total assets	116,777	3,238	69,588	189,603
Liabilities				
Derivatives designated as hedging instruments	—	695	—	695
Derivatives not designated as hedging instruments	—	—	—	—
Total liabilities	—	695	—	695

There were no material transfers between Levels 1 and 2 during the year.

Current Year (as of December 31, 2017)

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Derivatives designated as hedging instruments	**—**	**4,339**	**—**	**4,339**
Derivatives not designated as hedging instruments	**—**	**1,128**	**—**	**1,128**
Equity instruments	**120,336**	**78**	**85,001**	**205,415**
Others	**146**	**649**	**—**	**795**
Total assets	**120,482**	**6,195**	**85,001**	**211,679**
Liabilities				
Derivatives designated as hedging instruments	**—**	**1,526**	**—**	**1,526**
Derivatives not designated as hedging instruments	**—**	**610**	**—**	**610**
Total liabilities	**—**	**2,137**	**—**	**2,137**

There were no material transfers between Levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is the quoted market prices at the reporting date. The financial instruments are categorized into Level 1. Financial instruments categorized into Level 1 comprise primarily equity instruments traded in active markets.

The fair value of financial instruments that are not traded in an active market (for example, interest rate swaps and foreign currency exchange contracts) is determined by using another valuation technique which maximizes the use of observable market input and minimizes the use of entity specific estimates as much as possible. If all significant inputs are observable, the financial instrument is categorized into Level 2.

If one or more of the significant inputs is not based on observable market data, the financial instrument (for example, an equity instrument that is not traded in an active market) is categorized into Level 3. These financial instruments are primarily valued with the comparable companies analysis method or the discounted cash flow method, using inputs that are reasonably available and that many market participants consider reasonable.

Financial instruments categorized into Level 3 are analyzed as follows:

Previous Year (ended December 31, 2016)

Millions of yen

	Equity instruments measured at fair value through other comprehensive income	Derivatives
Balance at beginning of period	76,302	—
Gains (losses) recognized in profit or loss	—	—
Gains (losses) recognized in other comprehensive income	(6,400)	—
Purchases	398	—
Sales	(672)	—
Settlements	—	—
Transfers into/out of Level 3	—	—
Other	(40)	—
Balance at end of period	69,588	—
Of gains (losses) recognized in profit or loss : Gains (losses) for assets held at end of period	—	—

Current Year (ended December 31, 2017)

Millions of yen

	Equity instruments measured at fair value through other comprehensive income	Derivatives
Balance at beginning of period	**69,588**	—
Gains (losses) recognized in profit or loss	—	—
Gains (losses) recognized in other comprehensive income	**16,006**	—
Purchases	**8**	—
Sales	**(619)**	—
Settlements	—	—
Transfers into/out of Level 3	**(25)**	—
Other	**43**	—
Balance at end of period	**85,001**	—
Of gains (losses) recognized in profit or loss : Gains (losses) for assets held at end of period	—	—

The Group analyzes changes in fair value measurements (including Level 3) based on factors such as inputs. The result of fair value measurements and the calculation processes (including assessments of valuation performed by a third party) as well as the results of analysis for the factors which caused the changes in the fair value are reported to Chief Financial Officer, and then the Officer reviews them and reports to the Board of Directors as necessary.

The principal unobservable input used in calculating the fair value of equity instruments classified as Level 3 is the price book-value ratio in the comparable companies analysis method, which is distributed in a rage from 1.2 times to 2.1 times (from 0.8 times to 2.0 times in the previous year).

Each calculation model used for fair value measurement is annually reviewed by the Finance Section. The Group also engages a review, if necessary, by an external independent specialist of fair value measurement. The Group sometimes use internal estimates in fair value measurement. Various analysis are performed for internal estimates such as time-series comparison to review appropriateness of these estimates, and then the Chief Financial Officer reviews the details as needed.

As to financial instruments categorized into Level 3, significant changes in fair value are not expected in case that an unobservable input is replaced by a reasonable alternative assumption.

(4) Derivatives and Hedge Accounting

Hedge accounting conducted in the Group's risk management is described in '(2) Risk Management'.

(i) Effect on the Consolidated Statement of Financial Position

Effect of derivatives designated as hedging instruments is set out below. Carrying amounts of derivatives designated as hedging instruments are measured at fair value and included in 'Other financial assets' or 'Other financial liabilities' or 'Bonds and borrowings' in the consolidated statement of financial position.

Previous Year (as of December 31, 2016)

			Carrying amount (fair value)	
Hedge type	Hedging instrument	Notional Amount (Millions of yen)	Assets (Millions of yen)	Liabilities (Millions of yen)
Cash flow hedge	Foreign currency exchange contract	296,180	577	583
	Currency swap	1,274	—	60
	Commodity swap	555	10	—
	Interest rate swap	14,105	—	52
Total		312,116	587	695

The average rates applied to the foreign currency exchange contracts are ¥104.78 per US dollar and ¥120.39 per Euro. The average interest rate applied to the interest swaps is 1.11%.

