KIRIN HOLDINGS COMPANY, LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Consolidated Statement of Financial Position

Kirin Holdings Company, Limited and Consolidated Subsidiaries
At December 31, 2019 and 2018

	At January 1, 2018	At December 31, 2018	**At December 31, 2019**
			(¥ millions)
ASSETS			
Non-current assets			
Property, plant and equipment (Notes 6, 9 and 17)	¥ 551,194	¥ 527,039	**¥ 561,253**
Goodwill (Notes 7 and 9)	260,414	244,222	**233,899**
Intangible assets (Notes 8, 9 and 17)	182,892	179,892	**168,905**
Equity-accounted investees (Notes 5 and 35)	210,780	240,597	**384,756**
Other financial assets (Note 10)	208,545	177,787	**139,018**
Other non-current assets (Note 18)	15,799	13,653	**18,248**
Deferred tax assets (Note 11)	96,727	88,676	**94,656**
Total non-current assets	1,526,351	1,471,866	**1,600,735**
Current assets			
Inventories (Note 12)	195,136	204,837	**219,200**
Trade and other receivables (Note 13)	402,296	404,934	**395,656**
Other financial assets (Note 10)	3,362	6,713	**7,441**
Other current assets	34,168	42,172	**24,171**
Cash and cash equivalents (Note 14)	160,913	173,102	**165,671**
(Sub-total)	795,876	831,758	**812,139**
Assets held for sale	76,344	-	**-**
Total current assets	872,221	831,758	**812,139**
Total assets	¥2,398,572	¥2,303,624	**¥2,412,874**

	At January 1, 2018	At December 31, 2018	**At December 31, 2019**
			(¥ millions)
Equity			
Share capital (Note 15)	¥ 102,046	¥ 102,046	**¥ 102,046**
Share premium (Note 15)	2,208	2,238	**24,853**
Retained earnings (Note 15)	800,775	932,789	**958,292**
Treasury shares (Note 15)	(2,020)	(101,904)	**(124,999)**
Reserves (Note 15)	44,153	(28,590)	**(53,615)**
Equity attributable to owners of the Company	947,162	906,578	**906,576**
Non-controlling interests (Note 34)	271,311	284,840	**240,249**
Total equity	1,218,473	1,191,418	**1,146,825**
Liabilities			
Non-current liabilities			
Bonds and borrowings (Notes 16 and 27)	362,622	317,937	**291,207**
Other financial liabilities (Notes 16, 17 and 27)	88,342	92,078	**141,058**
Defined benefit liability (Note 18)	66,016	68,441	**65,274**
Provisions (Note 19)	7,385	6,914	**4,816**
Other non-current liabilities (Note 21)	13,255	10,851	**5,538**
Deferred tax liabilities (Note 11)	29,517	26,036	**20,786**
Total non-current liabilities	567,138	522,257	**528,679**
Current liabilities			
Bonds and borrowings (Notes 16 and 27)	123,852	97,057	**239,644**
Trade and other payables (Note 20)	224,270	227,137	**231,051**
Other financial liabilities (Notes 16, 17 and 27)	55,018	49,727	**64,658**
Current tax liabilities	9,853	17,339	**23,497**
Provisions (Note 19)	1,005	1,059	**5,690**
Other current liabilities (Note 21)	194,850	197,630	**172,831**
(Sub-total)	608,849	589,949	**737,370**
Liabilities associated with assets held for sale	4,111	-	**-**
Total current liabilities	612,960	589,949	**737,370**
Total liabilities	1,180,098	1,112,206	**1,266,049**
Total equity and liabilities	¥2,398,572	¥2,303,624	**¥2,412,874**

Note: The consolidated statement of financial position at January 1, 2018 and December 31, 2018 has been revised retroactively in accordance with changes in accounting policies for tax effect concerning intangible assets acquired as part of a business combination.

Consolidated Statement of Profit or Loss

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2019 and 2018

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Revenue (Notes 5 and 22)	¥1,930,522	**¥1,941,305**
Cost of sales	1,097,153	**1,093,743**
Gross profit	833,369	**847,561**
Selling, general and administrative expenses (Note 23)	634,041	**656,807**
Other operating income (Notes 9 and 24)	30,703	**6,626**
Other operating expenses (Notes 9 and 25)	31,709	**109,654**
Operating profit	198,322	**87,727**
Finance income (Note 26)	9,181	**4,822**
Finance costs (Note 26)	8,881	**9,448**
Share of profit of equity-accounted investees (Note 35)	28,448	**33,722**
Gain on sale of equity-accounted investees	19,782	**-**
Profit before tax	246,852	**116,823**
Income tax expense (Note 11)	51,641	**35,385**
Profit	195,211	**81,438**
Profit attributable to:		
Owners of the Company	164,202	**59,642**
Non-controlling interests (Note 34)	31,009	**21,796**
Profit	¥ 195,211	**¥ 81,438**
Earnings per share (Yen) (Note 29)		
Basic earnings per share	¥ 183.57	**¥ 68.00**
Diluted earnings per share	183.53	**67.98**

Consolidated Statement of Comprehensive Income

Kirin Holdings Company, Limited and Consolidated Subsidiaries
For the years ended December 31, 2019 and 2018

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Profit	¥195,211	**¥81,438**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in equity instruments measured at fair value through other comprehensive income (Note 28)	(3,292)	**(2,174)**
Remeasurements of defined benefit plans (Note 28)	(710)	**6,551**
Share of other comprehensive income of equity-accounted investees (Note 28)	224	**442**
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences on foreign operations (Note 28)	(62,756)	**(1,041)**
Cash flow hedges (Note 28)	764	**283**
Share of other comprehensive income of equity-accounted investees (Note 28)	(626)	**(6,593)**
Total other comprehensive income	(66,395)	**(2,532)**
Comprehensive income	¥128,816	**¥78,906**
Comprehensive income attributable to:		
Owners of the Company	¥104,093	**¥54,134**
Non-controlling interests (Note 34)	24,723	**24,772**
Comprehensive income	¥128,816	**¥78,906**

Consolidated Statement of Changes in Equity

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the year ended December 31, 2018

(¥ millions)

	Equity attributable to owners of the Company			
	Share capital	Share premium	Retained earnings	Treasury shares
Balance at January 1, 2018	¥102,046	¥2,208	¥811,454	¥ (2,020)
Effect of changes in accounting policies (Note 2)	-	-	(10,679)	-
Restated balance at January 1, 2018	102,046	2,208	800,775	(2,020)
Profit	-	-	164,202	-
Other comprehensive income	-	-	-	-
Comprehensive income	-	-	164,202	-
Dividends from surplus (Note 15)	-	-	(44,823)	-
Acquisition of treasury shares (Note 15)	-	-	-	(100,041)
Disposal of treasury shares (Note 15)	-	0	-	1
Share-based payments (Note 30)	-	11	-	155
Changes in the ownership interest in a subsidiary without a loss of control	-	19	-	-
Transfer from reserves to retained earnings	-	-	12,635	-
Other	-	-	-	-
Total transactions with owners of the Company	-	29	(32,188)	(99,884)
Balance at December 31, 2018	¥102,046	¥2,238	¥932,789	¥(101,904)

	Equity attributable to owners of the Company							
	Reserves							
	Net change in equity instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Foreign currency translation differences on foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance at January 1, 2018	¥73,523	¥ -	¥(27,352)	¥(2,031)	¥44,140	¥957,828	¥271,311	¥1,229,139
Effect of changes in accounting policies (Note 2)	-	-	13	-	13	(10,666)	-	(10,666)
Restated balance at January 1, 2018	73,523	-	(27,339)	(2,031)	44,153	947,162	271,311	1,218,473
Profit	-	-	-	-	-	164,202	31,009	195,211
Other comprehensive income	(3,551)	(473)	(56,852)	768	(60,109)	(60,109)	(6,286)	(66,395)
Comprehensive income	(3,551)	(473)	(56,852)	768	(60,109)	104,093	24,723	128,816
Dividends from surplus (Note 15)	-	-	-	-	-	(44,823)	(11,374)	(56,197)
Acquisition of treasury shares (Note 15)	-	-	-	-	-	(100,041)	-	(100,041)
Disposal of treasury shares (Note 15)	-	-	-	-	-	2	-	2
Share-based payments (Note 30)	-	-	-	-	-	166	89	254
Changes in the ownership interest in a subsidiary without a loss of control	(0)	-	2	-	1	20	116	136
Transfer from reserves to retained earnings	(13,108)	473	-	-	(12,635)	-	-	-
Other	-	-	-	-	-	-	(25)	(25)
Total transactions with owners of the Company	(13,109)	473	2	-	(12,634)	(144,677)	(11,194)	(155,871)
Balance at December 31, 2018	¥56,863	¥ -	¥(84,189)	¥(1,263)	¥(28,590)	¥906,578	¥284,840	¥1,191,418

Note: Effect of changes in accounting policies is due to tax effect concerning intangible assets acquired as part of a business combination.

For the year ended December 31, 2019

(¥ millions)

	Equity attributable to owners of the Company			
	Share capital	Share premium	Retained earnings	Treasury shares
Balance at January 1, 2019	**¥102,046**	**¥ 2,238**	**¥932,789**	**¥(101,904)**
Effect of changes in accounting policies (Note 2)	**-**	**-**	**(1,262)**	**-**
Restated balance at January 1, 2019	**102,046**	**2,238**	**931,526**	**(101,904)**
Profit	**-**	**-**	**59,642**	**-**
Other comprehensive income	**-**	**-**	**-**	**-**
Comprehensive income	**-**	**-**	**59,642**	**-**
Dividends from surplus (Note 15)	**-**	**-**	**(51,366)**	**-**
Acquisition of treasury shares (Note 15)	**-**	**-**	**-**	**(23,253)**
Disposal of treasury shares (Note 15)	**-**	**(0)**	**-**	**6**
Share-based payments (Note 30)	**-**	**(13)**	**-**	**153**
Changes in the ownership interest in a subsidiary without a loss of control	**-**	**22,628**	**-**	**-**
Transfer from reserves to retained earnings	**-**	**-**	**18,832**	**-**
Other	**-**	**-**	**(343)**	**-**
Total transactions with owners of the Company	**-**	**22,615**	**(32,877)**	**(23,095)**
Balance at December 31, 2019	**¥102,046**	**¥24,853**	**¥958,292**	**¥(124,999)**

	Equity attributable to owners of the Company							
	Reserves							
	Net change in equity instruments measured at fair value through other comprehensive income	Remeasure-ments of defined benefit plans	Foreign currency translation differences on foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance at January 1, 2019	**¥56,863**	**¥ -**	**¥(84,189)**	**¥(1,263)**	**¥(28,590)**	**¥906,578**	**¥284,840**	**¥1,191,418**
Effect of changes in accounting policies (Note 2)	**-**	**-**	**-**	**-**	**-**	**(1,262)**	**(215)**	**(1,477)**
Restated balance at January 1, 2019	**56,863**	**-**	**(84,189)**	**(1,263)**	**(28,590)**	**905,316**	**284,625**	**1,189,941**
Profit	**-**	**-**	**-**	**-**	**-**	**59,642**	**21,796**	**81,438**
Other comprehensive income	**(1,926)**	**5,172**	**(9,035)**	**280**	**(5,508)**	**(5,508)**	**2,976**	**(2,532)**
Comprehensive income	**(1,926)**	**5,172**	**(9,035)**	**280**	**(5,508)**	**54,134**	**24,772**	**78,906**
Dividends from surplus (Note 15)	**-**	**-**	**-**	**-**	**-**	**(51,366)**	**(14,034)**	**(65,400)**
Acquisition of treasury shares (Note 15)	**-**	**-**	**-**	**-**	**-**	**(23,253)**	**-**	**(23,253)**
Disposal of treasury shares (Note 15)	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Share-based payments (Note 30)	**-**	**-**	**-**	**-**	**-**	**140**	**(36)**	**104**
Changes in the ownership interest in a subsidiary without a loss of control	**133**	**-**	**(839)**	**-**	**(706)**	**21,923**	**(55,078)**	**(33,156)**
Transfer from reserves to retained earnings	**(13,660)**	**(5,172)**	**-**	**-**	**(18,832)**	**-**	**-**	**-**
Other	**-**	**-**	**20**	**-**	**20**	**(323)**	**(1)**	**(323)**
Total transactions with owners of the Company	**(13,527)**	**(5,172)**	**(819)**	**-**	**(19,517)**	**(52,874)**	**(69,149)**	**(122,022)**
Balance at December 31, 2019	**¥41,410**	**¥ -**	**¥(94,043)**	**¥ (983)**	**¥(53,615)**	**¥906,576**	**¥240,249**	**¥1,146,825**

Note: Effect of changes in accounting policies is due to application of IFRS 16 "Leases."

Consolidated Statement of Cash Flows

Kirin Holdings Company, Limited and Consolidated Subsidiaries
For the years ended December 31, 2019 and 2018

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Cash flows from operating activities		
Profit before tax	¥246,852	**¥116,823**
Depreciation and amortization	67,946	**80,742**
Impairment losses	3,390	**64,318**
Gain on reversal of impairment losses	(3,360)	**-**
Interest and dividends received	(5,491)	**(4,511)**
Share of profit of equity-accounted investees	(28,448)	**(33,722)**
Interest paid	5,696	**6,700**
Gain on sale of property, plant and equipment and intangible assets	(12,397)	**(3,218)**
Loss on disposal and sale of property, plant and equipment and intangible assets	2,092	**1,956**
Gain on sale of shares of subsidiaries	(12,103)	**-**
Gain on sale of equity-accounted investees	(19,782)	**-**
(Increase) decrease in trade receivables	(15,154)	**6,182**
(Increase) decrease in inventories	(16,124)	**(17,248)**
Increase (decrease) in trade payables	5,262	**(8,039)**
Increase (decrease) in liquor taxes payable	2,706	**(5,021)**
Other	4,238	**(2,027)**
Sub-total	225,322	**202,935**
Interest and dividends received	18,684	**19,717**
Interest paid	(6,036)	**(6,398)**
Income taxes paid	(39,919)	**(37,428)**
Cash flows from operating activities	198,051	**178,826**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(87,885)	**(96,397)**
Proceeds from sale of property, plant and equipment and intangible assets	18,693	**5,876**
Acquisition of investments	(2,810)	**(3,674)**
Proceeds from sale of investments	30,368	**37,265**
Proceeds from settlement of consideration for acquisition of businesses	7,694	**-**
Acquisition of shares of subsidiaries, net of cash acquired	(4,348)	**(4,508)**
Proceeds from sale of shares of subsidiaries, net of cash disposed of (Note 27)	9,087	**21,087**
Acquisition of equity-accounted investees	(15,496)	**(134,497)**
Proceeds from sale of equity-accounted investees	85,059	**-**
Collection of loans receivable	5,800	**-**
Other	1,225	**(772)**
Cash flows from (used in) investing activities	47,389	**(175,619)**

	Year ended December 31, 2018	**Year ended December 31, 2019**
		(¥ millions)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	861	**393**
Increase (decrease) in commercial paper	-	**127,000**
Proceeds from long-term borrowings	30,552	**40,659**
Repayment of long-term borrowings	(54,857)	**(69,596)**
Proceeds from issuance of bonds	25,000	**70,000**
Payment for redemption of bonds	(70,000)	**(50,000)**
Payment for acquisition of treasury shares	(100,061)	**(23,270)**
Payment for acquisition of treasury shares by a consolidated subsidiary	(14)	**(22,601)**
Dividends paid (Note 15)	(44,823)	**(51,366)**
Dividends paid to non-controlling interests	(10,892)	**(13,871)**
Repayment of lease liabilities	-	**(16,437)**
Other	(2,465)	**(909)**
Cash flows used in financing activities (Note 27)	(226,699)	**(9,997)**
Effect of exchange rate changes on cash and cash equivalents	(7,626)	**(641)**
Net increase (decrease) in cash and cash equivalents	11,115	**(7,431)**
Cash and cash equivalents at beginning of year	161,987	**173,102**
Cash and cash equivalents at end of year (Note 14)	¥173,102	**¥165,671**

Notes to Consolidated Financial Statements

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2019 and 2018

1. REPORTING ENTITY

Kirin Holdings Company, Limited ("the Company") is a corporation domiciled in Japan. Its registered address is disclosed on the Company's website (https://www.kirinholdings.co.jp/).

The Company and its subsidiaries ("the Group") are involved in the production and sale of alcoholic beverages, soft drinks, pharmaceutical products and other related businesses.

2. BASIS OF PREPARATION

(1) COMPLIANCE WITH IFRS

In accordance with Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Group's consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") as the Group meets the requirements concerning the "Specified Company Complying with Designated International Accounting Standards" prescribed in Article 1-2 of the Ordinance.

(2) AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements were authorized for issue by Yoshinori Isozaki, President & CEO of the Company, and Noriya Yokota, Director of the Board, Senior Executive Officer of the Company, on March 27, 2020.

(3) BASIS OF MEASUREMENT

The Group's consolidated financial statements have been prepared based on historical cost, except for specific financial instruments and other assets as set out in Note 3. Significant accounting policies.

(4) FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and all amounts have been rounded to the nearest million, unless otherwise indicated.

(5) KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Group's consolidated financial statements include management's estimates and assumptions concerning the measurement of income, expenses, assets and liabilities and the disclosure of contingencies at the reporting date. By their nature, actual results may differ from these estimates and assumptions.

Estimates and assumptions are reviewed by management on an ongoing basis. The effects of any revisions to these estimates and assumptions are recognized in the period of the revisions and subsequent periods.

Estimates and assumptions that have significant effects on the amounts recognized in the Group's consolidated financial statements are as follows:

- Significant assumptions used for discounted future cash flow projections in impairment tests for property, plant and equipment, goodwill and intangible assets (Note 9. Impairment of non-financial assets)
- Recoverability of deferred tax assets (Note 11. Income tax)
- Measurement of defined benefit obligations (Note 18. Employee benefits)
- Accounting for, and assessment of, provisions (Note 19. Provisions)
- Fair value measurement of financial instruments (Note 31. Financial Instruments)

(6) CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Application of IFRS 16 "Leases"

The Group has applied IFRS 16 "Leases" ("IFRS 16") from the beginning of the year ended December 31, 2019.