Current Year (as of December 31, 2017)

			Carrying amount (fair value)	
Hedge type	Hedging instrument	Notional Amount (Millions of yen)	Assets (Millions of yen)	Liabilities (Millions of yen)
Cash flow hedge	Foreign currency exchange contract	**50,958**	**569**	**803**
	Currency swap	**161,560**	**3,434**	**52**
	Commodity swap	**5,222**	**334**	**3**
	Interest rate swap	**2,875**	**0**	**3**
	Forward contract	**106,373**	**—**	**665**
Total		**326,989**	**4,339**	**1,526**
Net investment hedge in foreign operations	Euro denominated borrowings	**40,482 (Euro 300 million)**	**—**	**40,482**

The average rates applied to the foreign currency exchange contracts are ¥110.56 per US dollar, ¥123.65 per Euro and Euro 0.23 per Polish Zloty. The average rates applied to the currency swap is ¥130.50 per Euro. The average interest rate applied to the interest swaps is 0.49%. Forward price to applied to forward contracts are US 847 million and HK 735 million.

Hedge transactions conducted by the Group hedge all hedged items, and there are no transactions that only hedge certain risk elements.

The periods for which the foreign currency exchange contract, currency swap, commodity swap, interest rate swap and forward contracts would hedge cash flow fluctuations are approximately 2 years, 8 years, 2 years, 3 years and 3 months at the longest, respectively.

The ineffective portion recognized in profit or loss is not significant, and thus a description of changes in fair value is omitted for the hedging instruments which was used as a basis to recognize the ineffective portion.

Fair value of derivatives that are not designated as a hedging instrument is as follows:

Millions of yen

	Previous year (as of December 31, 2016)		Current year (as of December 31, 2017)	
	Assets	Liabilities	Assets	Liabilities
Foreign currency exchange contract	288	—	**31**	**532**
Currency swap	1,510	—	**1,030**	**—**
Commodity swap	98	—	**66**	**78**
Total	1,897	—	**1,128**	**610**

Reserve of cash flow hedges, reserve of costs of hedging and net investment hedge for foreign operations were as follow:
There is no reserve of cash flow hedges arising from hedging relationships for which their hedge accounting is discontinued.

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
Reserve of cash flow hedges		
Foreign currency exchange contract	(148)	**(270)**
Currency swap	(48)	**(156)**
Commodity swap	8	**262**
Interest rate swap	(30)	**0**
Forward contracts	—	**(459)**
Total	(219)	**(624)**
Reserve of costs of hedging		
Currency swap (period-related)	—	**(1,179)**
Net investment hedge in foreign operations		
Euro denominated borrowings	—	**(641)**

The ineffective portion recognized in profit or loss is not significant, and thus a description of changes in fair value is omitted for the hedging instruments which were used as a basis to recognize the ineffective portion.

(ii) Effect on the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income

Effect of derivatives designated as hedging instruments in cash flow hedges, costs of hedging and net investment hedge in foreign operations are follows:

Previous Year (ended December 31, 2016)

Millions of yen

Risk type	Gains (losses) recognized in other comprehensive income*	Amount reclassified from other equity interest to profit or loss*	Line item in profit or loss on reclassification
Foreign exchange risk	(11,408)	—	
Price risk	10	—	
Interest rate risk	(12)	53	Finance costs
Total	(11,411)	53	

* The amounts are gross values before tax.

Current Year (ended December 31, 2017)

Risk type	Gains (losses) recognized in other comprehensive income*	Amount reclassified from other equity interest to profit or loss*	Line item in profit or loss on reclassification
	Millions of yen		
Cash flow hedges			
Foreign exchange risk	(17,493)	(56)	Finance costs
Price risk	(2,152)	1,808	Gain on sales of investments accounted for using equity method
Interest rate risk	3	39	Finance costs
Total	(19,641)	1,791	
Costs of hedging			
Foreign exchange risk (period-related)	(1,663)	(37)	Finance costs
Net investment hedge in foreign operations			
Foreign exchange risk for net investment	(923)	—	

* The amounts are gross values before tax.

There is no reclassification due to discontinuation of hedge accounting. Reserve of cash flow hedges accumulated in other components of equity is reclassified and included in the cost of the assets such as an inventory if the hedged item is a forecast transaction to acquire the asset.

There are ¥11,800 million (previous year: ¥7,577 million) of foreign exchange risks and ¥(5) million (previous year: ¥(5) million) of price risks, among the amounts reclassified to the cost.

The ineffective portion recognized in profit or loss is not significant.

34. Significant Non-cash Transactions

Previous Year (ended December 31, 2016)

There are no significant non-cash transactions.

Current year (ended December 31, 2017)

There are no significant non-cash transactions.

35. Changes in Ownership Interests in Subsidiaries

(1) Earning and Expenses on Acquisitions of Subsidiaries

Previous Year (ended December 31, 2016)

The Group acquired shares in Birra Peroni S.r.l. and the 28 other companies which resulted in their addition to the scope of consolidation. The assets and liabilities of investees on commencement of consolidation as well as the relationship between the cost of shares and net consideration are analyzed as follows:

	Millions of yen
Current assets	32,164
Non-current assets	215,461
Goodwill	123,000
Current liabilities	(41,708)
Non-current liabilities	(31,742)
Non-controlling interests	(155)
Cost of shares, etc.	297,020
Cash and cash equivalents of acquired companies	(6,127)
Net cash used for acquisition of acquired companies	290,893

(Note) Goodwill, acquired assets and liabilities assumed in the business combination were provisional as of December 31, 2016 because the review to verify the identifiable assets and liabilities at the date of business combination was still in progress and the allocation of consideration was yet to be completed. These amounts have been completed in the current year and revisions have been made retrospectively.

Current year (ended December 31, 2017)

The Group acquired shares in Plzeňský Prazdroj, a.s. and 15 other companies which resulted in their addition to the scope of consolidation. The main assets and liabilities of investees on commencement of consolidation as well as the relationship between the acquisition cost of shares and net consideration paid are analyzed as follows:

	Millions of yen
Current assets	54,228
Non-current assets	133,792
Intangible Assets	484,665
Goodwill	427,995
Current liabilities	(97,561)
Non-current liabilities	(103,741)
Non-controlling interests	(300)
Cost of shares, etc.	899,077
Cash and cash equivalents of acquired companies	(7,521)
Net cash used for acquisition of acquired companies	891,555

(Note) Goodwill, acquired assets and liabilities assumed in the business combination were provisional as of December 31, 2017 because the review to verify the identifiable assets and liabilities at the date of business combination was still in progress and the allocation of consideration was yet to be completed.

(2) Earning and Expenses on Sales of Subsidiaries

Previous Year (ended December 31, 2016)

There are no significant transactions

Current Year (ended December 31, 2017)

The Group sold shares in LB Co., Ltd and Masuda Co., Ltd. and 4 other companies. Main assets and liabilities associate with the loss of control of a subsidiaries, as well as the relationship between the considerations received and earning and expense on sales are analyzed as follows:

	Millions of yen
Current assets	8,850
Non-current assets	7,901
Current liabilities	(8,358)
Non-current liabilities	(801)
Gains (Losses) on sales of shares of subsidiaries and associates	9,592
Income of shares	17,183
Cash and cash equivalents of assets of the subsidiary when control was lost	(1,586)
Other receivables	(279)
Net cash used for Earning and Expenses on sales of shares of subsidiaries and associates	15,318

36. Changes in Liabilities Arising from Financing Activities

Millions of yen

Item	Balance as of January 1, 2017	Change owing to financing cash flow	Non-cash changes: Acquisition	Non-cash changes: Long- and short-term transfer	Non-cash changes: Change in scope of consolidatio	Non-cash changes: Exchange differences	Non-cash changes: Changes in fair value	Non-cash changes: Transfer to liabilities directly related to assets held for sale	Non-cash changes: Other	Balance as of December 31, 2017
Short-term borrowings *	199,972	41,076	—	—	(280)	1,490	—	(1,050)	—	241,208
Lease obligations	25,795	(9,851)	7,012	—	—	34	—	—	—	22,990
Current portion of long-term borrowings	63,916	(62,600)	—	98,660	—	(197)	—	(1,249)	—	98,530
Long-term borrowings	188,819	303,378	—	(98,660)	—	(861)	—	(10,434)	—	382,242
Current portion of bonds	17,980	(18,000)	—	19,983	—	—	—	—	21	19,984
Bonds	99,670	434,702	—	(19,983)	—	5,324	—	—	248	519,961
Derivative liabilities (assets) held to hedge liabilities arising from financing activities	—	—	—	—	—	—	(3,278)	—	—	(3,278)
Total	596,152	688,705	7,012	—	(280)	5,790	(3,278)	(12,733)	269	1,281,637

* Short-term borrowings include commercial papers.

37. Related Party Transactions

(1) Transactions and Outstanding Balances with Related Parties

There is no material transactions with related parties.

(2) Key Management Personnel Compensation

Compensation to the Group's key management personnel is as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Short-term employee benefits expense	465	**613**

In the current year ended December 31, 2017, the Company recognized ¥60 million (estimated amount) (previous year: ¥56 million) as share-based payment expense, but it is not included in the above. Since the Trust had not yet been created as of the Finance Resolution of Board meeting Feb 15, 2018, information about the number of points could not be determined.