In applying IFRS 16, the Group has followed the transition provision in IFRS 16 based on the modified retrospective approach as follows:

• The lessee shall recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the beginning balance of retained earnings at the date of initial application.

• As for leases previously classified as operating leases:

1) The lessee shall measure that lease liability at the present value of the total remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

2) The lessee shall measure and recognize a right-of-use asset at either:

(i) its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

3) The lessee shall apply IAS 36 "Impairment of Assets" to right-of-use assets at the date of initial application.

On transition to IFRS 16, the Group has chosen to apply the practical expedient that allows the Group to continue using the same method as before with regard to whether contracts are leases or not.
In addition, the Group has applied the following practical expedients in applying IFRS 16 to the leases that were previously classified as operating leases under IAS 17:

- Applying the exemption on not recognizing right-of-use assets or lease liabilities for leases for which the term ends within 12 months of the date of initial application.
- Excluding initial direct costs from the measurement of right-of-use assets at the date of initial application.

At the date of initial application of IFRS 16, the Group additionally recognized right-of-use assets of ¥62,843 million, which are included in property, plant and equipment in the consolidated statement of financial position, and lease liabilities of ¥66,404 million. As a result, the balance of retained earnings decreased by ¥1,262 million.
The weighted-average incremental borrowing rate applied to lease liabilities as of the date of initial application was 2.16%.
The difference between future minimum lease payments for non-cancelable operating leases as of the end of the year immediately before the date of initial application and lease liabilities recognized in the consolidated statement of financial position as of the date of initial application was as follows:

(a) Future minimum lease payments for non-cancelable operating leases as of December 31, 2018	¥57,760 million
Discounted present value of (a)	¥50,469 million
Finance lease liabilities as of December 31, 2018	¥11,302 million
Exemption on recognition (short-term leases or leases for low value items)	¥(1,980) million
Extension or termination options which are reasonably certain to be exercised	¥17,915 million
(b) Lease liabilities recognized in the consolidated statement of financial position as of the date of initial application	¥77,706 million

Tax effect concerning intangible assets acquired as part of a business combination
In Australia, income gains (benefits obtained through possession/use) and capital gains (benefits obtained through sales) are taxed separately. As a result, tax effects concerning intangible assets acquired through a business combination are accounted for by adopting either of the following two accounting treatments: Taxable temporary differences and deductible temporary differences, which arise under the two tax systems, are recognized separately without being offset (i.e. gross method), or are offset and not recognized (i.e. net method). The Group's Australian subsidiary had previously adopted the net method.
In November 2019, the International Financial Reporting Interpretations Committee announced its tentative decision, stating that the gross method is considered an appropriate accounting treatment. Therefore, from the year ended December 31, 2019, the Group changed its treatment to the gross method based on the judgment that it will better reflect its tax position.
As a result of applying the above change in accounting treatment retrospectively, deferred tax liabilities and foreign currency translation adjustment increased by ¥10,666 million and ¥13 million, respectively, and retained earnings decreased by ¥10,679 million at the beginning of the year ended December 31, 2018.
Furthermore, in line with the reversal of a portion of the deferred tax liabilities amounting to ¥6,837 million in the year ended December 31, 2019, income tax expenses decreased by the same amount in the consolidated statement of profit or loss for the year ended December 31, 2019.
Accordingly, basic earnings per share increased by ¥7.80 and diluted earnings per share increased by ¥7.80 for the year ended December 31, 2019.

(7) CHANGES IN PRESENTATION

Consolidated statement of cash flows
Payments into time deposits and proceeds from withdrawal of time deposits, which were separately presented in cash flows from investing activities in the year ended December 31, 2018, are included in "other" in the year ended December 31, 2019 because the amount became immaterial. In addition, payment for acquisition of treasury shares by a consolidated subsidiary, which was included in "other" in cash flows from financing activities in the year ended December 31, 2018, is separately presented in the year ended December 31, 2019 because the amount became material.
As a result, in the consolidated statement of cash flows for the year ended December 31, 2018, payments into time deposits and proceeds from withdrawal of time deposits of ¥(4,726) million and ¥4,443 million, respectively, which were presented in cash flows from investing activities, have been included in "other" of ¥1,225 million, and ¥(2,479) million which was included in "other" in cash flows from financing activities has been reclassified to payment for acquisition of treasury shares by a consolidated subsidiary and "other" of ¥(14) million and ¥(2,465) million, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

(1) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, and interests in associates and joint arrangements.

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date on which control commences until the date on which control ceases.

A subsidiary with a different reporting period is consolidated based on its additional financial statements at the consolidated reporting date.

Changes in the ownership interest of a subsidiary without a loss of control are accounted for as equity transactions. Any difference between the adjustment of non-controlling interests and the fair value of the consideration received is recognized directly in equity as equity attributable to owners of the Company. If control over a subsidiary is lost, the Company derecognizes the subsidiary's assets and liabilities and the non-controlling interests related to the subsidiary. Any interest retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss related to the loss of control is accounted for as profit or loss.

Intra-group balances of receivables and payables, intra-group transactions, and unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method from the date on which significant influence commence until the date on which it loses such influence, and are recognized at cost at the date of acquisition.

With regard to certain equity-accounted investees, such as SAN MIGUEL BREWERY INC., it is impracticable to access their financial statements in a timely manner and unify the ends of the reporting periods, due to regulatory constraints in the jurisdictions where such entities (including their parents) are located or listed, or in the light of relationships with other shareholders. As a result, the equity method is applied to such equity-accounted investees based on financial information for the period ended three months before the Group's reporting date with adjustments for the effects of significant transactions and events which occurred between the end of the reporting period of the equity-accounted investees and that of the Group.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

If significant influence over an associate is lost and the application of the equity method is discontinued, gain or loss on sale of the interest in the associate is recognized in profit or loss. Any remaining interest is remeasured at fair value, and any gain or loss on such remeasurement is also recognized in profit or loss.

3) Joint arrangements

Joint arrangements are contractual arrangements based on which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation where the Group has rights to the assets and obligations to the liabilities relating to the arrangement, and a joint venture where the Group has only rights to the net assets of the arrangement.

The Group recognizes the assets, liabilities, income and expenses relating to its interest from the date on which joint control commences until the date on which joint control ceases in a joint operation while a joint venture is accounted for using the equity method from the date on which joint control commences until the date on which joint control ceases.

If joint control over a joint venture is lost, it is accounted for similarly to associates.

4) Business combinations

Business combinations are accounted for using the acquisition method.

Identifiable assets acquired and liabilities assumed of are measured at fair value at the date of acquisition (the date on which control commences).

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of non-controlling interest in the acquiree and the acquisition-date fair value of equity interest in the acquiree previously held by the acquirer, over the net amount of identifiable assets and liabilities at the date of acquisition. The consideration transferred in a business combination is measured as the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The Group elects to measure non-controlling interests in the acquiree for each business combination at either fair value or at the proportionate share of the acquiree's identifiable net assets.

If the initial accounting processing has not been completed by the end of the period in which a business combination occurred, provisional amounts are used for the accounting treatment. When new information on the facts and circumstances that existed at the acquisition date is obtained during a measurement period within one year from the acquisition date, these provisional amounts are revised retroactively.

The additional acquisition of non-controlling interests after obtaining control is accounted for as an equity transaction, and no goodwill is recognized.

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. A business combination involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, is accounted for based on the carrying amounts of the assets and liabilities.

(2) FOREIGN CURRENCY TRANSLATION

1) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions or the rate that approximates the actual rate at the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into the functional currency at the exchange rate at the reporting date, and non-monetary items denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate when the fair value was determined.

Exchange differences arising from the translation and settlement are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Foreign operations

The assets and liabilities in the statement of financial position of foreign operations are translated using the exchange rates at the dates of the statement of financial position. Income and expenses in the statements of profit or loss and comprehensive income of foreign operations are translated using the average exchange rates, except for cases of significant exchange rate movements.

Exchange differences arising from the translation are recognized in other comprehensive income. In cases where a foreign operation is disposed of, the cumulative amount of exchange differences related to the foreign operation is reclassified to profit or loss in the period of disposal.

(3) FINANCIAL INSTRUMENTS

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

Financial assets are classified into financial assets measured at amortized cost, at fair value through profit or loss, and at fair value through other comprehensive income. The Group determines the classification at initial recognition of the financial assets. A regular way purchase or sale of financial assets is recognized or derecognized at the transaction date.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

As to equity instruments that are financial assets measured at fair value and not held for trading, each equity instrument may be irrevocably designated to be measured at fair value through other comprehensive income. Equity instruments which are not irrevocably designated to be measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

All financial assets, except for those classified into the category as measured at fair value through profit or loss, are measured at fair value plus transaction costs that are directly attributable to the financial assets.

Accounting for derivatives is described in “4) Derivatives and hedge accounting.”

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on classification as follows:

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Changes in their fair value are recognized in profit or loss or in other comprehensive income based on the classification of the financial assets. Dividends on equity instruments designated as measured at fair value through other comprehensive income are recognized in profit or loss. When the decline in the fair value of the financial assets is significant or when they are derecognized, the cumulative amount that has been recognized in equity through other comprehensive income is transferred to retained earnings.

(iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows expire, or when they are transferred and substantially all the risks and rewards of ownership are transferred.

2) Impairment of financial assets

Allowance for doubtful accounts is recognized for expected credit losses on financial assets measured at amortized cost.

Expected credit losses are measured as the present value of the difference between contractual cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Changes in allowance for doubtful accounts are recorded in profit or loss.

After initial recognition, at the reporting date, expected credit losses are measured based on the following classification into three stages of financial assets:

	Explanation	Measurement method of expected credit losses
Stage 1	Financial instruments for which credit risk has not increased significantly since initial recognition	12-month expected credit loss
Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition	Lifetime expected credit loss
Stage 3	Financial instruments for which there is evidence of credit impairment	Lifetime expected credit loss

The Group, in principle, determines that the credit risk on a financial asset has increased significantly since initial recognition if it is more than 30 days past due on the contract, and that a financial asset is in default if it is more than 90 days past due. When a financial asset is in default or when there is evidence of impairment including significant financial difficulty of the issuer or borrower, the Group determines that the financial asset is credit-impaired.
However, regardless of the above, for certain financial assets such as trade receivables without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected losses (the simplified approach).
Expected credit losses are measured using reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.
If the Group reasonably considers that there are no prospects of the full or partial recovery of financial assets, the carrying amount of the financial assets is written off.

3) Financial liabilities (excluding derivatives)
(i) Initial recognition and measurement
Financial liabilities are classified into financial liabilities measured at amortized cost, measured at fair value through profit or loss, and under financial guarantee contracts. The Group determines the classification at initial recognition of the financial liabilities.
All financial liabilities are initially measured at fair value; provided, however, that financial liabilities measured at amortized cost are measured at fair value less transaction costs that are directly attributable to the financial liabilities.
Accounting for derivatives is described in “4) Derivatives and hedge accounting.”

(ii) Subsequent measurement
After initial recognition, financial liabilities are measured based on classification as follows:
(a) Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method after initial recognition. Interest cost using the effective interest method as well as any gain or loss on derecognition is recognized in the consolidated statement of profit or loss.
(b) 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 after initial recognition, and changes in their fair value are recognized in profit or loss for the year.
(c) Financial guarantee contracts
After initial recognition, financial guarantee contracts are measured at the higher of:

- the amount of allowance for doubtful accounts determined in accordance with 2) Impairment of financial assets above; and
- the amount initially measured less the cumulative amount of income recognized in accordance with the principles of IFRS 15 “Revenue from Contracts with Customers”.

(iii) Derecognition
Financial liabilities are derecognized when the obligations are discharged or cancelled, or expire.

4) Derivatives and hedge accounting
The Group utilizes derivatives, including forward foreign exchange contracts, currency swaps, interest rate swaps and commodity swaps, to hedge foreign exchange risk, interest rate risk and commodity price risk. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value.
Changes in the fair value of derivatives are recognized in the consolidated statement of profit or loss. However, the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized in the consolidated statement of comprehensive income.
At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes specific hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the effectiveness of changes in the fair value of hedging instruments is assessed in offsetting the exposure to changes in the hedged item’s cash flows attributable to the hedged risks. Even though these hedges are expected to be effective in offsetting changes in cash flows, they are assessed on an ongoing basis to determine whether they have actually been effective throughout the financial reporting periods for which they were designated.
Hedges that meet the requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9:
(i) Cash flow hedge
The effective portion of gains or losses on hedging instruments is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately in the consolidated statement of profit or loss.
The amounts of hedging instruments recorded in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items are forecast transactions that result in the recognition of non-financial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.
When forecast transactions are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement

or rollover of other hedging instruments, the amounts that have been recognized in equity through other comprehensive income continue to be recorded in equity until the forecast transactions occur.
(ii) Hedge of net investment in foreign operations
Exchange differences resulting from net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of gains or losses on hedging instruments is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of profit or loss. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss.

5) Fair value of financial instruments
The fair value of financial instruments that are traded in active financial markets at the reporting date refers to quoted market prices.
If there is no active market, the fair value of financial instruments is determined using appropriate valuation techniques.

(4) PROPERTY, PLANT AND EQUIPMENT
Items of property, plant, and equipment are measured using the cost model after initial recognition and are stated at cost less accumulated depreciation and accumulated impairment losses.
The cost includes any costs directly attributable to the acquisition of the asset and the initial estimate of the costs of dismantling, removal and restoration.
The depreciation of assets other than land and construction in progress is recorded using the straight-line method over their estimated useful lives.
The estimated useful lives of major assets by category are as follows:

Buildings and structures	2-80 years
Machinery, equipment and vehicles	2-30 years
Tools, fixtures and fittings	2-30 years

Depreciation methods, useful lives and residual values are reviewed at least at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

(5) GOODWILL
Goodwill arising from a business combination is stated at cost less accumulated impairment losses.
Goodwill is not amortized. It is allocated to cash-generating units or groups of cash-generating units and is tested for impairment annually and whenever there is any indication of impairment. Impairment losses on goodwill are recognized in profit or loss and no subsequent reversal is made.
When the internal monitoring unit for goodwill is changed, goodwill is reallocated to each cash-generating unit or group of cash-generating units based on the internal monitoring unit after the change.
The measurement of goodwill at initial recognition is provided in (1) Basis of consolidation 4) Business combinations.

(6) INTANGIBLE ASSETS
Intangible assets are measured using the cost model after initial recognition and are stated at cost less any accumulated amortization and accumulated impairment losses. The cost includes costs directly attributable to the acquisition of the asset for intangible assets acquired separately and, employee benefit expenses incurred arising from the generation of the asset and costs related to services consumed for internally generated intangible assets.
1) Intangible assets acquired separately
Intangible assets acquired separately are measured at cost at initial recognition.
2) Intangible assets acquired through business combinations
Intangible assets acquired through business combinations are measured at fair value at the date of acquisition.
3) Internally generated intangible assets (development costs)
Research and development expenses generated in the Group are expensed when incurred, except for expenditures on development activities for which the Group can demonstrate all of the following requirements for capitalization:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Major intangible assets of the Group are as follows:
(i) Brands
Brands are initially recognized at cost. In principle, as intangible assets with indefinite useful lives, they are not amortized because it is not possible to foresee the period over which their net cash inflows are expected to continue, and are tested for impairment annually and whenever there is any indication of impairment.
(ii) Marketing rights
Marketing rights are initially recognized at cost. They are amortized using the straight-line method over their estimated useful lives (5-20 years), and are tested for impairment whenever there is any indication of impairment

(iii) Software in progress
Software in progress, which is software under development, is recognized at cost. It is transferred to other intangible assets (software) at the completion of software and is amortized using the straight-line method over its estimated useful life. It is tested for impairment annually and whenever there is any indication of impairment.
(iv) Other
Other intangible assets are initially recognized at cost. Those with finite useful lives are amortized using the straight-line method over their estimated useful lives, and are tested for impairment whenever there is any indication of impairment. Those with indefinite useful lives are not amortized and are tested for impairment annually and whenever there is any indication of impairment.

Amortization methods, useful lives and residual values are reviewed at least at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

(7) LEASES
Leases are recognized as right-of-use assets and lease liabilities at the lease commencement date.
1) Right-of-use assets
Right-of-use assets are initially measured at cost, which mainly comprises the amount of the initial measurement of the lease liability, initial direct costs and the initial estimate of the costs of dismantling, removing and restoring the underlying asset.
Right-of-use assets are measured using the cost model after initial recognition and are stated at cost less accumulated depreciation and accumulated impairment losses, and are included in a line item in the consolidated statement of financial position corresponding to when the underlying assets are owned by the Company.
After initial recognition, the right-of-use assets are depreciated using the straight-line method over the estimated useful lives of the underlying assets when ownership of the underlying assets is transferred by the end of the lease term or when the cost of the right-of-use assets reflect that a purchase option is reasonably certain to be exercised; the right-of-use assets are otherwise depreciated based on the straight-line method over the shorter of the lease term or the estimated useful lives of the right-of-use assets.
2) Lease liabilities
Lease liabilities are initially recognized at the present value of the lease payments that are not paid as of the lease commencement date which is calculated by discounting such present value using the interest rate implicit in the lease.
If that rate cannot be readily determined, the Group’s incremental borrowing rate is used. In general, the Group uses the incremental borrowing rate as the discount rate.
Lease liabilities are subsequently measured by increasing the carrying amounts to reflect interest on the lease liabilities and by reducing the carrying amounts to reflect lease payments made, and are included in the line item “other financial liabilities” in the consolidated statement of financial position.

For short-term leases and leases for low value items, the Group records lease payments as expenses using the straight-line method over the lease terms unless another systematic method is more representative of the pattern of the benefits.

During the year ended December 31, 2018, leases as a lessee were classified as finance leases if substantially all the risks and rewards of ownership were transferred to the Group. Leases other than finance leases were classified as operating leases.
Finance leases as a lessee were initially recognized at the lease commencement date as assets and liabilities in the consolidated statement of financial position at the lower of the fair value of the leased asset and the present value of the minimum lease payments, both of which were determined at the inception of the lease. After initial recognition, the leased assets were depreciated over their estimated useful lives when it was reasonably certain that the ownership would be transferred by the end of the lease term and over the shorter of the lease term and their estimated useful lives when it was not reasonably certain. The lease payments were apportioned between the finance costs and the repayment of lease obligations based on an interest method.
Lease payments under operating leases were expensed based on the straight-line method over the lease terms unless another systematic basis was more representative of the time pattern of the benefits.