38. Business combination

(1) Business Combination

Previous year (ended December 31, 2016)

(i) Outline of the transaction

a. Name and business of the acquiree

Company name	Business
Birra Peroni S.r.l.	Manufacture and sales of beer
Royal Grolsch NV	Manufacture and sales of beer
Meantime Brewing Company Ltd.	Manufacture and sales of beer
Asahi UK Ltd (former Miller Brands (UK) Ltd.)	Import and sales of beer

Also another 25 entities that are primarily engaged in manufacturing, sale and distribution of beer

b. Purpose of the transaction

The Group has set out its Long-Term Vision to articulate foresight of the Group and its business in the future. The Group aims at enhancement of corporate value under the Medium-Term Management Policy which has been developed to realize the Long-Term Vision.

With regard to the Long-Term Vision, the Group as a comprehensive beverage and food business group with the alcoholic beverages business at its core, has set a goal to become a domestic industry leader focused on high added value and establish a distinct position as a global player that leverages strengths originating in Japan. In addition, as one of the strategic imperatives under the new Medium-Term Management Policy, the Group envisions strengthening its earning power by positioning the domestic profit base as the cornerstone of earnings and the overseas business as its growth engine.

The Company has been working to expand its overseas growth platform, mainly in Asia and Oceania, for some time, and has successfully created a capable network in Southeast Asia, China and Oceania. In an environment with slower economic growth in emerging countries and further global consolidation, the Company intends to respond to various risks and opportunities and further accelerate its growth by leveraging strengths developed in Japan. As part of these strategies, the Company acquired the Peroni, Grolsch and Meantime brands, as well as the Italian, Dutch and British companies of SABMiller plc that manufacture and distribute these brands. Grolsch and Peroni are two of the best-known premium beer brands in the world with over 400 years and 150 years of history, respectively, and both are well recognized inter alia in Europe. Meantime is a pioneer brand in craft beer in the UK and is rapidly growing in popularity amongst the younger generation in urban areas such as London.

Through these acquisitions, the Company aims to expand its growth platform in Europe and become a global player with a distinct position, leveraging the distribution networks of the target businesses to maximize synergies through increasing the presence of its flagship Asahi Super Dry brand.

c. Acquisition date of the business combination

October 11, 2016

d. Legal form of the business combination

The Group purchased shares with cash consideration.

e. Proportion of voting rights acquired

Company name	Proportion of voting rights
Birra Peroni S.r.l.	100%
Royal Grolsch NV	100%
Meantime Brewing Company Ltd.	100%
Asahi UK Ltd (former Miller Brands (UK) Ltd.)	100%

Proportion of voting rights in the other 25 entities are mainly 100%.

(ii) Effect on the Group

Revenue and profit generated by Birra Peroni S.r.l. and the other 28 entities since the acquisition date amounted to ¥26,384 million and ¥858 million, respectively.

Assuming the business combination was conducted at the beginning of the period, revenue and profit for the period would be ¥1,800,773 million and ¥94,519 million, respectively. The amounts are unaudited by the independent auditor.

(iii) Consideration transferred and its details

The consideration transferred was ¥297,020 million, all of which was paid in cash.

(iv) Acquisition-related costs

Acquisition-related costs amounted to ¥3,626 million were included in “Selling, general and administrative expenses”.

(v) Acquired receivables

The gross contractual amount of trade and other receivables acquired was ¥24,151 million in aggregate, and ¥16,120 million at fair value on the acquisition date.

(vi) Acquisition-date fair value of assets and liabilities, non-controlling interests and goodwill

	Millions of yen
Cash and cash equivalents	6,127
Trade and other receivables	16,120
Other	9,916
Total current assets	32,164
Property, plant and equipment	56,613
Intangible assets	151,297
Other	7,550
Total non-current assets	215,461
Total assets	247,625
Trade and other payables	(33,829)
Other	(7,877)
Total current liabilities	(41,708)
Total non-current liabilities	(31,742)
Total liabilities	(73,450)
Non-controlling interests	(155)
Consideration transferred	(297,020)
Goodwill	123,000

Non-controlling interests are measured at the proportionate share of the fair value of identifiable net assets in the acquiree.

As the provisional accounting treatment as of December 31, 2016 was completed in the current year, goodwill on the acquisition date was reduced by ¥20,679 million. This was mainly due to increases in intangible assets and deferred tax liabilities by ¥28,162 million and ¥7,483 million, respectively, compared with the previous year.

Current year (ended December 31, 2017)

(i) Outline of the transaction

a. Name and business of the acquiree

Company name	Business
Plzeňský Prazdroj, a.s.	Manufacture and sales of beer
Pivovary Topvar a.s.	Manufacture and sales of beer
Kompania Piwowarska S.A.	Manufacture and sales of beer
Ursus Breweries SA	Manufacture and sales of beer
Dreher Sörgyárak Zrt.	Manufacture and sales of beer

The other 11 entities are primarily engaged in manufacturing, sale and distribution of beer

b. Purpose of the transaction

With regard to the newly renewed Long-Term Vision, as a comprehensive beverage and food business group with the alcoholic beverages business at its core, the Group has set a goal to become a domestic industry leader focused on high added value and establish a distinct position as a global player that leverages strengths originating in Japan.