(8) INCOME TAXES
Income taxes are the sum of current taxes and deferred taxes.
Current taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. In determining the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.
Deferred taxes are determined based on the temporary differences between the tax base for assets and liabilities and their carrying amount for accounting purposes at the reporting date. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences. However, deferred tax assets or liabilities are not recorded for:

- temporary differences arising from the initial recognition of goodwill;
- temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of transaction, affects neither accounting profit nor taxable profit (tax loss);
- deductible temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that future taxable profits will be available against which the temporary differences can be utilized; and

- taxable temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The deferred taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.

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

The Group recognizes an asset or liability for the effect of uncertainty in income taxes which is measured at the amount of the reasonable estimate for uncertain tax positions when it is probable, based on the Group's interpretation of tax laws, that the tax positions will be sustained.

(9) IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group tests goodwill (see (5) Goodwill) and intangible assets with indefinite useful lives (see (6) Intangible assets) for impairment at least annually, as well as whenever there is any indication of impairment.

At the reporting date, the Group determines whether there is any indication of impairment for non-financial assets other than inventories (see (10) Inventories), deferred tax assets (see (8) Income taxes), defined benefit asset (see (14) Employee benefits). Since goodwill that forms part of the carrying amount of equity-accounted investees is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of equity-accounted investees is assessed for any indication of impairment and is tested for impairment as a single asset.

If there is any indication that an asset may be impaired, or in cases where an impairment test is required to be performed annually, the recoverable amount of the asset is determined. In cases where the recoverable amount cannot be estimated for an individual asset, it is estimated for the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is measured at the higher of its fair value less costs of disposal and its value in use. Value in use is determined by discounting estimated future cash flows to their present value using a discount rate that reflects the time value of money and the risks specific to the asset.

Only if the recoverable amount of an asset or cash-generating unit falls below its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

The Group assesses at the reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount, the impairment loss is reversed up to the lower of the recoverable amount determined and the carrying amount (net of accumulated depreciation or accumulated amortization) that would have been determined if no impairment loss had been recognized in prior years. The reversal of the impairment loss is immediately recognized in profit or loss.

(10) INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is determined primarily based on the periodic average method and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(11) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash on hand, readily available deposits and short-term highly liquid investments with negligible risk of changes in value and maturities not exceeding three months at the time of purchase.

(12) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

1) Assets held for sale

Assets or asset groups whose value is expected to be recovered through sale rather than through continuing use are classified as assets or disposal groups held for sale if it is highly probable that the assets or asset groups will be sold within one year, the assets or asset groups are available for immediate sale in their present condition, and the Group’s management has made a commitment to sell the assets or asset groups. In such cases, the assets stop to be depreciated or amortized or equity-accounted investees stop to be applied for the equity method and are measured at the lower of their carrying amount and fair value less costs to sell.

2) Discontinued operations

The Group recognizes as a discontinued operation a component of the Group’s business which has already been disposed of or classified as held for sale and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

The post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the disposal of the disposal groups constituting the discontinued operations are presented as profit from discontinued operations, separately from continuing operations, in the consolidated statement of profit or loss, and the disclosures for prior periods are re-presented on a consistent basis.

(13) EQUITY

1) Ordinary shares

For ordinary shares, their issue prices are recorded in share capital and share premium. Costs (net of tax) associated with the issue of ordinary shares are deducted from share capital and share premium.

2) Treasury shares

When treasury shares are acquired, the amount of the consideration paid, which includes associated costs (net of tax), is recognized as a deduction from equity.

When treasury shares are sold, any difference between the carrying amount and the consideration received at the time of sale is recognized as share premium.

3) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities for the period in which, for year-end dividends, the Annual General Meeting of Shareholders approves the distribution and, for interim dividends, the Board of Directors approves the distribution.

(14) EMPLOYEE BENEFITS

1) Post-employment benefits

The Group has defined benefit-type and defined contribution-type pension plans and provides lump-sum severance payment plans, defined benefit corporate pension plans and employees' pension fund plans as defined benefit-type plans.

For each defined benefit plan, the Group determines the present value of its defined benefit obligations and the related current service cost and past service cost using the projected unit credit method. The discount rate applied is determined by reference to market yields on high-quality corporate bonds at the year-end. The net defined benefit liability (asset) is determined by deducting the fair value of any plan assets from the present value of the defined benefit obligations. Remeasurements of the net defined benefit asset or liability are recognized collectively in other comprehensive income and reclassified to retained earnings for the period during which they have occurred.

Retirement benefit costs for defined contribution-type plans are expensed for the period during which employees render services.

2) Termination benefits

The Group provides termination benefits when the Group terminates an employee's employment before the normal retirement date or an employee voluntarily retires in exchange for the benefits. Termination benefits are expensed when the Group commits to terminating the employment; provided that the Group has detailed official plans related to the termination of the employee's employment and can no longer withdraw the offer of the benefits.

3) Short-term employee benefits

Short-term employee benefits are expensed on an undiscounted basis when the related service is provided. Bonuses are recorded as liabilities for the amount estimated to be paid in accordance with the applicable plans when the Group has present legal or constructive obligations to pay as a result of past labor rendered by employees, and the obligations can be reliably estimated.

(15) PROVISIONS

Provisions are recognized when present legal or constructive obligations exist as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligations. Matters related to income taxes are set out in (8) Income taxes.

Explanation of the major provisions is as follows:

・Allowance for loss on plants reorganization

In connection with plants reorganization aimed at the efficiency of manufacturing sites in Japan and overseas, as plans including the removal of property, plant and equipment at some of the sites are determined and announced, a reasonably estimated amount of the removal costs is recorded as a provision.

The timing of the payment is subject to circumstances such as future business plans.

・Asset retirement obligations

For property, plant and equipment held by the Company, asset retirement obligations are recognized if the retirement of such property, plant and equipment is required by laws, regulations, contracts or anything equivalent thereto. Asset retirement obligations are measured by discounting the reasonably estimated amount of cash flows required for the retirement of the asset using a risk-free rate before tax that reflects the time value of money corresponding to the period up to the occurrence of the future cash flows.

(16) SHARE-BASED PAYMENTS

1) Restricted Stock Compensation System

The Group has implemented a Restricted Stock Compensation System as an equity-settled share-based performance-related payment plan for officers. The consideration for services received is measured at the fair value of the Company's shares at the grant date and is recognized as an expense over the vesting period (from the grant date to the vesting date) in the consolidated statement of profit or loss. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

2) Share options

Kyowa Kirin Company, Limited, a subsidiary of the Company, has implemented share option plans as equity-settled share-based payment plans for directors and managing officers. The fair value of the share options is estimated at the grant date and recognized as an expense over the vesting period in the consolidated statement of profit or loss after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position. The fair value of options granted is determined primarily using the Black-Scholes model, taking into account the terms and conditions of the options.

(17) REVENUE FROM CONTRACTS WITH CUSTOMERS
Revenue is recognized based on the following five-step approach:

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

If the Group executes sales transactions as an agent of the tax authority, consumption taxes, value added taxes, liquor taxes and others are excluded from consideration, taking into account laws and regulations of each country and the actual conditions of the transactions.

1) Japan Beer and Spirits Businesses and Japan Non-alcoholic Beverages Business
The Group conducts sales of beer, whiskey, spirits, soft drinks and others in Japan Beer and Spirits Businesses and Japan Non-alcoholic Beverages Businesses.
Revenue from such sales is recognized when merchandise and finished goods are delivered to customers since control over the merchandise and finished goods is transferred to the customers and performance obligations are satisfied at that point in time.
Revenue generated from sale of merchandise and finished goods is measured by deducting rebates and discounts based on sales volumes and amounts from consideration under sales contracts, and consideration which is expected to be refunded to customers is stated as refund liabilities. The refund liabilities are estimated by using the most likely amount method based on terms and conditions, past transactions and other factors.
Consideration under sales contracts of merchandise and finished goods is recovered mainly within one year from the delivery of the merchandise and finished goods to customers and includes no significant financing components.

2) Pharmaceuticals Business
The Group conducts sale of merchandise and finished goods and technology licensing to customers in relation to pharmaceuticals in the Pharmaceuticals Business.
If the consideration from contracts with customers includes a variable amount, the variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal of the cumulative amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(i) Revenue from sale of merchandise and finished goods
Revenue under sales contracts for merchandise and finished goods with customers is recognized when the merchandise and finished goods are delivered to the customers since control over the merchandise and finished goods is transferred to the customers and performance obligations are satisfied at that point in time.
Revenue generated from sale of merchandise and finished goods is measured by deducting rebates and discounts based on sales volumes or amounts from consideration under sales contracts, and consideration which is expected to be refunded to customers is stated as refund liabilities. The refund liabilities are estimated by using the most likely amount method based on terms and conditions, past transactions and other factors.
Consideration under sales contracts for merchandise and finished goods is received mainly within one year from the delivery of the merchandise and finished goods to customers and includes no significant financing components.

(ii) Licensing revenue
The Group obtains up-front income, milestone revenue and running royalty revenue as licensing revenue based on license agreements, such as granting third parties the right to develop, produce and sell developed products.
Up-front income is recognized as revenue at the time of granting the license when the performance obligation is satisfied at a point in time. Milestone revenue is recognized as revenue when it is highly probable that the milestones agreed between the relevant parties will be achieved, taking into account the probability of a significant subsequent reversal of revenue.
Consideration received as up-front income and milestone revenue for which the performance obligation is not satisfied at a point in time is recorded as contract liabilities, and is recognized as revenue over a period of time according to the satisfaction of performance obligations, such as for development cooperation related to license agreements.
Running royalty revenue is measured and recognized based on sales of the contract counterparty.
Consideration under license agreements is received mainly within one year from the time of granting the license based on the agreed contractual payment schedule, such as when achieving milestones, and includes no significant financing components.

(18) FINANCE INCOME AND FINANCE COSTS
Finance income mainly comprises interest received, dividends received, foreign currency gain and changes in the fair value of financial assets measured at fair value through profit or loss. Interest received is recognized when it occurs using the effective interest method. Dividends received are recognized when the Group’s right to receive payment is established.
Finance costs mainly comprise interest paid, foreign currency loss and changes in the fair value of financial assets measured at fair value through profit or loss. Interest paid is recognized when it occurs using the effective interest method.
Foreign currency gain or loss is recorded on a net basis in finance income or finance costs.

(19) GOVERNMENT GRANTS
Government grants are recognized at fair value if there is reasonable assurance that the Group will comply with the conditions associated with the grants and they will be received.

When government grants are related to expense items, they are recognized as profit on a systematic basis over the periods in which the Group recognizes as an expense the related costs for which the grants are intended to compensate. Government grants related to assets are deducted from the cost of the assets.

(20) BORROWING COSTS

For assets that necessarily take a substantial period of time to get ready for their intended use or sale, borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the cost of those assets (see (4) Property, plant and equipment and (6) Intangible assets). Other borrowing costs are recognized as an expense in the period in which they are incurred.

(21) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares (after adjusting for treasury shares) outstanding during the period. Diluted earnings per share is calculated by adjusting the effects of all dilutive potential ordinary shares.

4. ACCOUNTING STANDARDS AND GUIDELINES NOT YET ADOPTED

None of the new accounting standards and guidelines that have been issued or amended by the date of approval of the consolidated financial statements have a material impact on the consolidated financial statements of the Group.

5. OPERATING SEGMENTS

(1) SUMMARY OF REPORTABLE SEGMENTS

The reportable segments of the Group are determined based on the operating segments which are constituent units of the Group whose separate financial information is readily available, and which are periodically examined by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating the business results. The Group has identified four reportable segments, namely, “Japan Beer and Spirits Businesses,” “Japan Non-alcoholic Beverages Business,” “Oceania Integrated Beverages Business” and “Pharmaceuticals Business.”

“Japan Beer and Spirits Businesses,” for which Kirin Brewery Company, Limited oversees the operations, conducts production and sale of alcoholic beverages, such as beer, *happo-shu*, new genre, whiskey and spirits, in Japan.

“Japan Non-alcoholic Beverages Business,” for which Kirin Beverage Company, Limited oversees the operations, conducts production and sale of soft drinks in Japan.

“Oceania Integrated Beverages Business,” for which Lion Pty Limited oversees the operations, conducts production and sale of beer, whiskey, spirits, dairy products, fruit juice and other products in the Oceania region.

“Pharmaceuticals Business,” for which Kyowa Kirin Co., Ltd. oversees the operations, conducts production and sale of pharmaceutical products.

Accounting policies for segment information are generally the same as those in the Company’s consolidated financial statements.

Inter-segment revenue is based on actual market prices.

(2) CHANGES IN REPORTABLE SEGMENTS

Until the year ended December 31, 2018, the Group identified its reportable segments as “Japan Integrated Beverages Business,” “Oceania Integrated Beverages Business,” “Other Overseas Integrated Beverages Businesses” and “Pharmaceuticals and Bio-chemicals Businesses.” From the year ended December 31, 2019, the Group has reorganized its reportable segments into “Japan Beer and Spirits Businesses,” “Japan Non-alcoholic Beverages Business,” “Oceania Integrated Beverages Business” and “Pharmaceuticals Businesses.”

This change in reportable segments was mainly made as a result of changing the internal monitoring units of the Group because the Company decided that building a flexible organizational structure by integrating the Company and KIRIN Company, Limited is optimal for the Group to further promote businesses in a concerted manner, and completion of the share acquisition on April 24, 2019 in accordance with a share transfer agreement concluded with Kyowa Kirin Co., Ltd. (a consolidated subsidiary of the Company) on February 5, 2019 whereby the Company acquired 95% of shares in Kyowa Hakko Bio Company, Limited, a wholly owned subsidiary of Kyowa Kirin Co., Ltd. in reviewing structures conducive to realizing future business strategies primarily in the Kirin Group 2019-2021 Medium-Term Business Plan. To reflect this change in the internal monitoring units, segment information for the year ended December 31, 2018 has been prepared based on the revised reportable segments for the year ended December 31, 2019.

With the conclusion of the share transfer agreement on February 5, 2019, the internal monitoring units for impairment testing of goodwill was changed such that the “Pharmaceuticals and Bio-chemicals Businesses” unit was divided into the “Pharmaceuticals Business” unit and “Bio-chemicals Business” unit. As a result, the carrying amount of goodwill was allocated proportionally based on the value of each cash-generating unit after the change, which did not have a material impact on the consolidated financial statements as of and for the year ended December 31, 2019.

(3) INFORMATION ON REPORTABLE SEGMENTS

Information related to each reportable segment is set out below.

(¥ millions)

At and for the year ended December 31, 2018	Reportable segment						
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals	Others (Note 1)	Adjustment (Note 2)	Consolidated
Revenue from unaffiliated customers	¥685,078	¥282,967	¥329,499	¥270,438	¥362,539	¥ -	¥1,930,522
Inter-segment revenue	3,583	1,852	35	1,072	72,543	(79,085)	-
Total revenue	688,662	284,819	329,534	271,510	435,082	(79,085)	1,930,522
Segment income (Note 3)	82,680	23,325	51,828	50,404	27,122	(36,032)	199,327
Other operating income							30,703
Other operating expenses							31,709
Finance income							9,181
Finance costs							8,881
Share of profit of equity-accounted investees							28,448
Gain on sale of equity-accounted investees							19,782
Profit before tax							246,852

(¥ millions)

	Reportable segment						
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals	Others (Note 1)	Adjustment (Note 2)	Consolidated
Segment assets	¥441,900	¥174,312	¥489,622	¥624,614	¥678,101	¥(104,924)	¥2,303,624
Other items							
Depreciation and amortization	12,453	5,961	12,496	16,243	15,656	5,136	67,946
Impairment losses (excluding financial assets)	-	-	786	952	1,651	-	3,390
Gain on reversal of impairment losses	-	-	-	3,360	-	-	3,360
Equity-accounted investees	14,100	-	9,068	8,887	208,542	-	240,597
Capital expenditures	13,231	7,019	20,746	13,692	19,243	14,072	88,004

Notes:

1. "Others" includes the Wine business in Japan, the Alcoholic Beverages business in Myanmar, the Non-alcoholic Beverages business in North America, the Bio-chemicals business, and other sundry businesses.
2. Adjustments are as follows:
   (1) Adjustment in segment income mainly includes inter-segment eliminations and corporate expenses not attributable to any reportable segment. The expenses are mainly group administrative expenses incurred in the Company, a holding company, and administrative expenses relating to some reportable segments incurred in shared services companies.
   (2) Adjustment in segment assets includes inter-segment asset and liability eliminations and corporate assets not attributable to any reportable segment. The assets mainly consist of surplus funds (cash), long-term investments (equity instruments) and assets of the administrative department of the Company, a holding company, and shared services companies.
3. Segment income represents normalized operating profit which is calculated by deducting the total of cost of sales and selling, general and administrative expenses from revenue.

(¥ millions)

At and for the year ended December 31, 2019							
	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Consolidated
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals			
Revenue from unaffiliated customers	**¥681,900**	**¥286,806**	**¥299,733**	**¥304,852**	**¥368,013**	**¥ -**	**¥1,941,305**
Inter-segment revenue	**2,738**	**2,033**	**40**	**968**	**76,008**	**(81,788)**	**-**
Total revenue	**684,639**	**288,839**	**299,773**	**305,820**	**444,022**	**(81,788)**	**1,941,305**
Segment income (Note 3)	**85,167**	**26,356**	**41,358**	**55,381**	**27,049**	**(44,558)**	**190,754**
						Other operating income	**6,626**
						Other operating expenses	**109,654**
						Finance income	**4,822**
						Finance costs	**9,448**
						Share of profit of equity-accounted investees	**33,722**
						Profit before tax	**116,823**

(¥ millions)

	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Consolidated
	Japan Beer and Spirits	Japan Non-alcoholic Beverages	Oceania Integrated Beverages	Pharmaceu-ticals			
Segment assets	**¥437,463**	**¥174,516**	**¥490,966**	**¥725,099**	**¥844,533**	**¥(259,702)**	**¥2,412,874**
Other items							
Depreciation and amortization	**13,297**	**7,235**	**13,819**	**18,798**	**19,477**	**8,116**	**80,742**
Impairment losses (excluding financial assets)	**-**	**-**	**57,118**	**6,394**	**806**	**-**	**64,318**
Equity-accounted investees	**12,968**	**-**	**12,476**	**13,525**	**345,787**	**-**	**384,756**
Capital expenditures	**16,938**	**8,027**	**17,036**	**24,081**	**27,395**	**18,798**	**112,274**

Notes:

1. "Others" includes the Wine business in Japan, the Alcoholic Beverages business in Myanmar, the Non-alcoholic Beverages business in North America, the Bio-chemicals business, and other sundry businesses.
2. Adjustments are as follows:
   (1) Adjustment in segment income mainly includes inter-segment eliminations and corporate expenses not attributable to any reportable segment. The expenses are mainly group administrative expenses incurred in the Company, a holding company, and administrative expenses relating to some reportable segments incurred in shared services companies.
   (2) Adjustment in segment assets includes inter-segment asset and liability eliminations and corporate assets not attributable to any reportable segment. The assets mainly consist of surplus funds (cash), long-term investments (equity instruments) and assets of the administrative department of the Company, a holding company, and shared services companies.
3. Segment income represents normalized operating profit which is calculated by deducting the total of cost of sales and selling, general and administrative expenses from revenue.

(4) GEOGRAPHIC INFORMATION

1) Revenue

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Japan	¥1,284,189	**¥1,276,943**
Oceania	321,412	**294,350**
America	175,080	**200,799**
Others	149,841	**169,213**
Total	1,930,522	**1,941,305**

Note: Revenue is classified by country or area based on customer location.

2) Non-current assets

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Japan	¥405,886	**¥464,438**
Oceania	334,538	**269,932**
Southeast Asia	90,998	**92,347**
Others	123,637	**140,127**
Total	955,058	**966,843**

Note: Non-current assets exclude financial instruments, deferred tax assets and defined benefit assets.

(5) MAJOR CUSTOMER

The unaffiliated customer which accounted for 10% or more of revenue on the consolidated statement of profit or loss was as follows:

(¥ millions)

Name of customer	Related segment	Year ended December 31, 2018	**Year ended December 31, 2019**
Mitsubishi Shokuhin Co., Ltd.	Japan Beer and Spirits, Japan Non-alcoholic Beverages and Other	¥215,641	**¥225,059**

6. PROPERTY, PLANT AND EQUIPMENT

(1) RECONCILIATION OF CARRYING AMOUNT

Changes in carrying amounts, costs, accumulated depreciation and accumulated impairment losses of property, plant and equipment were as follows:

1) Carrying amount

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2018	¥162,043	¥194,266	¥45,866	¥89,396	¥59,623	¥551,194
Acquisitions	1,835	5,031	3,375	28	51,334	61,603
Transfer from construction in progress	10,779	41,862	12,496	8	(65,145)	-
Depreciation	(9,441)	(28,652)	(12,169)	-	-	(50,261)
Impairment losses	(151)	(2,331)	(7)	(73)	-	(2,562)
Disposals	(1,834)	(498)	(485)	(4,414)	(20)	(7,251)
Foreign currency translation differences	(6,126)	(12,419)	(1,759)	(1,704)	(2,797)	(24,805)
Other	(267)	689	(151)	(985)	(163)	(878)
Balance at December 31, 2018	**156,839**	**197,948**	**47,165**	**82,256**	**42,831**	**527,039**
Effect of changes in accounting policies	**55,415**	**1,807**	**-**	**5,621**	**-**	**62,843**
Restated balance at January 1, 2019	**212,253**	**199,755**	**47,165**	**87,877**	**42,831**	**589,881**
Acquisitions	**11,188**	**6,929**	**9,854**	**551**	**49,813**	**78,335**
Transfer from construction in progress	**11,072**	**31,993**	**6,188**	**25**	**(49,277)**	**-**
Depreciation	**(22,287)**	**(29,317)**	**(12,975)**	**(218)**	**-**	**(64,797)**
Impairment losses	**(4,386)**	**(15,117)**	**(132)**	**(8)**	**(100)**	**(19,744)**
Disposals	**(1,070)**	**(918)**	**(628)**	**(451)**	**(35)**	**(3,101)**
Sale of subsidiaries	**(5,096)**	**(9,748)**	**(223)**	**(715)**	**(343)**	**(16,125)**
Foreign currency translation differences	**(1,184)**	**(1,266)**	**(32)**	**(270)**	**(489)**	**(3,243)**
Other	**52**	**380**	**23**	**(350)**	**(58)**	**46**
Balance at December 31, 2019	**¥200,541**	**¥182,689**	**¥49,240**	**¥86,441**	**¥42,342**	**¥561,253**

Depreciation 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, and gain or loss on disposals is included in other operating income and other operating expenses in the consolidated statement of profit or loss.

Impairment losses are explained in Note 9. Impairment of non-financial assets.

The effect of changes in accounting policies is due to application of IFRS 16 “Leases,” and the above figures include the carrying amounts of right-of-use assets. Changes in the carrying amounts of right-of-use assets are explained in Note 17. Leases.

2) Cost

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2018	¥496,810	¥923,112	¥172,841	¥90,749	¥60,285	¥1,743,797
Balance at December 31, 2018	489,807	929,388	174,529	83,620	43,407	1,720,752
Balance at December 31, 2019	**540,670**	**922,112**	**176,895**	**87,838**	**43,068**	**1,770,583**

3) Accumulated depreciation and accumulated impairment losses

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2018	¥334,767	¥728,846	¥126,975	¥1,353	¥662	¥1,192,604
Balance at December 31, 2018	332,968	731,440	127,364	1,365	576	1,193,713
Balance at December 31, 2019	**340,129**	**739,423**	**127,655**	**1,397**	**726**	**1,209,330**

(2) LEASES

The carrying amounts of property, plant and equipment as at January 1, 2018 and December 31, 2018 included leased assets with the following carrying amounts:

(¥ millions)

	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Construction in progress	Total
Balance at January 1, 2018	¥9	¥5,636	¥1,547	¥ -	¥ -	7,191
Balance at December 31, 2018	7	4,966	1,920	-	-	6,893

7. GOODWILL

(1) RECONCILIATION OF CARRYING AMOUNT

Changes in carrying amount, costs and accumulated impairment losses of goodwill were as follows:

1) Carrying amount

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Balance at January 1	¥ 260,414	**¥ 244,222**
Acquisitions through business combinations	4,554	**5,328**
Impairment losses	-	**(15,237)**
Foreign currency translation differences	(20,746)	**(413)**
Balance at December 31	244,222	**233,899**

Impairment losses are explained in Note 9. Impairment of non-financial assets.

2) Cost and accumulated impairment losses

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Cost	¥ 244,222	**¥ 248,442**
Accumulated impairment losses	-	**14,543**

8. INTANGIBLE ASSETS

(1) RECONCILIATION OF CARRYING AMOUNT

Changes in carrying amount, costs, accumulated amortization and accumulated impairment losses of intangible assets were as follows:

1) Carrying amount

(¥ millions)

	Brands	Marketing rights	Software in progress	Other (Note)	Total
Balance at January 1, 2018	¥66,696	¥53,044	¥9,820	¥53,332	¥182,892
Acquisitions	-	2,073	15,096	9,232	26,401
Amortization	(72)	(8,602)	-	(9,011)	(17,685)
Impairment losses	-	-	-	(827)	(827)
Gain on reversal of impairment losses	-	-	-	3,360	3,360
Disposals	(3)	(232)	-	(37)	(271)
Transfer to other account	-	3,186	(2,269)	(917)	-
Foreign currency translation differences	(7,556)	(3,267)	(387)	(2,768)	(13,978)
Balance at December 31, 2018	**59,065**	**46,202**	**22,260**	**52,365**	**179,892**
Acquisitions	**112**	**6,684**	**18,038**	**9,105**	**33,939**
Amortization	**(20)**	**(7,491)**	**-**	**(8,433)**	**(15,945)**
Impairment losses	**(22,789)**	**(4,641)**	**-**	**(1,695)**	**(29,125)**
Disposals	**-**	**-**	**(37)**	**(165)**	**(202)**
Transfer to other account	**-**	**2,000**	**(6,831)**	**4,831**	**-**
Foreign currency translation differences	**841**	**(360)**	**(215)**	**80**	**346**
Balance at December 31, 2019	**37,208**	**42,394**	**33,216**	**56,087**	**168,905**

Note: “Other” includes Software.

Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss, and gain or loss on disposals is included in other operating income and other operating expenses in the consolidated statement of profit or loss.

Impairment losses and gain on reversal of impairment losses are explained in Note 9. Impairment of non-financial assets.

2) Cost

(¥ millions)

	Brands	Marketing rights	Software in progress	Other (Note)	Total
Balance at January 1, 2018	¥127,176	¥113,376	¥9,820	¥139,638	¥390,010
Balance at December 31, 2018	113,474	110,453	22,260	137,504	383,691
Balance at December 31, 2019	**105,394**	**119,222**	**33,216**	**147,966**	**405,797**

Note: “Other” includes Software.

3) Accumulated amortization and accumulated impairment losses

(¥ millions)

	Brands	Marketing rights	Software in progress	Other (Note)	Total
Balance at January 1, 2018	¥60,480	¥60,332	-	¥86,306	¥207,118
Balance at December 31, 2018	54,409	64,251	-	85,140	203,799
Balance at December 31, 2019	**68,185**	**76,828**	**-**	**91,879**	**236,892**

Note: “Other” includes Software.

(2) RESEARCH AND DEVELOPMENT EXPENSES AND SOFTWARE DEVELOPMENT EXPENSES

Research and development expenses of ¥58,146 million for the year ended December 31, 2018 and ¥66,189 million for the year ended December 31, 2019 were recorded in selling, general and administrative expenses in the consolidated statement of profit or loss. Software development expenses of ¥8,154 million for the year ended December 31, 2018 and ¥11,392 million for the year ended December 31, 2019 were recorded in other operating expenses in the consolidated statement of profit or loss.

9. IMPAIRMENT OF NON-FINANCIAL ASSETS

(1) CASH-GENERATING UNITS

The Group considers each Group company's business, or the unit for making investment decisions, as a cash-generating unit. Goodwill is allocated to cash-generating units or groups of cash-generating units based on the monitoring units for internal management purposes. For idle properties, each property is considered to constitute a cash-generating unit. Headquarters and welfare facilities are classified as corporate assets because they do not generate cash inflows independent from other assets or group of assets but contribute to cash flow generation of other cash-generating units.

(2) IMPAIRMENT LOSSES

Year ended December 31, 2018

Impairment losses by segment consisted of the following:

(¥ millions)

Segments	Impairment losses	Types of major assets
Japan Beer and Spirits	¥ -	
Japan Non-alcoholic Beverages	-	
Oceania Integrated Beverages	786	Machinery, equipment and vehicles
Pharmaceuticals	952	Buildings and structures, Other intangible assets
Other	1,651	Machinery, equipment and vehicles, Land
Total	3,390	

Carrying amounts of certain assets used for business were reduced to their recoverable amounts and the decreases were recognized as impairment losses in other operating expenses in the consolidated statement of profit or loss. Major reasons for these impairment losses were as follows:

(i) In the Oceania Integrated Beverages Business, production capacity in the non-alcoholic beverages business was optimized;
(ii) The Pharmaceuticals Business decided to halt certain research and development in progress; and
(iii) The Other Businesses decided to sell a production facility that had been used in a closed factory of an American subsidiary.

The recoverable amount of each group of assets is measured at fair value less costs of disposal or value in use. Fair value less costs of disposal is determined at disposal value or appraised value.
Fair value less costs of disposal is categorized as Level 3 in the fair value hierarchy.

Year ended December 31, 2019

Impairment losses by segment consisted of the following:

(¥ millions)

Segments	Impairment losses	Types of major assets
Japan Beer and Spirits	**¥ -**	
Japan Non-alcoholic Beverages	**-**	
Oceania Integrated Beverages	**57,118**	Buildings and structures, Machinery, equipment and vehicles, Goodwill, Brands
Pharmaceuticals	**6,394**	Machinery, equipment and vehicles, Marketing rights
Other	**806**	Buildings and structures, Machinery, equipment and vehicles
Total	**64,318**	

For certain assets used for business related to the Oceania Non-alcoholic Beverages Business in the Oceania Integrated Beverages Business, an impairment test was performed in April 2019 due to a decline in the profitability of the Non-alcoholic Beverages Business resulting from the prolonged impact of abnormal weather on the price and stable supply of milk, and the carrying amounts were reduced to their recoverable amounts (¥70,292 million). The decreases were recognized as impairment losses in other operating expenses in the consolidated statement of profit or loss, as they were losses incurred in the process of selling the Oceania Non-alcoholic Beverages Business as well as expenses covering overall business activities. The decreases primarily consisted of buildings and structures (¥4,194 million), machinery, equipment and vehicles (¥12,999 million), goodwill (¥15,237 million) and brands (¥22,789 million).
The recoverable amount was measured at fair value less costs of disposal and determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.

Of certain assets used for business in the Pharmaceuticals Business, carrying amounts of marketing rights were reduced to their recoverable amounts mainly due to a decline in the profitability of certain products overseas. The recoverable amount was measured at value in use, and the decreases were recognized as impairment losses in other operating expenses in the consolidated statement of profit or loss.

(3) IMPAIRMENT TEST FOR CASH-GENERATING UNITS (GROUPS OF UNITS) CONTAINING GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Major goodwill and intangible assets with indefinite useful lives that were allocated to the Group's cash-generating units or groups of cash-generating units for impairment testing were as follows (after recognition of impairment losses):

(¥ millions)

	At December 31, 2018		**At December 31, 2019**	
	Goodwill	Brands	Goodwill	Brands
Oceania Alcoholic Beverages Business	¥ 99,050	¥ 9,026	**¥102,286**	**¥ 9,024**
Oceania Non-alcoholic Beverages Business (Note 1)	15,083	22,558	**-**	**-**
Alcoholic Beverages business in Myanmar	23,303	22,574	**24,094**	**23,339**
Pharmaceuticals Business (Note 2)	-	-	**90,951**	**-**
Bio-chemicals Business (Note 2)	-	-	**13,935**	**-**
Pharmaceuticals and Bio-chemicals Business (Note 2)	104,141	-	**-**	**-**

Notes:

1. Impairment losses were recorded on all of the goodwill and brands related to this business in the year ended December 31, 2019 because the recoverable amount determined in April 2019 fell below the carrying amount.
2. On February 5, 2019, the Company concluded a share transfer agreement to acquire 95% of shares in Kyowa Hakko Bio Company, Limited from Kyowa Kirin Co., Ltd. As a result, the internal monitoring unit for goodwill related to the Pharmaceuticals and Bio-chemicals Business and the unit for impairment testing of goodwill were changed, and the carrying amount of goodwill was allocated proportionately to the Pharmaceuticals Business and the Bio-chemicals Business.

The Group records as assets the brands that are held by Group companies including Lion Pty Limited in the Oceania Alcoholic Beverages Business and Myanmar Brewery Limited in the Alcoholic Beverages business in Myanmar.
The brands that Lion Pty Limited and Myanmar Brewery Limited hold are classified as intangible assets with indefinite useful lives as they are expected to bring economic benefits to the Group over the longer term in the Oceania area and Myanmar, respectively.
Impairment tests for major goodwill and intangible assets with indefinite useful lives are performed as follows:

1) Oceania Alcoholic Beverages Business
The recoverable amount is measured at fair value less costs of disposal and it exceeded the carrying amount of cash-generating units.
Fair value less costs of disposal is determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.
Value in use was not determined since fair value less costs of disposal exceeded the carrying amount.
As the recoverable amount exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions for calculating recoverable amounts such as the market values related to businesses of peer companies change within a reasonable range.

2) Alcoholic Beverages business in Myanmar
The recoverable amount is measured at the higher of value in use and fair value less costs of disposal.
Value in use is calculated reflecting past experience and external information, and three-year cash flows that are estimated based on the business plan approved by management are discounted to present value. Continuous growth rate is determined at 3.3% (2018: 3.5%) and pre-tax discount rate is determined at 19.5% (2018: 24.0%) based on weighted-average capital cost of cash-generating units.
Fair value less costs of disposal is determined based on the market values related to businesses of peer companies (the market approach). Calculation of fair value entails management's judgment and assumptions on the future plans for the businesses that are subject to the calculation, and such judgment and assumptions are based on certain premises that are determined to be reasonable at the time of calculation. The fair value measurement is categorized as Level 3 in the fair value hierarchy considering the significant inputs in the valuation techniques used.
As the recoverable amount exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions such as future cash flows and discount rates change within a reasonable range.

3) Pharmaceuticals Business
The recoverable amount is measured at the higher of value in use and fair value less costs of disposal.
Value in use is calculated reflecting past experience and external information, and three-year cash flows that are estimated based on the business plan approved by management are discounted to present value. Pre-tax discount rate is determined at 8.2% based on weighted-average capital cost of cash-generating units.
Fair value less costs of disposal is determined based on quoted share prices in active markets (the market approach). The fair value measurement is categorized as Level 1 in the fair value hierarchy considering the significant inputs in the valuation techniques used.
As the recoverable amount exceeded the carrying amount of cash-generating units, the Company considers that the recoverable amount is not likely to fall below the carrying amount even when the assumptions such as future cash flows and discount rates change within a reasonable range.

4) Bio-chemicals Business

The recoverable amount is measured at value in use.

Value in use is calculated reflecting past experience and external information, and five-year cash flows that are estimated based on the business plan approved by management are discounted to present value. The business plan is based on the plan for strengthening the quality assurance systems of the Hofu Plant. Continuous growth rate is determined at 0.5% and pre-tax discount rate is determined at 6.6% based on weighted-average capital cost of cash-generating units.

The recoverable amount exceeded the carrying amount of cash-generating units by ¥22,390 million at December 31, 2019, but if the discount rate increases by 1.0%, the recoverable amount will be equal to the carrying amount.

10. OTHER FINANCIAL ASSETS

(1) OTHER FINANCIAL ASSETS CONSISTED OF THE FOLLOWING:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Shares	¥ 152,292	**¥ 115,156**
Derivative assets	1,237	**291**
Other	36,111	**36,087**
Allowance for doubtful accounts	(5,139)	**(5,075)**
Total	184,500	**146,459**
Non-current assets	177,787	**139,018**
Current assets	6,713	**7,441**

Notes:

1. The amounts less allowance for doubtful accounts are presented in the consolidated statement of financial position.
2. Shares are classified as equity instruments measured at fair value through other comprehensive income, derivative assets are classified as financial assets measured at fair value through profit or loss, and “Other” is classified mainly as financial assets measured at amortized cost.