In addition, as one of the strategic imperatives under the Medium-Term Management Policy, which has been developed to realize the Long-Term Vision, the Group envisions strengthening its earning power by positioning the domestic profit base as the cornerstone of earnings and the overseas business as its growth engine.

As part of these strategies, in October 2016, the Company acquired the Italian, Dutch and British businesses and other related assets of SABMiller plc (hereinafter referred to as "SABMiller") prior to its combination with Anheuser-Busch InBev SA/NV (hereinafter referred to as "AB InBev"), thereby acquiring a strong business platform in Western Europe, centered on the "Peroni" and "Grolsch" premium global brands.

Through this transaction, the Company acquired businesses and operations in 5 countries in Central and Eastern Europe that were owned by SABMiller prior to its combination, as well as intellectual property rights* for "Pilsner Urquell" and other strong brands, which will enable the Company to build a solid network for growth across Europe as a whole, with a high level of affinity with its businesses in Western Europe.

In addition to owning the "Pilsner Urquell" global brand, the original pilsner beer, the Target Business also maintains the top market shares in the Czech Republic (the world's highest per capita beer drinking country), Poland, Hungary and Romania, resulting in significant profitability on the background of its strong business platform.

Through these acquisitions, the Company aims to establish its distinct position as a global player, with growth centered on strong premium brands, together with brands such as "Super Dry", "Peroni" and "Grolsch".

In addition, the Company's policy is to increase its ability to generate cash flow, partly by enhancing synergies in Europe, the Group's largest business after Japan, while also combining its "strengths", including its brand strength built in Japan and cost-competitiveness, and thereby enhance the "earnings power" of the Overseas business.

* Shares and assets purchased: All shares of the company comprising the businesses owned by SABMiller prior to its combination with AB InBev in the markets of 5 countries in Central and Eastern Europe and other related businesses, together with intellectual property rights including the "Pilsner Urquell", "Kozel" and "Tyskie" brands (however, this excludes intellectual property rights related to the "Pilsner Urquell", "Tyskie" and "Lech" brands in the US and Puerto Rico, intellectual property rights related to the "Miller" brand in the markets of 5 countries in Central and Eastern Europe, intellectual property rights related to the "Redd's" brand outside the markets of 5 countries in Central and Eastern Europe, etc.) and other related assets.

c. Acquisition date of the business combination

March 31, 2017

d. Legal form of the business combination

The Group purchased shares with cash consideration.

e. Proportion of voting rights acquired

Company name	Proportion of voting rights
Plzeňský Prazdroj, a.s.	100.00%
Pivovary Topvar a.s.	100.00%
Kompania Piwowarska S.A.	100.00%
Ursus Breweries SA	98.68%
Dreher Sörgyárak Zrt.	99.78%

Proportion of voting rights in the other 11 entities are 100%.

(ii) Effect on the Group

Revenue and profit generated by Plzeňský Prazdroj, a.s. and the other 15 entities since the acquisition date amounted to ¥237,427 million and ¥36,034 million, respectively.

Assuming the business combination was conducted at the beginning of the period, revenue and profit for the period would be ¥2,134,546 million and ¥193,935 million, respectively. This note is unaudited by the independent auditor.

(iii) Consideration transferred and its details

The consideration transferred was ¥899,077 million, all of which was paid in cash.

(iv) Acquisition-related costs

Acquisition-related costs amounted to ¥2,763 million were included in “Selling, general and administrative expenses”

(v) Acquired receivables

The gross contractual amount of trade and other receivables acquired was ¥31,751 million in aggregate, and was ¥29,818 million at fair value on the acquisition date.

(vi) Acquisition-date fair value of assets and liabilities, non-controlling interests and goodwill

	Millions of yen
Cash and cash equivalents	7,521
Trade and other receivables	29,818
Other	16,887
Total current assets	54,228
Property, plant and equipment	125,376
Intangible assets	484,665
Other	8,416
Total non-current assets	618,457
Total assets	672,685
Trade and other payables	(70,291)
Other	(27,270)
Total current liabilities	(97,561)
Total non-current liabilities	(103,741)
Total liabilities	(201,313)
Non-controlling interests	(300)
Consideration transferred	(899,077)
Goodwill	427,995

Non-controlling interests are measured at the proportionate share of the fair value of identifiable net assets in the acquiree.

Goodwill, acquired assets and liabilities assumed in the business combination were provisional as of December 31, 2017 because the review to verify the identifiable assets and liabilities at the date of business combination was still in progress and the allocation of consideration was yet to be completed.

Goodwill is primarily composed of synergies with the Group’s businesses and excess profitability that are expected to occur from the future business expansion.

(2) Transactions under common control

Previous year (ended December 31, 2016)

The Company resolved to reorganize domestic Soft Drinks Business and Food Business at the Board of Directors meeting held on June 3, 2015, and implemented the business restructuring on January 1, 2016.