(2) THE FAIR VALUES OF MARKETABLE AND NON-MARKETABLE EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WERE AS SET OUT IN THE TABLE BELOW. THESE EQUITY INSTRUMENTS ARE MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AS THE GROUP HOLDS THEM FOR THE PURPOSE OF BUILDING, MAINTAINING AND STRENGTHENING TRANSACTIONAL AND COLLABORATIVE RELATIONSHIPS.

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Marketable	¥ 124,374	**¥ 90,076**
Non-marketable	27,918	**25,080**
Total	152,292	**115,156**

Of the above, fair values of major marketable shares were as follows:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Yakult Honsha Co., Ltd.	¥ 18,976	**¥ 14,822**
SKYLARK HOLDINGS CO., LTD.	5,783	**7,117**
Mitsubishi Logistics Corporation	7,407	**6,333**
Central Japan Railway Company	6,340	**6,021**
Mitsubishi Estate Co., Ltd.	5,518	**5,555**
Oriental Land Co., Ltd.	3,095	**4,166**
Seven & i Holdings Co., Ltd.	4,909	**4,111**
SUZUKEN CO., LTD.	3,679	**2,939**
Chimney Co., Ltd.	2,462	**2,335**
Alfresa Holdings Corporation	2,902	**2,306**

Non-marketable shares mainly consisted of investments in customers and counterparties in the Japan Beer and Spirits Businesses, the Japan Non-alcoholic Beverages Business and the Wine business in Japan. The total fair value of the investments in the Japan Beer and Spirits Businesses, the Japan Non-alcoholic Beverages Business and the Wine business in Japan at December 31, 2018 and 2019 was ¥19,305 million and ¥15,724 million, respectively.

(3) THE GROUP SELLS AND DERECOGNIZES EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME TO MAKE EFFICIENT AND EFFECTIVE USE OF THE ASSETS IT HOLDS. FAIR VALUES AT THE TIME OF SALES IN EACH YEAR AND ACCUMULATED PROFIT OR LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN EQUITY WERE AS FOLLOWS:

(¥ millions)

Year ended December 31, 2018		**Year ended December 31, 2019**	
Fair value	Accumulated profit or loss recognized in other comprehensive income in equity (Note)	Fair value	Accumulated profit or loss recognized in other comprehensive income in equity (Note)
¥30,388	¥13,470	**¥36,626**	**¥14,300**

Note: Accumulated profit or loss recognized in other comprehensive income in equity was transferred to retained earnings when the equity instruments were derecognized.

11. INCOME TAX

(1) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position were as follows:

(¥ millions)

	At January 1, 2018	At December 31, 2018	**At December 31, 2019**
Deferred tax assets	¥96,727	¥88,676	**¥94,656**
Deferred tax liabilities	29,517	26,036	**20,786**
Net	67,210	62,640	**73,870**

(2) CHANGES IN THE BALANCE OF DEFERRED TAX

Changes in the balance of deferred tax were as follows:

Year ended December 31, 2018

(¥ millions)

	Balance at January 1 (net)	Effect of changes in accounting policies (Note 1)	Restated balance at January 1	Amount recognized in net profit or loss	Amount recognized in other comprehensive income	Other (Note 2)	Balance at December 31 (net)
Defined benefit asset or liability	¥24,979	¥-	¥24,979	¥17	¥386	¥(35)	¥25,347
Accrued expenses	11,813	-	11,813	1,984	-	(107)	13,690
Inventories	4,776	-	4,776	565	-	(29)	5,312
Unused tax losses	45,567	-	45,567	(12,504)	-	(9)	33,053
Property, plant and equipment and intangible assets	(8,131)	(10,666)	(18,797)	(902)	-	1,563	(18,136)
Fair value reserve on equity instruments measured at fair value through other comprehensive income	(31,097)	-	(31,097)	-	1,405	3,575	(26,117)
Other	29,969	-	29,969	(574)	(369)	465	29,491
Total	77,876	(10,666)	67,210	(11,415)	1,422	5,423	62,640

Notes:
1. Effect of changes in accounting policies is due to tax effect concerning intangible assets acquired as part of a business combination.
2. “Other” includes foreign currency translation differences on foreign operations and decreases due to the sale of subsidiaries.

Year ended December 31, 2019

(¥ millions)

	Balance at January 1 (net)	Amount recognized in net profit or loss	Amount recognized in other comprehensive income	Other (Note)	Balance at December 31 (net)
Defined benefit asset or liability	**¥25,347**	**¥(245)**	**¥(2,950)**	**¥26**	**¥22,179**
Accrued expenses	**13,690**	**(209)**	**-**	**0**	**13,481**
Inventories	**5,312**	**4,973**	**-**	**105**	**10,390**
Unused tax losses	**33,053**	**(9,832)**	**-**	**239**	**23,460**
Property, plant and equipment and intangible assets	**(18,136)**	**4,829**	**95**	**511**	**(12,701)**
Fair value reserve on equity instruments measured at fair value through other comprehensive income	**(26,117)**	**-**	**1,936**	**5,810**	**(18,372)**
Other	**29,491**	**6,200**	**(293)**	**35**	**35,433**
Total	**62,640**	**5,716**	**(1,213)**	**6,727**	**73,870**

Note: "Other" includes foreign currency translation differences on foreign operations.

(3) UNRECOGNIZED DEFERRED TAX LIABILITIES

Deferred tax liabilities related to investments in subsidiaries and associates and interests in joint arrangements are not recognized when the Group can control the timing of reversal of the related taxable temporary differences and it is not probable that they will reverse in the foreseeable future. The total amount of temporary differences related to investments in subsidiaries and associates and interests in joint arrangements at December 31, 2018 and 2019 was ¥309,560 million and ¥303,030 million, respectively.

(4) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets are not recognized in respect of the following items as it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

(¥ millions)

	At January 1, 2018	At December 31, 2018	**At December 31, 2019**
Deductible temporary differences	¥ 102,081	¥ 90,942	**¥ 111,917**
Unused tax losses	24,811	21,895	**20,591**

Unused tax losses for which deferred tax assets were not recognized expire as follows:

(¥ millions)

	At January 1, 2018	At December 31, 2018	**At December 31, 2019**
1st year	¥ 416	¥ 163	**¥ 447**
2nd year	183	464	**215**
3rd year	410	402	**333**
4th year	472	450	**120**
5th year onwards	16,205	14,627	**14,136**
With no expiration	7,124	5,789	**5,340**
Total	24,811	21,895	**20,591**

(5) INCOME TAX EXPENSE

Income tax expense was as follows:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Current tax expense	¥ 40,226	**¥ 41,101**
Deferred tax expense	11,415	**(5,716)**
Income tax expense	51,641	**35,385**

(6) RECONCILIATION OF EFFECTIVE TAX RATE

The Group is mainly subject to a national corporate tax, an inhabitant tax and enterprise tax, based on which the statutory tax rate is calculated at 30.9% and 30.6% for the years ended December 31, 2018 and 2019, respectively. For foreign subsidiaries, local corporate and other tax rates have been applied.

Reconciliation of the statutory tax rate and the average effective tax rate was as follows:

(In percent)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Statutory tax rate	30.9%	**30.6%**
(Adjustments)		
Tax effect of income and expenses not taxable and deductible for tax purposes	(2.1)	**0.5**
Equity in earnings of associates	(3.6)	**(8.8)**
Changes in unrecognized deferred tax assets	0.0	**14.8**
Difference in applicable tax rates between the Company and its subsidiaries	(0.3)	**(1.6)**
Tax credits	(2.1)	**(5.5)**
Other	(1.9)	**0.3**
Average effective tax rate	20.9	**30.3**

(7) UNCERTAINTY OVER INCOME TAX TREATMENTS

Lion Pty Limited is subject to periodic reviews and audits by the Australian Taxation Office. The Australian Taxation Office is currently undertaking an audit of Lion Pty Limited for the 2013 to 2016 income years. Lion is satisfied that it has complied with its tax obligations in respect of the matters, consistent with the Group's approach to tax governance as outlined in Lion's Tax Transparency Report. However, Lion Pty Limited received from the Australian Taxation Office a written opinion different from that of Lion Pty Limited as well as an amendment notice about tax treatments concerning two transactions for prior years.

For one of the two transactions, pursuant to the administrative practice of the Australian Taxation Office, Lion Pty Limited provisionally paid 20,200 thousand Australian dollars (¥1,475 million) which is 50% of the amended tax amount stated in the amendment notice. Nevertheless, the Group has solid grounds for its assertion and believes that the provisional payment is recoverable. Accordingly, the Group has recorded the provisional payment in other current assets.

In the event that the tax treatments of Lion Pty Limited for the two transactions during the applicable periods are not permitted, Lion Pty Limited may have an additional tax obligation up to 84,700 thousand Australian dollars (¥6,481 million).

12. INVENTORIES

Inventories consisted of the following:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Merchandise and finished goods	¥ 135,158	**¥ 149,066**
Work in process	26,138	**24,022**
Raw materials and supplies	43,541	**46,112**
Total	204,837	**219,200**
Of which, inventories held for sale over 12 months	20,380	**24,896**

Loss on devaluation of inventories which was recognized as an expense was ¥3,203 million for the year ended December 31, 2018 and ¥4,734 million for the year ended December 31, 2019.

These write-downs are mainly included in cost of sales in the consolidated statement of profit or loss.

13. TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Notes and accounts receivable, trade (trade receivables)	¥ 391,516	**¥ 382,250**
Accrued accounts receivable	14,790	**14,841**
Allowance for doubtful accounts	(1,371)	**(1,435)**
Total	404,934	**395,656**

Notes:

1. The amounts less allowance for doubtful accounts are presented in the consolidated statement of financial position.
2. Trade and other receivables are classified as financial assets measured at amortized cost.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2018 and 2019 consisted of cash and time deposits (except for fixed term deposits over three months), and the amount of cash and cash equivalents in the consolidated statement of financial position was the same as the amount of cash and cash equivalents in the consolidated statement of cash flows. Cash and cash equivalents are classified as financial assets measured at amortized cost.

15. CAPITAL AND RESERVES

(1) SHARE CAPITAL AND SHARE PREMIUM

Changes in the number of shares issued and the number of shares authorized were as follows:

(Thousands of shares)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Issued shares at January 1	914,000	**914,000**
Changes	-	**-**
Issued shares at December 31 —fully paid	914,000	**914,000**
Authorized shares at December 31	1,732,026	**1,732,026**

All of the shares issued by the Company are no-par ordinary shares without any limitation on the rights of the shares.

Regarding share premium and retained earnings, the Japanese Companies Act prescribes that until the total amount of capital reserve in share premium and legal earnings reserve included in retained earnings reaches 25% of share capital, 10% of any appropriation of surplus to shareholders from retained earnings is required to be set aside as additional paid-in capital or legal earnings reserve in each year.

The distributable amount under the Japanese Companies Act is calculated based on share premium and retained earnings as presented in the Company's accounting books in accordance with generally accepted accounting principles in Japan. Paid-in capital and legal earnings reserve are deducted from the distributable amount.

(2) TREASURY SHARES

Changes in the number of treasury shares were as follows:

(Thousands of shares)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Treasury shares at January 1	1,394	**36,001**
Changes	34,607	**9,270**
Treasury shares at December 31	36,001	**45,271**

Treasury shares of the Company comprise the cost of shares in the Company that the Group holds.

Changes in treasury shares for the year ended December 31, 2018 consisted of the following:

・Acquisition of treasury shares: 34,669 thousand shares
・Acquisition of less-than-one unit shares: 14 thousand shares
・Sale of less-than-one unit shares: (1) thousand shares
・Disposal of shares as restricted stock compensation: (76) thousand shares

Changes in treasury shares for the year ended December 31, 2019 consisted of the following:

・Acquisition of treasury shares: 9,359 thousand shares
・Acquisition of less-than-one unit shares (including gratis acquisition based on performance evaluation for restricted stock compensation): 18 thousand shares
・Sale of less-than-one unit shares: (1) thousand shares
・Disposal of shares as restricted stock compensation: (107) thousand shares

(3) DETAILS AND PURPOSE OF RESERVES

1) Foreign currency translation differences on foreign operations

Foreign currency translation differences on foreign operations comprise foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

2) Cash flow hedges

Cash flow hedges comprise the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

3) Net change in equity instruments measured at fair value through other comprehensive income

Net change in equity instruments measured at fair value through other comprehensive income comprises net unrealized gains or losses on the fair value of equity instruments measured at fair value through other comprehensive income.

4) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans comprise net change of actuarial gains and losses, the return on plan assets (excluding the amount included in interest income) and the effect of asset ceiling (excluding the amount included in interest income). Actuarial gains and losses result from adjustments based on performance related to defined benefit obligations (the difference between actuarial assumptions at the beginning of the year and the result of performance) and the effect of changes in actuarial assumptions. They are recognized in other comprehensive income as incurred and immediately transferred from reserves to retained earnings.

(4) DIVIDENDS

Dividend payments were as follows:

Resolution	Type of shares	Total amount of dividend (¥ millions)	Dividend per share (Yen)	Record date	Effective date
March 29, 2018 Annual General Meeting of Shareholders	Ordinary shares	23,271	25.50	December 31, 2017	March 30, 2018
August 7, 2018 Board of Directors' Meeting	Ordinary shares	21,552	24.00	June 30, 2018	September 5, 2018
March 28, 2019 Annual General Meeting of Shareholders	Ordinary shares	23,706	27.00	December 31, 2018	March 29, 2019
August 6, 2019 Board of Directors' Meeting	Ordinary shares	27,660	31.50	June 30, 2019	September 5, 2019

Dividends for which the record date is attributable to, but to be effective after, the year are as follows:

Resolution	Type of shares	Total amount of dividend (¥ millions)	Dividend per share (Yen)	Record date	Effective date
March 27, 2020 Annual General Meeting of Shareholders	Ordinary shares	28,234	32.50	December 31, 2019	March 30, 2020

16. BONDS AND BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

(1) DETAILS OF FINANCIAL LIABILITIES

Bonds and borrowings and other financial liabilities consisted of the following:

	At December 31, 2018 (¥ millions)	**At December 31, 2019 (¥ millions)**	Average interest rate (%) (Note 3)	Maturity
Bonds (maturities of over one year) (Note 4)	¥ 99,765	**¥ 149,497**	0.73%	September 24, 2021 to September 5, 2039
Bonds (maturities of one year or less) (Note 4)	49,982	**19,998**	2.28	March 19, 2020
Long-term borrowings (maturities of over one year)	218,172	**141,710**	0.51	February 26, 2021 to December 21, 2025
Long-term borrowings (maturities of one year or less)	43,086	**88,787**	0.29	March 18, 2020 to December 21, 2020
Short-term borrowings	3,989	**3,860**	0.40	-
Commercial paper	-	**127,000**	(0.002)	January 20, January 30 and February 26, 2020
Deposits received (Note 2)	52,012	**51,793**	1.00	-
Accrued expenses	37,235	**34,579**	-	-
Derivative liabilities	9,614	**10,777**	-	-
Lease liabilities	-	**76,442**	-	January 31, 2020 to December 31, 2056
Other	42,943	**32,126**	-	-
Total	556,799	**736,568**	-	-
Non-current liabilities	410,015	**432,265**	-	-
Current liabilities	146,784	**304,302**	-	-

Notes:
1. Derivative liabilities are classified as financial liabilities measured at fair value, and financial liabilities other than derivative liabilities and lease liabilities are classified as financial liabilities measured at amortized cost.
2. A maturity has not been set for these deposits received as they have been pledged as cash collateral.
3. Average interest rates are determined based on average balances for the year.
4. The terms and conditions of bond issuance are summarized as follows:

Company name	Series	Issue date	At December 31, 2018 (¥ millions)	**At December 31, 2019** (¥ millions)	Interest rate (%)	Maturity
The Company	The Company 4th series of unsecured bonds	March 19, 2008	¥ 19,986	**¥ 19,998**	1.86%	March 19, 2020
The Company	The Company 7th series of unsecured bonds	November 5, 2009	49,982	-	-	November 5, 2019
The Company	The Company 9th series of unsecured bonds	September 26, 2011	39,945	**39,961**	1.239	September 24, 2021
The Company	The Company 10th series of unsecured bonds	March 2, 2015	14,947	**14,955**	0.603	February 28, 2025
The Company	The Company 11th series of unsecured bonds	December 6, 2018	24,887	**24,909**	0.120	December 6, 2023
The Company	The Company 12th series of unsecured bonds	September 5, 2019	-	**29,878**	0.080	September 5, 2024
The Company	The Company 13th series of unsecured bonds	September 5, 2019	-	**29,861**	0.230	September 5, 2029
The Company	The Company 14th series of unsecured bonds	September 5, 2019	-	**9,933**	0.510	September 5, 2039
Total			149,747	**169,495**	-	-

(2) PLEDGED ASSETS

Pledged assets consisted of the following:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Shares (Note)	¥ 965	**¥ 771**
Total	965	**771**

Note: Shares were pledged as collateral in order to utilize the deferred payment system under the Japanese Customs Act and Consumption Tax Act.

17. LEASES

Year ended December 31, 2018

(1) FINANCE LEASES

Future minimum lease payments for leased assets under finance leases, future finance expenses and present value for each payment period were as follows:

	(¥ millions)
	At December 31, 2018
Due within one year	
Future minimum lease payments	¥ 2,647
Future finance expenses	224
Present value	2,422
Between one and five years	
Future minimum lease payments	7,988
Future finance expenses	444
Present value	7,544
More than five years	
Future minimum lease payments	1,347
Future finance expenses	11
Present value	1,336
Total	
Future minimum lease payments	11,982
Future finance expenses	679
Present value	11,302

(2) OPERATING LEASES

Future minimum lease payments based on non-cancelable operating leases were as follows:

	(¥ millions)
	At December 31, 2018
Due within one year	¥ 9,850
Between one and five years	28,177
More than five years	19,733
Total	57,760

Minimum lease payments under operating leases which were recognized as an expense were as follows:

	(¥ millions)
	Year ended December 31, 2018
Minimum lease payments	¥ 21,380

Year ended December 31, 2019

(1) LEASING ACTIVITIES

The Group has entered into leases mainly for real estate of business offices and warehouses.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are mainly included in real estate leases for business offices and warehouses, many of which are options to extend the lease over one year or the same period as the original contract or options to terminate early the lease upon a six-month written notice to the counterparty. These options are used by the lessee as necessary to utilize real estate for business.