(i) Purpose of the business reorganization

It was implemented as part of strengthening our domestic business, which aims at making decisions more promptly by clarifying the area of responsibility, responding swiftly to changes in the business environment and maximizing synergies within the businesses.

(ii) Outline of the business reorganization

Reorganization of the domestic soft drinks business

a. Name of the entity involved in the transaction

Calpis Co., Ltd.

b. Name and description of the business involved and the legal form of the business combination

Calpis Foods Service Co., Ltd., a wholly owned subsidiary of Calpis Co., Ltd. that engages in the sale of dairy products, acquired the domestic soft drink manufacturing business and the dairy product business, including milk purchasing, of Calpis Co., Ltd. in an absorption-type split.

Asahi Calpis Wellness Co., Ltd., a wholly owned subsidiary of the Company, succeeded the functional foods business (mail-order business and functional raw materials) and the animal feed business of Calpis Co., Ltd. in an absorption-type split.

After the business transfer above, Calpis Co., Ltd. was absorbed in a merger with Asahi Soft Drinks Co., Ltd. as the surviving company.

Calpis Foods Service Co., Ltd. changed its name to Calpis Co., Ltd.

c. Date of the business combination

January 1, 2016

d. Name of the entities after the business combination

Asahi Soft Drinks Co., Ltd.

Asahi Calpis Wellness CO., LTD.

Calpis Co., Ltd. (former Calpis Foods Service Co., Ltd.)

e. Other items regarding the outline of the business combination

The Group made the transaction to enhance its business competitiveness by integrating the strengths of each of the entities involved, such as brands, product lines, technologies, sales networks and human resources, aiming to become a company growing in the domestic soft drinks industry with high-quality, customer-oriented product lines.

Reorganization of the domestic food business

a. Name and description of businesses involved and legal form of business combination

Asahi Group Foods, Ltd. a wholly owned subsidiary of the Company, succeeded all the business excluding the operations relating to the manufacturing and the control of the production management (including the purchase operation of merchandise) of Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Amano Jitsugyo Co., Ltd. in an absorption-type split.

b. Date of the business combination

January 1, 2016

c. Name of the company after the business combination

Asahi Group Foods, Ltd.

d. Other items regarding the outline of the business combination

The reorganization was implemented with the goal of creating a management structure that increases the speed of decision-making and responds more rapidly to change by clearly defining business, as well as creating structure to maximize synergies within businesses.

Current year (ended December 31, 2017)

Reorganization of the domestic food business

The Company resolved to reorganize Food Business at the Board of Directors meeting held on June 3, 2015, and implemented the business restructuring on July 1, 2017.

(i) Purpose of the business reorganization

It was implemented as part of strengthening our domestic business, which aims at making decisions more promptly by clarifying areas of responsibility, responding swiftly to changes in the business environment as well as maximizing synergies within the business.

(ii) Outline of the business reorganization

a. Name and description of businesses involved and legal form of business combination

An absorption-type merger was conducted with Asahi Group Foods, Ltd., a wholly owned subsidiary of the Company, as the surviving company, and the three food business companies of Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Amano Jitsugyo Co., Ltd. as the absorbed companies.

b. Date of the business combination

July 1, 2017

c. Name of the entity after the business combination

Asahi Group Foods, Ltd.

d. Other items regarding the outline of the business combination

The reorganization was implemented with the goal of creating a management structure that increases the speed of decision-making and that responds more rapidly by clarifying areas of responsibility, as well as maximizing synergies within the business.

39. Interest in Other Entities

(1) Interest in Subsidiaries

Subsidiaries included in the consolidated financial statements are as follows:

Previous Year (ended December 31, 2016)