Some of the leases within the Group contain variable payment terms for warehouse fees that are linked to the volume of inventories or real estate rents that are linked to sales generated from the store. Variable payment terms are used in order to link rental payments to real estate cash flows and minimize fixed costs.

(2) RIGHT-OF-USE ASSETS

Carrying amounts and depreciation and amortization of right-of-use assets consisted of the following:

(¥ millions)

	Property, plant and equipment				Intangible assets	
	Buildings and structures	Machinery, equipment and vehicles	Tools, fixtures and fittings	Land	Other	Total
Balance at January 1, 2019	**¥55,422**	**¥6,772**	**¥1,920**	**¥5,621**	**¥3,916**	**¥73,652**
Acquisitions	**9,058**	**2,514**	**2,154**	**184**	**1,452**	**15,361**
Depreciation and amortization	**(12,934)**	**(1,748)**	**(777)**	**(218)**	**(1,339)**	**(17,015)**
Impairment losses	**-**	**(1,631)**	**-**	**-**	**-**	**(1,631)**
Other	**(162)**	**52**	**(15)**	**84**	**(58)**	**(98)**
Balance at December 31, 2019	**51,384**	**5,959**	**3,283**	**5,671**	**3,971**	**70,268**

(3) LEASE LIABILITIES

Lease liabilities by maturity were as follows:

At December 31, 2019

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Lease liabilities	**¥76,442**	**¥86,466**	**¥16,702**	**¥14,305**	**¥11,677**	**¥8,952**	**¥7,707**	**¥27,123**

(4) AMOUNTS RECORDED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(¥ millions)

	Year ended December 31, 2019
Interest paid for leases	**¥1,474**
Variable leases	**980**
Short-term leases	**2,674**
Leases for low value items	**1,296**

(5) AMOUNT RECORDED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

(¥ millions)

	Year ended December 31, 2019
Total cash outflow for leases	**¥22,861**

18. EMPLOYEE BENEFITS

(1) DEFINED BENEFIT PLANS

As defined benefit plans, the Group has lump-sum severance payment plans, defined benefit corporate pension plans and employees' pension fund plans.

Benefits under the defined benefit plans are determined based on the points earned during the service period, benefit rates upon retirement, number of years of service, last average salary before retirement and other conditions.

In some cases, additional retirement benefits are paid for early retirement of employees before the ordinary retirement dates.

The defined benefit plans are managed by the Group or pension funds that are separate from the Group in accordance with relevant laws and regulations.

The Group or the administrative board of the pension funds and the pension management entrusted organizations are required by laws and regulations to faithfully conduct their work in relation to the funds of plan participants, bearing the responsibility to manage plan assets in accordance with given policies.

In managing plan assets, the optimum asset mix is formulated by external institutions that conduct pension ALM (asset liability management). Under the optimum asset mix, risks, expected rates of return and asset composition ratios by investment asset are determined, and plan assets are managed by maintaining the composition ratios.

The Group and pension funds periodically examine the pension financing pursuant to laws and regulations in order to keep the balance of pension finance in preparation for the appropriation for and shortages in future payments of benefits, and recalculate the amount of pension contributions.

Major plans of the Group are exposed to risks such as investment risk, interest rate risk, inflation risk and life span risk.

1) Reconciliation of defined benefit obligations

Reconciliation between the beginning balance and ending balance of the present value of defined benefit obligations was as follows:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Balance at January 1	¥ 316,899	**¥ 303,256**
Current service cost	12,730	**11,541**
Interest cost	1,590	**2,163**
Remeasurement loss (gain)		
Changes in demographic assumptions	(624)	**(966)**
Changes in financial assumptions	(8,415)	**937**
Changes in experience adjustment	685	**5,579**
Past service cost	35	**7**
Foreign currency translation differences	(271)	**(141)**
Payments from plans	(19,009)	**(20,803)**
Other changes	(364)	**(430)**
Balance at December 31	303,256	**301,143**

Weighted-average duration of defined benefit obligations was 12.2 years at December 31, 2018 and December 31, 2019.

2) Reconciliation of plan assets

Reconciliation between the beginning balance and ending balance of the fair value of plan assets was as follows:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Balance at January 1	¥ 261,466	**¥ 244,562**
Interest income	1,334	**1,795**
Remeasurement loss (gain)		
Gain on plan assets (excluding interest income)	(9,450)	**15,051**
Foreign currency translation differences	(216)	**(128)**
Contributions paid by the employer	5,157	**5,103**
Payments from plans	(13,186)	**(14,706)**
Other changes	(543)	**(346)**
Balance at December 31	244,562	**251,331**

The Group plans to contribute ¥4,844 million to the defined benefit plans for the year ending December 31, 2020.

3) Defined benefit obligations and plan assets

The following table shows the relationship between the present value of defined benefit obligations, fair value of plan assets and defined benefit liability (asset) in the consolidated statement of financial position:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Present value of defined benefit obligations	¥ 303,256	**¥ 301,143**
Fair value of plan assets	(244,562)	**(251,331)**
Total	58,694	**49,812**
Defined benefit liability	68,441	**65,274**
Defined benefit asset	(9,747)	**(15,462)**

Note: Defined benefit asset is included in other non-current assets in the consolidated statement of financial position.

4) Details of plan assets

Total plan assets consisted of the following:

(¥ millions)

	At December 31, 2018		**At December 31, 2019**	
	With quoted prices in active markets	Without quoted prices in active markets	With quoted prices in active markets	Without quoted prices in active markets
Equity instruments	¥ 56,018	¥ -	**¥ 54,874**	**¥ -**
Debt instruments	91,139	-	**102,357**	**-**
General accounts	-	75,813	**-**	**73,492**
Other	75	21,516	**-**	**20,608**
Total	147,232	97,330	**157,232**	**94,100**

5) Actuarial assumptions

Major actuarial assumptions were as follows:

	At December 31, 2018	**At December 31, 2019**
Discount rate (weighted-average)	0.6%	**0.6%**

The effect of 0.5% change in the material actuarial assumptions on the defined benefit obligations was as follows, assuming that the other variables are constant:

(¥ millions)

		At December 31, 2018	**At December 31, 2019**
Discount rate	Increase by 0.5%	¥ (15,216)	**¥ (15,063)**
	Decrease by 0.5%	16,968	**16,637**

(2) DEFINED CONTRIBUTION PLANS

The Company and some of its consolidated subsidiaries have defined contribution plans as well as defined benefit plans.

Expenses recorded for the defined contribution plans (including expenses recognized in relation to public pension systems) were ¥14,056 million for the year ended December 31, 2018 and ¥14,199 million for the year ended December 31, 2019.

(3) EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses included in the consolidated statement of profit or loss were ¥287,190 million for the year ended December 31, 2018 and ¥292,210 million for the year ended December 31, 2019. Employee benefit expenses mainly include wages and salaries, employee bonuses, statutory welfare expenses and expenses for post-retirement benefits. Interest costs and interest income on post-retirement benefits are included in finance costs on a net basis, and past service costs are included in other operating expenses and other operating income. Other expenses relating to employee benefits are included in cost of sales, selling, general and administrative expenses and other operating expenses.

19. PROVISIONS

Details of and changes in provisions were as follows:

Year ended December 31, 2019

(¥ millions)

	Allowance for loss on plants reorganization	Asset retirement obligations	Other (Note 2)	Total
Balance at January 1, 2019	¥ 3,832	¥ 3,977	¥ 164	¥ 7,973
Increase	1,725	566	7,029	9,320
Decrease resulting from settlement	(2,368)	(67)	(3,168)	(5,603)
Decrease due to reversal	(994)	(83)	(85)	(1,161)
Foreign currency translation differences	(13)	(9)	-	(23)
Balance at December 31, 2019	**2,181**	**4,385**	**3,940**	**10,506**
Non-current liabilities	419	4,332	65	4,816
Current liabilities	1,762	53	3,875	5,690

Notes:
1. Explanations of provisions are provided in Note 3. Significant accounting policies.
2. “Other” primarily consisted of provision for product recall-related losses of Kyowa Kirin Co., Ltd. and provision for company-wide business improvement activities of Kyowa Hakko Bio Company, Limited.

20. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Notes and accounts payable, trade	¥ 115,653	**¥ 105,904**
Accounts payable	50,672	**67,028**
Refund liabilities	60,812	**58,119**
Total	227,137	**231,051**

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

21. OTHER LIABILITIES

Other non-current liabilities and other current liabilities consisted of the following:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Liquor taxes payable	¥ 80,120	**¥ 74,966**
Contract liabilities (Note)	8,755	**3,573**
Other	119,606	**99,829**
Total	208,481	**178,369**
Non-current liabilities	10,851	**5,538**
Current liabilities	197,630	**172,831**

Note: The beginning balance of contract liabilities recognized as revenue was ¥4,082 million and ¥3,379 million for the years ended December 31, 2018 and 2019, respectively. Revenue recognized from the performance obligations satisfied in prior years was ¥9,828 million and ¥14,939 million for the years ended December 31, 2018 and 2019, respectively. These amounts mainly consist of milestone revenue and running royalty revenue. Due to changes in periods to satisfy performance obligations, such as for development cooperation, and change in estimates of transaction prices, cumulative catch-up adjustments to revenue were made. As a result, the balance of contract liabilities increased by ¥1,208 million at December 31, 2018 and decreased by ¥1,982 million at December 31, 2019.

22. REVENUE

(1) ANALYSIS OF REVENUE AND RECONCILIATION TO REVENUE FROM UNAFFILIATED CUSTOMERS BY SEGMENT

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Japan Beer and Spirits	¥ 685,078	**¥ 681,900**
Japan Non-alcoholic Beverages	282,967	**286,806**
Oceania Integrated Beverages		
Alcoholic beverages	185,334	**171,497**
Non-alcoholic beverages	144,165	**128,237**
Total	329,499	**299,733**
Pharmaceuticals	270,438	**304,852**
Others		
Wine in Japan	60,750	**59,988**
Alcoholic beverages in Myanmar	26,165	**32,726**
Non-alcoholic beverages in North America	131,708	**132,560**
Bio-chemicals	68,836	**65,395**
Other	75,081	**77,344**
Total	362,539	**368,013**
Consolidated	1,930,522	**1,941,305**

(2) TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS

Consideration for licensing revenue for which the performance obligation is not satisfied at a point in time is recorded as contract liabilities and is recognized as revenue over a period of time according to the satisfaction of related performance obligations, such as development cooperation. The following table shows the total transaction price which is allocated to residual performance obligations and periods when the revenue is expected to be recognized:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Due within one year	¥ 3,395	**¥ 2,176**
Between one and two years	2,094	**352**
Between two and three years	247	**259**
More than three years	3,018	**786**
Total	8,755	**3,573**

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consisted of the following:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Sales promotion and advertising	¥ 155,657	**¥ 159,262**
Employee benefit expenses	183,889	**183,012**
Freight	69,265	**72,637**
Research and development	58,052	**66,174**
Depreciation and amortization	28,206	**38,822**
Other	138,972	**136,899**
Total	634,041	**656,807**

24. OTHER OPERATING INCOME

Other operating income consisted of the following:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Gain on sale of property, plant and equipment and intangible assets	¥ 12,397	**¥ 3,218**
Gain on sale of shares of subsidiaries	12,103	**-**
Gain on reversal of impairment losses	3,360	**-**
Other	2,844	**3,408**
Total	30,703	**6,626**

Note: The gain on sale of shares of subsidiaries of ¥12,103 million for the year ended December 31, 2018 includes income of ¥3,664 million from the revaluation of retained interest at fair value as of the date of the loss of control.

25. OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Impairment losses	¥ 3,390	**¥ 63,992**
Business restructuring expenses	7,022	**16,914**
Software development expenses	8,154	**11,392**
Loss on disposal and sale of property, plant and equipment and intangible assets	2,137	**2,268**
Other	11,006	**15,088**
Total	31,709	**109,654**

Note: Business restructuring expenses for the year ended December 31, 2018 include expense for plants reorganization of ¥3,137 million and additional employees' retirement benefits of ¥291 million at consolidated subsidiaries. Business restructuring expenses for the year ended December 31, 2019 include additional employees' retirement benefits of ¥9,419 million at the Company and consolidated subsidiaries and expense for plants reorganization of ¥934 million at consolidated subsidiaries.

26. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs consisted of the following:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Interest income (Note 1)	¥ 2,218	**¥ 2,141**
Dividend income (Note 2)	3,273	**2,370**
Change in the fair value of contingent consideration	3,368	**25**
Other	323	**286**
Total finance income	9,181	**4,822**
Interest paid (Note 1)	5,696	**6,700**
Foreign exchange losses (net)	1,089	**1,707**
Other	2,097	**1,041**
Total finance costs	8,881	**9,448**

Notes:
1. Interest income and interest paid were generated mainly from financial assets and financial liabilities measured at amortized cost.
2. Dividend income was generated from equity instruments measured at fair value through other comprehensive income.

27. CASH FLOWS

(1) RECONCILIATION OF LIABILITIES FOR FINANCING ACTIVITIES
Changes in major assets and liabilities for financing activities were as follows:

Year ended December 31, 2018

(¥ millions)

	Balance at January 1, 2018	Total changes arising from cash flows from financing activities	Non-cash transactions and other changes			Balance at December 31, 2018
			Foreign currency translation differences	Changes in fair value	Other	
Short-term borrowings	¥ 3,815	¥ 861	¥ (686)	¥ -	¥ -	¥ 3,989
Long-term borrowings (Note)	287,855	(24,397)	(2,324)	-	123	261,257
Bonds (Note)	194,805	(45,113)	-	-	56	149,747
Derivatives used for hedging - liabilities	5,279	-	-	1,968	-	7,247

Note: The balance with maturities of one year or less is included.

Year ended December 31, 2019

(¥ millions)

	Balance at January 1, 2019	Effect of changes in accounting policies	Restated balance at January 1, 2019	Total changes arising from cash flows from financing activities
Short-term borrowings	**¥ 3,989**	**¥ -**	**¥ 3,989**	**¥ 393**
Commercial paper	**-**	**-**	**-**	**127,000**
Long-term borrowings (Note)	**261,257**	**-**	**261,257**	**(28,987)**
Bonds (Note)	**149,747**	**-**	**149,747**	**19,660**
Lease liabilities (Note)	**-**	**77,706**	**77,706**	**(16,437)**
Derivatives used for hedging - liabilities	**7,247**	**-**	**7,247**	**-**

	Non-cash transactions and other changes				Balance at December 31, 2019
	Acquisitions	Foreign currency translation differences	Changes in fair value	Other	
Short-term borrowings	**¥ -**	**¥ (523)**	**¥ -**	**¥ -**	**¥ 3,860**
Commercial paper	**-**	**-**	**-**	**-**	**127,000**
Long-term borrowings (Note)	**-**	**(1,857)**	**-**	**83**	**230,496**
Bonds (Note)	**-**	**-**	**-**	**88**	**169,495**
Lease liabilities (Note)	**15,714**	**(588)**	**-**	**47**	**76,442**
Derivatives used for hedging - liabilities	**-**	**-**	**1,316**	**-**	**8,563**

Note: The balance with maturities of one year or less is included.

(2) PROCEEDS FROM SALE OF SHARES OF SUBSIDIARIES

Year ended December 31, 2019

On October 28, 2019, Lion Pty Limited, an Australian subsidiary of the Company, transferred the Specialty Cheese business included in the Oceania Non-alcoholic Beverages Business to Saputo Dairy Australia and lost control of the business.

The details of assets and liabilities at loss of control and the relationship between proceeds from sale and loss on sale were as follows. Loss on sale is recorded in other operating expenses.

	(¥ millions)
Consideration received	**¥ 21,090**
Components of assets and liabilities at loss of control	
Non-current assets	**15,982**
Current assets	**8,150**
Non-current liabilities	**(469)**
Current liabilities	**(2,453)**
Costs associated with sale	**136**
Loss on sale of shares of subsidiaries	**(256)**
Consideration received	**21,090**
Cash and cash equivalents held at loss of control	**3**
Proceeds from sale of shares of subsidiaries, net of cash disposed of	**21,087**

28. OTHER COMPREHENSIVE INCOME

The following table shows amounts arising during the year, amounts reclassified to profit or loss and tax effects for each component of comprehensive income included in other comprehensive income:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Net change in equity instruments measured at fair value through other comprehensive income		
Amount arising during the year	¥ (4,697)	**¥ (4,109)**
Before taxes	(4,697)	**(4,109)**
Tax effects	1,405	**1,936**
After taxes	(3,292)	**(2,174)**
Remeasurements of defined benefit plans		
Amount arising during the year	(1,096)	**9,501**
Before taxes	(1,096)	**9,501**
Tax effects	386	**(2,950)**
After taxes	(710)	**6,551**
Foreign currency translation differences on foreign operations		
Amount arising during the year	(62,790)	**(1,007)**
Before taxes	(62,790)	**(1,007)**
Tax effects	34	**(34)**
After taxes	(62,756)	**(1,041)**
Cash flow hedges		
Amount arising during the year	1,427	**548**
Reclassification adjustments	(259)	**(100)**
Before taxes	1,168	**448**
Tax effects	(403)	**(164)**
After taxes	764	**283**
Share of other comprehensive income of equity-accounted investees		
Amount arising during the year	(3,486)	**(6,152)**
Reclassification adjustments	3,084	**-**
Before taxes	(402)	**(6,152)**
Tax effects	-	**-**
After taxes	(402)	**(6,152)**
Total other comprehensive income		
Amount arising during the year	(70,642)	**(1,219)**
Reclassification adjustments	2,825	**(100)**
Before taxes	(67,817)	**(1,319)**
Tax effects	1,422	**(1,213)**
After taxes	(66,395)	**(2,532)**

29. EARNINGS PER SHARE

(1) BASIS OF CALCULATION OF BASIC EARNINGS PER SHARE

The basis of calculation of basic earnings per share was as follows:

1) Profit attributable to ordinary shareholders of the Company (basic)

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Profit attributable to owners of the Company	¥ 164,202	**¥ 59,642**
Profit not attributable to ordinary shareholders of the Company	-	**-**
Profit attributable to ordinary shareholders of the Company	164,202	**59,642**

2) Weighted-average number of ordinary shares (basic)

(Thousands of shares)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Weighted-average number of ordinary shares	894,506	**877,038**

(2) BASIS OF CALCULATION OF DILUTED EARNINGS PER SHARE

Diluted earnings per share were calculated as follows based on profit attributable to ordinary shareholders of the Company and weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares:

1) Profit attributable to ordinary shareholders of the Company (diluted)

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Profit attributable to ordinary shareholders of the Company	¥ 164,202	**¥ 59,642**
Adjustments for potential ordinary shares issued by subsidiary	(34)	**(23)**
Profit attributable to ordinary shareholders of the Company (diluted)	164,168	**59,620**

2) Weighted-average number of ordinary shares (diluted)

(Thousands of shares)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Weighted-average number of ordinary shares (basic)	894,506	**877,038**
Effect of dilution	-	**-**
Weighted-average number of ordinary shares (diluted)	894,506	**877,038**

30. SHARE-BASED PAYMENTS

(1) RESTRICTED STOCK COMPENSATION SYSTEM

1) Details of the program

The Group has introduced a Restricted Stock Compensation System to further promote sharing corporate value with shareholders and structure a compensation system that will help increase the Company's corporate value for the medium-to-long term. The System grants Directors, excluding Outside Directors, and Executive Officers of the Company ("the Directors and Officers") monetary compensation claims each year in principle for the allotment of restricted stock. These monetary compensation claims will be the source of contribution in kind to be converted to ordinary shares of the Company to be issued or sold to the Directors and Officers, enabling them to hold the shares. Under the share allotment agreement entered into between the Company and the Directors and Officers, the Directors and Officers are not allowed to transfer, securitize or dispose of the shares granted under said agreement ("Transfer Restriction") during a certain period defined in said agreement ("Transfer Restriction Period"). The Transfer Restriction will be removed for all or part of the shares allotted when the Transfer Restriction Period expires according to the degree of achievement of the goals in the first year of the Transfer Restriction Period based on the key management indicators set out in the medium-term management plan and other indicators decided at the Board of Directors' Meetings. On the other hand, shares for which the Transfer Restriction has not been removed will be acquired by the Company without compensation.