Name	Location	Proportion of ownership interest (%)
Asahi Breweries, Ltd.	Sumida-ku, Tokyo	100.00
Masuda Co., Ltd.	Kita-ku, Osaka	100.00 (100.00)
NADAMAN CO., LTD	Shinjuku-ku, Tokyo	100.00 (100.00)
The Nikka Whiskey Distilling Co., Ltd.	Minato-ku, Tokyo	100.00 (100.00)
Sainte Neige Wine Co., Ltd.	Yamanashi City, Yamanashi	100.00 (100.00)
Satsumatsukasa Shuzo Co., Ltd.	Aira City, Kagoshima	85.00 (85.00)
ENOTECA CO.,LTD.	Minato-ku, Tokyo	100.00 (100.00)
Asahi Soft Drinks Co., Ltd.	Sumida-ku, Tokyo	100.00
Calpis Co., Ltd.	Sumida-ku, Tokyo	100.00 (100.00)
LB Co., Ltd	Hasuda City, Saitama	100.00
Asahi SoftDrink Sales Co., Ltd.	Taito-ku, Tokyo	100.00 (100.00)
Asahi Group Foods, Ltd.	Shibuya-ku, Tokyo	100.00
Asahi Food & Healthcare Co., Ltd.	Sumida-ku, Tokyo	100.00
Wakodo Co., Ltd.	Chiyoda-ku, Tokyo	100.00
Amano Jitsugyo Co., Ltd.	Fukuyama City, Hiroshima	100.00
Asahi Beer (China) Investment Co., Ltd.	Shanghai, China	100.00
Yantai Beer Tsingtao Asahi Co., Ltd	Shandong, China	40.00 (40.00)
Beijing Beer Asahi Co., Ltd	Beijing, China	90.00
China Foods Investment Corp.	Minato-ku, Tokyo	100.00 (100.00)
AI Beverage. Holding Co., Ltd.	Sumida-ku, Tokyo	100.00
Asahi Holdings(Australia) Pty Ltd	Victoria, Australia	100.00
Schweppes Australia Pty Ltd.	Victoria, Australia	100.00 (100.00)
Independent Liquor (NZ) Limited	Papakura, New Zealand	100.00 (100.00)
Asahi Group Holdings Southeast Asia Pte. Ltd.	Singapore	100.00
Etika Beverages Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00 (100.00)
Etika Dairies Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00 (100.00)
PT Tirta Sukses Perkasa	Jakarta, Indonesia	80.00 (80.00)
Asahi Loi Hein Company Limited	Yangon, Myanmar	51.00 (51.00)
Asahi Europe Ltd	Woking, United Kingdom	100.00
Birra Peroni S.r.l.	Roma Italy	100.00 (100.00)
Royal Grolsch NV	Enschede Netherlands	100.00 (100.00)
Meantime Brewing Company Ltd.	London United Kingdom	100.00 (100.00)
Asahi UK Ltd	London United Kingdom	100.00 (100.00)
Asahi Logistics Co., Ltd.	Minato-ku, Tokyo	100.00
Asahi Professional Management Co., Ltd.	Sumida-ku, Tokyo	100.00
Other 102 Subsidiaries	—	—

(Notes) 1. Percentage in () represents indirect ownership interest out of the total ownership interest noted above.

2. The Group does not own a majority of voting rights in Yantai Beer Tsingtao Asahi Co., Ltd., but it is consolidated because voting rights including voting rights held by associates of the Group account for a majority and it is judged to be under de facto control.

3. The company name of Asahi Calpis Beverage Co., Ltd., Calpis Foods Service Co., Ltd and Permanis Sdn. Bhd. were changed to Asahi SoftDrink Sales Co., Ltd., Calpis Co., Ltd. and Etika Beverages Sdn. Bhd. respectively, in 2016.

Current Year (ended December 31, 2017)

Name	Location	Proportion of ownership interest (%)
Asahi Breweries, Ltd.	Sumida-ku, Tokyo	100.00
NADAMAN CO., LTD	Shinjuku-ku, Tokyo	100.00 (100.00)
The Nikka Whiskey Distilling Co., Ltd.	Minato-ku, Tokyo	100.00 (100.00)
Sainte Neige Wine Co., Ltd.	Yamanashi City, Yamanashi	100.00 (100.00)
ENOTECA CO.,LTD.	Minato-ku, Tokyo	100.00 (100.00)
Asahi Soft Drinks Co., Ltd.	Sumida-ku, Tokyo	100.00
Calpis Co., Ltd.	Sumida-ku, Tokyo	100.00 (100.00)
Asahi SoftDrink Sales Co., Ltd.	Taito-ku, Tokyo	100.00 (100.00)
Asahi Group Foods, Ltd.	Shibuya-ku, Tokyo	100.00
Asahi Beer (China) Investment Co., Ltd.	Shanghai, China	100.00
Yantai Beer Tsingtao Asahi Co., Ltd.	Shandong, China	40.00 (40.00)
Beijing Beer Asahi Co., Ltd.	Beijing, China	90.00
China Foods Investment Corp.	Minato-ku, Tokyo	100.00 (100.00)
AI Beverage. Holding Co., Ltd.	Sumida-ku, Tokyo	100.00
Asahi Holdings(Australia) Pty Ltd	Victoria, Australia	100.00
Asahi Beverages Pty Ltd	Victoria, Australia	100.00 (100.00)
Independent Liquor (NZ) Limited	Papakura, New Zealand	100.00 (100.00)
Asahi Group Holdings Southeast Asia Pte. Ltd.	Singapore	100.00
Etika Beverages Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00 (100.00)
Etika Dairies Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00 (100.00)
Asahi Loi Hein Company Limited	Yangon, Myanmar	51.00 (51.00)
Asahi Europe Ltd	Woking, United Kingdom	100.00
Birra Peroni S.r.l.	Roma Italy	100.00 (100.00)
Royal Grolsch NV	Enschede Netherlands	100.00 (100.00)
Meantime Brewing Company Ltd.	London United Kingdom	100.00 (100.00)
Asahi UK Ltd	London United Kingdom	100.00 (100.00)
Asahi Breweries Europe Ltd	Woking, United Kingdom	100.00
Plzeňský Prazdroj, a.s.	Pilsen Czech Republic	100.00 (100.00)

Pivovary Topvar a.s.	Veľký Šariš Slovakia	100.00 (100.00)
Kompania Piwowarska S.A.	Wielkopolskie Poland	100.00 (100.00)
Ursus Breweries SA	Buzau Romania	98.68 (98.68)
Dreher Sörgyárak Zrt.	Budapest Hungary	99.78 (99.78)
Asahi Logistics, Ltd.	Minato-ku, Tokyo	100.00
Asahi Professional Management Co., Ltd.	Sumida-ku, Tokyo	100.00
Other 112 Subsidiaries	—	—

(Notes) 1. Percentage in () represents indirect ownership interest out of the total ownership interest noted above.
2. The Group does not own a majority of voting rights in Yantai Beer Tsingtao Asahi Co., Ltd., but it is consolidated because voting rights including voting rights held by associates of the Group account for a majority and it is judged to be under de facto control.
3. An absorption-type merger was conducted with Asahi Group Foods, Ltd., a wholly owned subsidiary of the Company, as the surviving company, and the three food business companies of Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Amano Jitsugyo Co., Ltd. as the absorbed companies.
4. In the current year (ended December 31, 2017), the Company sold all shares of consolidated subsidiaries LB Co., Ltd., Masuda Co., Ltd., and 4 other companies. The gain and loss on the sale recognized in regard to the changes in ownership interests accompanied by a loss of control of consolidated subsidiaries owing to these sale transactions are included in “Other operating income” and “Other operating expense”, respectively. Gains on the sales are described in “28. Other Operating Income and Expense”,
5. The company name of Schweppes Australia Pty Ltd. was changed to Asahi Beverages Pty Ltd in 2017.

(2) Interests in Associates

(i) Associates that are Material to the Group

Associates that are material to the Group are as follows:

Name	Location	Proportion of ownership interest (%)	Relationship
Tsingtao Brewery Co., Ltd.	Shandong, China	19.99	Investment tie-up of beer business in China

(Note) The ownership interests in Tsingtao Brewery Co., Ltd. is less than 20%, but it is considered as an associate as the Group has significant influence through its participation in Tsingtao Brewery Co., Ltd.’s management (Board of Directors). As this ownership interest has been classified as disposal groups held for sale as of December 31, 2017, fair value and summarized financial information have not been disclosed.

(ii) Associates that are not Material to the Group

Carrying amount of interest in associates that are not individually material to the Group is as follows:

Millions of yen

	Previous year (as of December 31, 2016)	Current year (as of December 31, 2017)
	50,919	4,846

Share of profit and share of other comprehensive income of associates that are not individually material are as follows:

Millions of yen

	Previous year (ended December 31, 2016)	Current year (ended December 31, 2017)
Profit	(2,412)	434
Other comprehensive income	(15,037)	69
Total comprehensive income	(17,450)	503

(Note) As PT Indofood Asahi Sukses Beverage has been classified as disposal groups held for sale as of December 31, 2017, it is not included in the carrying amount of interests in associates, share of profit and share of other comprehensive income of associates, that are not individually material.

40. Commitments

There are no significant commitments regarding acquisition of assets.

41. Contingencies

There are no significant contingencies.

42. Subsequent Events

At the Board of Directors meeting held on February 15, 2018, the Company resolved to submit a proposal to reduce the amount of legal capital surplus, as follows, at the 94th Annual General Meeting of Shareholders held on March 27, 2018, and the proposal was approved at the General Meeting of Shareholders.

1. Objective of the reduction in amount of legal capital surplus
   To secure agility and flexibility for future capital policies, the Company make a reduction in the amount of legal capital surplus in accordance with the provisions of Article 448, Paragraph 1 of the Companies Act.

2. Overview of the reduction in amount of legal capital surplus
   (1) Amount of legal capital surplus to be reduced
      The Company reduce the amount of legal capital surplus by ¥80,000,000,000, from ¥130,292,423,460 to ¥50,292,423,460.
   (2) Method of reduction of the amount of legal capital surplus
      The amount of legal capital surplus be reduced, and allocated to other capital surplus.

3. Schedule of the reduction in amount of legal capital surplus

(1) Date of resolution at the Board of Directors	February 15, 2018
(2) Date of resolution at the General Meeting of Shareholders	March 27, 2018
(3) Date of public notice for creditors' objections	April 10, 2018 (Scheduled)
(4) Final date of period for creditors' objections	May 10, 2018 (Scheduled)
(5) Effective date	May 31, 2018 (Scheduled)

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the Board of Directors of
Asahi Group Holdings, Ltd.:

We have audited the accompanying consolidated financial statements of Asahi Group Holdings, Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

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 comply with ethical requirements and 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 our 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of Asahi Group Holdings, Ltd. and its consolidated subsidiaries as at December 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

March 27, 2018
Tokyo, Japan

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