2) Number of shares granted during the year and fair values

	Year ended December 31, 2018	**Year ended December 31, 2019**
Grant date	May 14, 2018	**May 15, 2019**
Number of shares granted (Shares)	76,159	**106,536**
Fair value at grant date (Yen)	¥ 3,025	**¥ 2,588**

3) Amounts recorded in the consolidated statement of profit or loss

Expenses related to the Restricted Stock Compensation System were ¥166 million and ¥140 million for the years ended December 31, 2018 and 2019, respectively, which were recorded in selling, general and administrative expenses in the consolidated statement of profit or loss.

(2) SHARE OPTIONS

1) Details of the plan

The Company's subsidiary Kyowa Kirin Co., Ltd. has share option plans, all of which are equity-settled share-based payments. Based on the details approved at the shareholders meetings and by the Board of Directors' Meetings of Kyowa Kirin Co., Ltd., subscription rights to shares issued as share options are granted to directors and managing officers of Kyowa Kirin Co., Ltd. and some directors of the subsidiaries of Kyowa Kirin Co., Ltd. If grantees are dismissed from the position of director or managing officer, the subscription rights to shares will be extinguished. When the retirement date of the grantee comes before the expiration of his or her term of office, the number of subscription rights to shares is adjusted according to the number of months of his or her tenure. The exercise period is defined in the allotment agreement, ranging from three to twenty years. If the grantee loses his or her position or does not exercise the subscription rights to shares during the exercise period, said rights will be extinguished.

2) Number of share options and weighted-average exercise prices

The number of share options and weighted-average exercise prices were as follows:

	Year ended December 31, 2018		**Year ended December 31, 2019**	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Outstanding at January 1	587,300	¥ 1	**557,500**	**¥ 1**
Grants	111,800	1	**100,500**	**1**
Exercise	(140,000)	1	**(212,000)**	**1**
Extinguishment	(1,600)	1	**(8,300)**	**1**
Outstanding at December 31	557,500	1	**437,700**	**1**
Exercisable outstanding at December 31	-	1	**-**	**1**

Notes:

1. The weighted-average share price at the exercise dates for the share options exercised during the year ended December 31, 2019 was ¥2,343.
2. The weighted-average remaining period of the outstanding share options was 9.1 years and 4.9 years for the years ended December 31, 2018 and 2019, respectively.

3) Fair value of share options granted during the year and measurement assumptions

The weighted-average fair value of the share options granted during the year has been measured using the Black-Scholes model based on the following assumptions:

	2018 Share options	**2019 Share options**
Weighted-average fair value at grant date	¥2,062	**¥2,234**
Share price at grant date	¥2,151	**¥2,352**
Exercise price	¥1	**¥1**
Expected volatility (Note)	9.0%	**7.0%**
Expected remaining period	3 years	**3 years**
Expected dividends	¥30/share	**¥40/share**
Risk-free interest rate	(0.03)%	**(0.08)%**

Note: Expected volatility has been calculated based on an evaluation of the historical volatility of the Company's share price over the most recent period corresponding to the expected remaining period.

4) Amounts recorded in the consolidated statement of profit or loss

Expenses related to the share options were ¥211 million and ¥202 million for the years ended December 31, 2018 and 2019, respectively, which were recorded in selling, general and administrative expenses in the consolidated statement of profit or loss.

31. FINANCIAL INSTRUMENTS

(1) CAPITAL MANAGEMENT

The Group's basic policy for capital management is to maintain optimum capital structure with a focus on providing shareholders with returns and securing a sound, flexible financial footing towards the objective of maximizing corporate value. Aiming to improve profitability and efficiency, the Group utilizes cash flows which are provided by activities such as generating Group synergies, promoting lean management and reducing assets, in order to conduct business investments and capital investments, provide shareholder returns, and repay interest-bearing liabilities.

(2) MATTERS RELATED TO RISK MANAGEMENT

The Group is exposed to financial risks, including credit risk, liquidity risk and market risk, in its business activities. To reduce such risks, the Group practices risk management based on established policies and procedures.

The Group limits the use of derivatives to that for the purpose of hedging financial risks, and does not use derivatives for speculative purposes.

(3) CREDIT RISK

1) Credit risk management

The Group is exposed to credit risk associated with trade receivables (notes and accounts receivable, trade), other receivables (accrued accounts receivable) and other financial assets (such as guarantee deposits).

In accordance with the internal policies for managing credit risk arising from these financial assets, in each sales division, the Company and relevant subsidiaries monitor credit worthiness of their main customers and counterparties on a periodical basis and manage due dates and outstanding balances by individual customer. In addition, efforts are made to quickly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group believes that the credit risk of derivatives is insignificant as it enters into derivatives only with financial institutions which have a high credit rating.

The Group is not exposed to credit risk that is significantly concentrated on any particular customer or group which it belongs to.

2) Credit risk

Carrying amounts (before allowance for doubtful accounts) of financial assets by stage at December 31, 2018 and December 31, 2019 were as follows:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Trade and other receivables	¥ 406,306	**¥ 397,091**
Other financial assets measured at amortized cost		
Financial assets in stage 1	27,997	**28,418**
Financial assets in stage 2	843	**822**
Financial assets in stage 3	3,686	**3,679**

The maximum amount of credit risk at the reporting date without considering the valuation of collateral held by the Group is represented by the carrying amount of financial assets exposed to the credit risk. The collateral held as guarantee mainly consists of security deposits.
The Group collectively assesses expected credit losses on trade and other receivables and financial assets in stage 1 by multiplying the rate of credit losses in prior years by a provision rate that reflects forecasts of future economic conditions and other factors, and individually assesses expected credit losses on financial assets in stage 2 and stage 3 based on considering credit losses in prior years and forecasts of future economic conditions and other factors.

The table of changes in allowance for doubtful accounts related to the above financial assets was as follows:

(¥ millions)

	Trade and other receivables	Other financial assets measured at amortized cost		
	Allowance for doubtful accounts related to financial assets under the simplified approach	Allowance for doubtful accounts related to financial assets in stage 1	Allowance for doubtful accounts related to financial assets in stage 2	Allowance for doubtful accounts related to financial assets in stage 3
Balance at January 1, 2018	¥1,499	¥649	¥901	¥3,670
Net provision	662	(4)	(45)	20
Release due to settlement	(723)	(34)	(13)	(0)
Other	(67)	-	(1)	(4)
Balance at December 31, 2018	1,371	611	842	3,686
Net provision	**623**	**8**	**16**	**19**
Release due to settlement	**(535)**	**(11)**	**(47)**	**(50)**
Other	**(24)**	**-**	**-**	**1**
Balance at December 31, 2019	**1,435**	**608**	**811**	**3,656**

The balance of guarantee obligations presented below represents the Group's maximum credit exposure relating to those obligations.

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Loan obligations of associates and other companies	¥ 795	**¥ 314**
Loan obligations of employees	466	**329**
Total	1,261	**643**

The Group has not recorded any provision for losses on guarantees which may be incurred due to performance under the guarantee obligation contracts because the amount is not expected to be material.

(4) LIQUIDITY RISK

1) Liquidity risk management

In accordance with the internal policies for managing financial risks, the Group formulates fund procurement plans based on the business plan for each year to counter liquidity risk. The Group also manages the liquidity risk which arises mainly due to deterioration in the fund procurement environment by, for example, entering into commitment lines with several financial institutions and achieving an appropriate balance between direct and indirect fund procurement as well as short-term and long-term fund procurement.

2) Financial liabilities by maturity

Financial liabilities by maturity were as follows:

At December 31, 2018

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Trade and other payables	¥ 227,137	¥ 227,137	¥ 227,137	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds and borrowings	414,994	424,074	97,057	112,713	100,234	20,076	40,912	53,081
Derivative liabilities	9,614	9,614	746	2,489	1,270	1,146	-	3,963
Other financial liabilities (current)	48,981	48,981	48,981	-	-	-	-	-

At December 31, 2019

(¥ millions)

	Carrying amount	Contractual cash flow	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Trade and other payables	**¥ 231,051**	**¥ 231,051**	**¥ 231,051**	**¥ -**	**¥ -**	**¥ -**	**¥ -**	**¥ -**
Bonds and borrowings	**530,851**	**537,250**	**239,644**	**90,748**	**20,106**	**43,964**	**49,904**	**92,885**
Derivative liabilities	**10,777**	**10,777**	**3,831**	**1,302**	**1,250**	**-**	**-**	**4,393**
Other financial liabilities (current)	**60,515**	**60,515**	**60,515**	**-**	**-**	**-**	**-**	**-**

(5) MARKET RISK MANAGEMENT

1) Foreign exchange risk management

The Group operates businesses globally and, therefore, is exposed to the risk that Group's equity is influenced by foreign exchange fluctuations as a result of transactions undertaken in currencies other than the functional currency and when financial statements of foreign operations are translated into Japanese yen and consolidated. To manage foreign exchange risk, the Group hedges such risk mainly using foreign exchange contracts and currency swaps.

The Group is exposed to foreign exchange risk primarily from the U.S. dollar and the euro (excluding the risk related to transactions undertaken in the functional currency of each Group company).

The main net exposure to foreign exchange risk of the Group was as follows (figures in parentheses indicate liability), excluding exposures hedged by derivative transactions:

	At December 31, 2018	**At December 31, 2019**
U.S. dollar (Thousands of U.S. dollars)	112,007	**116,981**
Euro (Thousands of euro)	24,780	**8,642**

For the foreign currency denominated financial instruments held by the Group at the reporting date, if the Japanese yen depreciates by 10% against the U.S. dollar and the euro, the impact on profit before tax is as set out below.

The impact of translating financial instruments denominated in the functional currency, assets and liabilities of foreign operations and income and expenses into Japanese yen is not included. In addition, other variable factors are assumed to remain constant.

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
U.S. dollar	¥ 1,243	**¥ 1,282**
Euro	315	**106**

2) Interest rate risk

Interest-bearing liabilities with floating interest rates are exposed to interest rate risk. For those with long-term maturities, the Group uses interest rate swaps to avoid interest rate fluctuation risk by converting floating interest into fixed interest.

If the floating interest rate of financial instruments held by the Group at the reporting date increases by 1%, the impact on profit before tax is not material.

The Group's exposure to interest rate risk is not material.

3) Price fluctuation risk

The Group is exposed to share price fluctuation risk arising from equity instruments (shares). For the equity instruments, the Group regularly assesses the fair values, the financial conditions of the issuers and other relevant factors, and continuously reviews the holding status of such instruments by taking into account the relationship with the issuer when the issuer is a customer of the Group.

If the market price of equity instruments held by the Group at the reporting date increases by 1% with other variable factors assumed to remain constant, the impact on other comprehensive income (before tax) is ¥1,244 million and ¥901 million for the years ended December 31, 2018 and 2019, respectively.

The Group is exposed to price fluctuation risk of commodities, such as aluminum and oil, but such exposure is hedged using mainly commodity swaps. If the price of aluminum and oil changes by 1% at the reporting date, the impact on profit before tax is not material.

The Group's exposure to price fluctuation risk of commodities is not material.

In addition, the Group determines whether there is an economic relationship between the hedged item and hedging instrument based on the amount and timing of the associated cash flows and other factors. In the hedging relationships to which the Group currently applies hedge accounting, the important conditions of the hedged item and hedging instrument are consistent.

(6) DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING

1) Derivative transactions for which hedge accounting has not been applied

Notional amount and fair value of derivative transactions for which hedge accounting has not been applied were as follows:

(¥ millions)

	At December 31, 2018		**At December 31, 2019**	
	Notional amount	Fair value	Notional amount	Fair value
Forward foreign exchange contracts	¥ 19,317	¥ 445	**¥ 25,330**	**¥ (206)**
Currency swaps	162,906	(6,894)	**142,752**	**(8,563)**
Share options	5,097	(229)	**5,097**	**(421)**
Total	187,320	(6,678)	**173,179**	**(9,190)**

2) Hedge accounting

Items designated as hedging instruments were as follows:

The carrying amounts of derivatives are the amounts recorded in other financial assets or other financial liabilities in the consolidated statement of financial position. The portions due later than one year are classified into non-current assets or non-current liabilities.

At December 31, 2018

(¥ millions)

	Notional amount		Carrying amount		Change in fair value of hedging instruments used as the basis for recognizing hedge ineffectiveness
	Total amount	Portion due later than one year included therein	Assets	Liabilities	
Cash flow hedges					
Foreign exchange risk					
Forward foreign exchange contracts	¥ 14,121	¥ 3,124	¥ 763	¥ 86	¥ 792
Interest rate risk					
Interest rate swaps	184,796	154,796	-	1,972	650
Commodity price risk					
Commodity swaps (oil)	22,830 thousand liters	6,800 thousand liters	-	240	(240)
Commodity swaps (aluminum and others)	34 thousand tons	11 thousand tons	17	193	(135)
Hedge of net investment in foreign operations					
Foreign exchange risk					
Currency swaps	9,340	-	12	0	11

The average rates for forward foreign exchange contracts are ¥108.32 to the U.S. dollar and ¥129.66 to the euro, and the average rate for currency swaps is ¥116.31 to the U.S. dollar. The average interest rate for interest rate swaps is 1.02%.

At December 31, 2019

(¥ millions)

	Notional amount		Carrying amount		Change in fair value of hedging instruments used as the basis for recognizing hedge ineffectiveness
	Total amount	Portion due later than one year included therein	Assets	Liabilities	
Cash flow hedges					
Foreign exchange risk					
Forward foreign exchange contracts	**¥ 11,671**	**¥ 2,712**	**¥ 240**	**¥ 214**	**¥ (651)**
Interest rate risk					
Interest rate swaps	**154,796**	**93,135**	**-**	**1,210**	**762**
Commodity price risk					
Commodity swaps (oil)	**15,710 thousand liters**	**790 thousand liters**	**23**	**11**	**252**
Commodity swaps (aluminum and others)	**23 thousand tons**	**3 thousand tons**	**28**	**152**	**52**
Hedge of net investment in foreign operations					
Foreign exchange risk					
Currency swaps	**-**	**-**	**-**	**-**	**(12)**

The average rates for forward foreign exchange contracts are ¥106.45 to the U.S. dollar and ¥120.71 to the euro, and the average rate for currency swaps is ¥116.31 to the U.S. dollar. The average interest rate for interest rate swaps is 1.03%.

The impact on the consolidated statement of comprehensive income as a result of applying hedge accounting was as follows:

Year ended December 31, 2018

(¥ millions)

	Change in the value of hedging instruments recognized in other comprehensive income	Amount reclassified to profit or loss	Line item in profit or loss affected by the reclassification
Cash flow hedges			
Foreign exchange risk	¥ 1,003	¥ (42)	Finance costs
Interest rate risk	650	(217)	Finance costs
Commodity price risk	(226)	-	-
Hedge of net investment in foreign operations			
Foreign exchange risk	11	-	-

The amount of hedge ineffectiveness recognized in profit or loss was not material.

Year ended December 31, 2019

(¥ millions)

	Change in the value of hedging instruments recognized in other comprehensive income	Amount reclassified to profit or loss	Line item in profit or loss affected by the reclassification
Cash flow hedges			
Foreign exchange risk	**¥ (518)**	**¥ 16**	**Finance costs**
Interest rate risk	**762**	**(116)**	**Finance costs**
Commodity price risk	**304**	**-**	**-**
Hedge of net investment in foreign operations			
Foreign exchange risk	**(12)**	-	-

The amount of hedge ineffectiveness recognized in profit or loss was not material.

(7) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value determined, either directly or indirectly, using observable prices other than Level 1

Level 3: Fair value determined using valuation techniques including inputs not based on observable market data

Transfers between the levels of the fair value hierarchy are recognized as if they have occurred at the end of the reporting period.

1) Methods of fair value measurement

The method of fair value measurement for each financial instrument is as follows:

Long-term borrowings: The fair value of long-term borrowings is determined as the present value calculated by discounting the combined total of principal and interest with an assumed interest rate for similar new borrowings.

Bonds: The fair value of bonds is determined as the present value calculated by discounting the combined total of principal and interest with an interest rate that reflects the current maturity and credit risk.

Derivatives: The fair value of derivatives is based on prices determined from market data, such as exchange rates and interest rates, by the counterparty financial institutions and other parties.

Shares: The fair value of listed shares is determined based on quoted market prices. The fair value of unlisted shares is determined using valuation techniques based on market prices of similar entities.

2) Financial instruments measured at amortized cost

The carrying amount and fair value of financial instruments measured at amortized cost by level in the fair value hierarchy were as follows:

At December 31, 2018

(¥ millions)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	¥ 261,257	¥ -	¥ -	¥ 270,726	¥ 270,726
Bonds (Note)	149,747	-	152,529	-	152,529

Note: The balance due within one year is included.

At December 31, 2019

(¥ millions)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	**¥ 230,496**	**¥ -**	**¥ -**	**¥ 239,869**	**¥ 239,869**
Bonds (Note)	**169,495**	**-**	**169,919**	**-**	**169,919**

Note: The balance due within one year is included.

The carrying amount of short-term financial assets and liabilities measured at amortized cost is approximately equal to the fair value.

3) Financial instruments measured at fair value

The level in the fair value hierarchy of financial instruments measured at fair value was as follows:

At December 31, 2018

(¥ millions)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	¥ -	¥ 1,237	¥ -	¥ 1,237
Shares	124,374	-	27,918	152,292
Other	-	217	3,368	3,585
Total	124,374	1,454	31,286	157,114
Liabilities:				
Derivative liabilities	-	9,386	229	9,614
Other	-	-	8,456	8,456
Total	-	9,386	8,685	18,070

At December 31, 2019

(¥ millions)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	**¥ -**	**¥ 291**	**¥ -**	**¥ 291**
Shares	**90,076**	**-**	**25,080**	**115,156**
Other	**-**	**157**	**3,012**	**3,168**
Total	**90,076**	**448**	**28,091**	**118,615**
Liabilities:				
Derivative liabilities	**-**	**10,356**	**421**	**10,777**
Other	**-**	**-**	**9,786**	**9,786**
Total	**-**	**10,356**	**10,207**	**20,563**

Notes:

1. There were no transfers between Level 1 and Level 2 at December 31, 2018 and December 31, 2019.
2. The measurement of fair value of shares in Level 3 is conducted in accordance with the relevant internal policy, using valuation techniques and inputs that most appropriately reflect their nature, characteristics and risks.
   The significant unobservable inputs associated with the fair value measurement of shares which are measured at fair value on a recurring basis and are categorized in Level 3 are operating margin and illiquidity discount. The fair value increases (decreases) with higher (lower) operating margin and decreases (increases) with higher (lower) illiquidity discount.
   Changes in the fair value of shares categorized in Level 3 are not material if the unobservable inputs are replaced by reasonable alternative assumptions.

Changes in financial assets categorized in Level 3 were as follows:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Balance at January 1	¥29,678	**¥31,286**
Total gains and losses	14,983	**(1,733)**
Profit or loss	3,368	**(31)**
Other comprehensive income (Note)	11,616	**(1,702)**
Purchases	952	**1,358**
Sales	(14,250)	**(1,557)**
Other	(77)	**(1,263)**
Balance at December 31	31,286	**28,091**

Note: Gains and losses included in other comprehensive income are related to equity instruments measured at fair value through other comprehensive income at the reporting date. These gains and losses are included in net change in equity instruments measured at fair value through other comprehensive income.

32. RELATED PARTIES

(1) TRANSACTIONS WITH RELATED PARTIES

There are no material related party transactions.

(2) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation was as follows:

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Short-term employee benefits	¥450	**¥713**
Share-based payments	99	**140**
Total	549	**853**

33. LIST OF SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

At December 31, 2018

Name		Location	Ratio of voting rights (%) *1
KIRIN Company, Limited	*2	Nakano-ku, Tokyo	100.0
Kirin Brewery Company, Limited		Nakano-ku, Tokyo	100.0 (100.0)
Mercian Corporation		Nakano-ku, Tokyo	100.0 (100.0)
Kirin Beverage Company, Limited	*3	Chiyoda-ku, Tokyo	100.0 (100.0)
Kirin Beverage Value Vendor Company, Limited	*3	Chiyoda-ku, Tokyo	100.0 (100.0)
Eishogen Company, Limited		Nakano-ku, Tokyo	99.9 (99.9)
Kirin Distillery Company, Limited		Gotemba-shi, Shizuoka	100.0 (100.0)
Kirin City Company, Limited		Nakano-ku, Tokyo	100.0 (100.0)
Spring Valley Brewery Company		Shibuya-ku, Tokyo	100.0 (100.0)
Kirin (China) Investment Company, Limited		Shanghai, China	100.0
Kirin Brewery (Zhuhai) Company, Limited		Guangdong, China	100.0 (100.0)
Taiwan Kirin Company, Limited		Taipei, Taiwan	100.0 (100.0)
Kirin Europe GmbH		Dusseldorf, Germany	100.0 (100.0)
Kirin Brewery of America, LLC		California, USA	100.0 (100.0)
Four Roses Distillery, LLC		Kentucky, USA	100.0 (100.0)
Lion Pty Limited		New South Wales, Australia	100.0
Lion Nathan Pty Limited		New South Wales, Australia	100.0 (100.0)
Lion-Dairy & Drinks Pty Ltd		Victoria, Australia	100.0 (100.0)
Kirin Foods Australia Holdings Pty Ltd		New South Wales, Australia	100.0 (100.0)
Berri Pty Limited		Victoria, Australia	100.0 (100.0)
Castlemaine Perkins Pty Limited		Queensland, Australia	100.0 (100.0)
Lion-Beer, Spirits & Wine Pty Limited		New South Wales, Australia	100.0 (100.0)
Lion (NZ) Limited		Auckland, New Zealand	100.0 (100.0)
Lion Nathan Brewing Investments Pty Limited		New South Wales, Australia	100.0 (100.0)
J. Boag & Son Holdings Pty Ltd		Tasmania, Australia	100.0 (100.0)
Kirin Holdings Singapore Pte. Ltd.		Singapore	100.0
Interfood Shareholding Company		Dong Nai, Vietnam	95.7 (95.7)
The Coca-Cola Bottling Company of Northern New England, Inc.		New Hampshire, USA	100.0
Myanmar Brewery Limited		Yangon, Myanmar	51.0 (51.0)

Name		Location	Ratio of voting rights (%) *1
Mandalay Brewery Limited		Mandalay, Myanmar	51.0 (51.0)
AZUMA KIRIN Indústria Comércio de Bebidas e Alimenos Ltda		Sao Paulo, Brazil	100.0
Kyowa Hakko Kirin Company, Limited		Chiyoda-ku, Tokyo	52.8
Kyowa Hakko Bio Company, Limited	*4	Chiyoda-ku, Tokyo	100.0 (100.0)
Koiwai Dairy Products Company, Limited		Nakano-ku, Tokyo	99.9
Other 137 companies		-	-

At December 31, 2019

Name		Location	Ratio of voting rights (%) *1
Kirin Brewery Company, Limited		Nakano-ku, Tokyo	**100.0**
Eishogen Company, Limited		Nakano-ku, Tokyo	**99.9 (99.9)**
Kirin Distillery Company, Limited		Gotemba-shi, Shizuoka	**100.0 (100.0)**
Spring Valley Brewery Company		Shibuya-ku, Tokyo	**100.0 (100.0)**
Kirin (China) Investment Company, Limited		Shanghai, China	**100.0**
Kirin Brewery (Zhuhai) Company, Limited		Guangdong, China	**100.0 (100.0)**
Taiwan Kirin Company, Limited		Taipei, Taiwan	**100.0 (100.0)**
Kirin Europe GmbH		Dusseldorf, Germany	**100.0 (100.0)**
Kirin Beverage Company, Limited	*3	Chiyoda-ku, Tokyo	**100.0**
Lion Pty Limited		New South Wales, Australia	**100.0**
Lion-Dairy & Drinks Pty Ltd		Victoria, Australia	**100.0 (100.0)**
Kirin Foods Australia Holdings Pty Ltd		New South Wales, Australia	**100.0 (100.0)**
Berri Pty Limited		Victoria, Australia	**100.0 (100.0)**
Lion-Beer, Spirits & Wine Pty Limited		New South Wales, Australia	**100.0 (100.0)**
Lion (NZ) Limited		Auckland, New Zealand	**100.0 (100.0)**
Kyowa Kirin Co., Ltd.	*5	Chiyoda-ku, Tokyo	**53.8**
Mercian Corporation		Nakano-ku, Tokyo	**100.0**
Kirin Holdings Singapore Pte. Ltd.		Singapore	**100.0**
Interfood Shareholding Company		Dong Nai, Vietnam	**95.7 (95.7)**
Myanmar Brewery Limited		Yangon, Myanmar	**51.0 (51.0)**
Mandalay Brewery Limited		Mandalay, Myanmar	**51.0 (51.0)**
Coca-Cola Beverages Northeast, Inc.	*6	New Hampshire, USA	**100.0**
Kyowa Hakko Bio Company, Limited	*4	Chiyoda-ku, Tokyo	**100.0 (5.0)**
Koiwai Dairy Products Company, Limited		Nakano-ku, Tokyo	**99.9**
Kirin City Company, Limited		Nakano-ku, Tokyo	**100.0 (100.0)**
Four Roses Distillery, LLC		Kentucky, USA	**100.0 (100.0)**
Kirin Brewery of America, LLC		California, USA	**100.0 (100.0)**
AZUMA KIRIN Indústria Comércio de Bebidas e Alimenos Ltda		Sao Paulo, Brazil	**100.0**
Other 124 companies		-	-

* 1. Figures in parentheses in ratio of voting rights represent ratio of indirect ownership.
2. The Company conducted an absorption-type merger of KIRIN Company, Limited, effective July 1, 2019.
3. Kirin Beverage Company, Limited conducted an absorption-type merger of Kirin Beverage Value Vendor Company, Limited, effective January 1, 2019.

4. The Company acquired from Kyowa Kirin Co., Ltd. 95% of shares in Kyowa Hakko Bio Company, Limited, which was a wholly owned subsidiary of Kyowa Kirin Co., Ltd., on April 24, 2019.
5. Kyowa Hakko Kirin Company, Limited changed its company name to Kyowa Kirin Co., Ltd. in July 2019.
6. The Coca-Cola Bottling Company of Northern New England, Inc. changed its company name to Coca-Cola Beverages Northeast, Inc. in October 2019.

34. NON-CONTROLLING INTERESTS

Financial information before any intra-group eliminations for the Group's subsidiary, Kyowa Kirin Co., Ltd., which has material non-controlling interests, is summarized as follows:

(1) GENERAL INFORMATION

	At December 31, 2018	**At December 31, 2019**
Non-controlling interests ratio	47.24%	**46.21%**
Accumulated amount of non-controlling interests (¥ millions)	258,512	**212,408**

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Profit or loss allocated to non-controlling interests	¥ 26,802	**¥ 17,235**
Dividends to non-controlling interests	7,627	**10,135**

(2) SUMMARIZED FINANCIAL INFORMATION

1) Summary of consolidated statement of financial position

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Total non-current assets	¥ 320,218	**¥ 293,240**
Total current assets	385,844	**448,610**
Total equity	613,701	**635,646**
Total non-current liabilities	11,902	**18,673**
Total current liabilities	80,459	**87,530**

2) Summary of consolidated statement of profit or loss

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Revenue	¥ 347,251	**¥ 324,107**
Profit	56,737	**67,084**

3) Summary of consolidated statement of comprehensive income

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Other comprehensive income	¥ (4,893)	**¥ 6,079**
Total comprehensive income	51,843	**73,162**

4) Summary of consolidated statement of cash flows

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Net cash flows from operating activities	¥ 56,181	**¥ 53,655**
Net cash flows from investing activities	(39,945)	**(951)**
Net cash flows from financing activities	(16,501)	**(47,371)**

35. EQUITY-ACCOUNTED INVESTEES

Carrying amounts of equity-accounted investees were as follows:

(¥ millions)	At December 31, 2018	**At December 31, 2019**
Joint ventures	¥ 11,775	**¥ 15,475**
Associates	228,822	**369,281**
Total	240,597	**384,756**

(1) MATERIAL ASSOCIATES

The Group's material associates are San Miguel Brewery Inc. ("San Miguel") (reporting date: September 30) and FANCL CORPORATION ("FANCL") (reporting date: December 31).

1) San Miguel Brewery Inc.

San Miguel conducts production and sale of beer mainly in the Philippines. The Group will continue enhancing its business base in the growing Southeast Asian beer market in order to develop the business as its growth driver.

The following table reconciles summarized financial information of San Miguel to the carrying amounts of the Group's equity interests. Items in the statement of financial position are based on financial information at September 30, and items in the statements of profit or loss and comprehensive income are based on financial information for the 12-month reporting period of San Miguel ended September 30.

(¥ millions)	At December 31, 2018	**At December 31, 2019**
Percentage ownership interest	48.55%	**48.55%**
Total non-current assets	162,672	**180,688**
Total current assets	84,149	**71,327**
Total non-current liabilities	49,241	**49,262**
Total current liabilities	55,618	**40,585**
Equity	141,962	**162,169**
Non-controlling interests	7,225	**7,386**
Equity after deduction of non-controlling interests	134,737	**154,783**
Equity attributable to the Group	65,415	**75,147**
Goodwill and consolidation adjustments	81,646	**81,638**
Carrying amount of equity	147,061	**156,785**

(¥ millions)	Year ended December 31, 2018	**Year ended December 31, 2019**
Revenue	¥ 269,557	**¥ 297,710**
Profit or loss from continuing operations	51,743	**55,014**
Equity attributable to owners of the Company	50,444	**54,128**
Non-controlling interests	1,299	**886**
Other comprehensive income	(3,824)	**(1,739)**
Equity attributable to owners of the Company	(3,824)	**(1,739)**
Non-controlling interests	-	**-**
Total comprehensive income	47,919	**53,274**
Equity attributable to owners of the Company	46,620	**52,388**
Non-controlling interests	1,299	**886**
Share of:		
Profit or loss from continuing operations	24,491	**26,279**
Other comprehensive income	(1,856)	**(844)**
Total comprehensive income	22,634	**25,434**
Goodwill and consolidation adjustments	(39)	**(8)**
Total share of the Group	22,595	**25,427**
Dividends received by the Group	12,633	**15,702**

2) FANCL CORPORATION

On September 6, 2019, the Group acquired an investment in FANCL of ¥129,533 million and applied the equity method to this investment. FANCL is engaged in research, development, manufacture and sale of cosmetics and health foods mainly in Japan, and the Group and FANCL will utilize both business resources and create synergies to expand and develop its businesses.

The following table reconciles summarized financial information of FANCL to the carrying amounts of the Group's equity interests.

(¥ millions)

	At December 31, 2019
Percentage ownership interest	**32.93%**
Total non-current assets	**252,812**
Total current assets	**55,186**
Total non-current liabilities	**78,135**
Total current liabilities	**16,556**
Equity	**213,307**
Non-controlling interests	**-**
Equity after deduction of non-controlling interests	**213,307**
Equity attributable to the Group	**70,242**
Goodwill and consolidation adjustments	**58,268**
Share acquisition rights	**(310)**
Carrying amount of equity	**128,200**
Fair value of equity (Note)	**115,142**

Note: The fair value is based on the market price of the investment and is categorized as Level 1 in the fair value hierarchy.

(¥ millions)

	Year ended December 31, 2019 (From September 6, 2019 to December 31, 2019)
Revenue	**¥ 45,525**
Profit or loss from continuing operations	**(2,018)**
Equity attributable to owners of the Company	**(2,018)**
Non-controlling interests	**-**
Other comprehensive income	**2**
Equity attributable to owners of the Company	**2**
Non-controlling interests	**-**
Total comprehensive income	**(2,017)**
Equity attributable to owners of the Company	**(2,017)**
Non-controlling interests	**-**
Share of:	
Profit or loss from continuing operations	**(665)**
Other comprehensive income	**1**
Total comprehensive income	**(664)**
Goodwill and consolidation adjustments	**-**
Total share of the Group	**(664)**
Dividends received by the Group	**672**

(2) INDIVIDUALLY IMMATERIAL JOINT VENTURES AND ASSOCIATES

Carrying amounts of the Group's equity interests in individually immaterial joint ventures and associates were as follows:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Joint ventures	¥ 11,775	**¥ 15,475**
Associates	81,761	**84,296**
Total	93,536	**99,771**

The Group's shares of profit or loss from continuing operations, other comprehensive income and total comprehensive income in individually immaterial joint ventures and associates were as follows:

1) Individually immaterial joint ventures

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Share of:		
Profit or loss from continuing operations	¥ 54	**¥ 3,496**
Other comprehensive income	(19)	**(428)**
Total comprehensive income	36	**3,068**

2) Individually immaterial associates

(¥ millions)

	Year ended December 31, 2018	**Year ended December 31, 2019**
Share of:		
Profit or loss from continuing operations	¥ 3,903	**¥ 4,611**
Other comprehensive income	(1,571)	**(4,872)**
Total comprehensive income	2,332	**(261)**

36. COMMITMENTS

Commitments for asset acquisitions after the reporting date were as follows:

(¥ millions)

	At December 31, 2018	**At December 31, 2019**
Acquisition of property, plant and equipment	¥ 25,641	**¥ 19,268**
Acquisition of intangible assets	114,594	**215,855**
Total	140,235	**235,123**

Note: The above amounts for acquisition of intangible assets include the maximum amount of milestone payments for the achievement of development and sales goals relating to in-licensing contracts for development of products in the Pharmaceuticals Business. The actual payments may be significantly different from the above amounts because it is highly uncertain whether a milestone will be achieved.

37. SUBSEQUENT EVENTS

There are no significant subsequent events.

Independent Auditor's Report

To the Board of Directors of
Kirin Holdings Company, Limited:

We have audited the accompanying consolidated financial statements of Kirin Holdings Company, Limited (the "Company") and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2019, 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 notes to the consolidated financial statements.

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 the Company and its consolidated subsidiaries as at December 31, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 5 "Operating segments" to the consolidated financial statements, the Company has reorganized its reportable segments for the year ended December 31, 2019. Our opinion is not modified in respect of this matter.

March 27, 2020
Tokyo, Japan