

English Translation of Original Japanese

This is a translation of the original documents in Japanese. In the event of any discrepancy, the original documents in Japanese shall prevail.

**Items Disclosed on the Internet in relation to the
Convocation Notice of the 95th Annual General Meeting of Shareholders**

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Above items have been provided to our shareholders by posting them on the Company's website in accordance with the provisions of relevant laws and regulations and the Article 15 of the Company's Articles of Incorporation.

ASAHI GROUP HOLDINGS, LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

(million yen)

	Equity attributable to owners of parent					Other components of equity	
	Issued capital	Share premium	Retained earnings	Treasury shares	Changes in fair value of financial instruments measured at fair value through other comprehensive income		
					Remeasurements of defined benefit plans		
Balance at beginning of current period	182,531	119,051	713,146	(76,747)	71,386	–	
Comprehensive income							
Profit			151,077				
Other comprehensive income					(15,865)	(4,380)	
Total comprehensive income	–	–	151,077	–	(15,865)	(4,380)	
Transfer to non-financial assets							
Transactions with owners							
Dividends			(41,229)				
Purchase of treasury shares				(250)			
Disposal of treasury shares		0		0			
Changes through business combinations							
Changes through sales of consolidated subsidiaries							
Changes in the scope of consolidation							
Share-based payment transaction		76					
Transfer from other components of equity to retained earnings			(1,875)		(2,505)	4,380	
Other increase (decrease)							
Total contributions by owners and distribution to owners	–	76	(43,104)	(250)	(2,505)	4,380	
Acquisition of non-controlling interests without change in control							
Total changes in the ownership interest in subsidiaries	–	–	–	–	–	–	
Total transactions with owners	–	76	(43,104)	(250)	(2,505)	4,380	
Balance at end of current period	182,531	119,128	821,120	(76,997)	53,015	–	

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Other components of equity				Other components of equity related to disposal groups held for sale	Total equity attributable to owners of parent		
	Cash flow hedges	Costs of hedging	Translation differences on foreign operations	Total other components of equity				
Balance at beginning of current period	(624)	(1,179)	141,010	210,592	(3,440)	1,145,135	7,612	1,152,748
Comprehensive income								
Profit				–		151,077	(139)	150,938
Other comprehensive income	(377)	(659)	(90,906)	(112,190)	3,440	(108,750)	607	(108,142)
Total comprehensive income	(377)	(659)	(90,906)	(112,190)	3,440	42,327	467	42,795
Transfer to non-financial assets	360			360		360		360
Transactions with owners								
Dividends				–		(41,229)	(463)	(41,692)
Purchase of treasury shares				–		(250)		(250)
Disposal of treasury shares				–		0		0
Changes through business combinations				–		–		–
Changes through sales of consolidated subsidiaries				–		–	(1,711)	(1,711)
Changes in the scope of consolidation				–		–	(2,703)	(2,703)
Share-based payment transaction				–		76		76
Transfer from other components of equity to retained earnings				1,875		–		–
Other increase (decrease)				–		–	25	25
Total contributions by owners and distribution to owners	–	–	–	1,875	–	(41,403)	(4,853)	(46,256)
Acquisition of non-controlling interests without change in control				–		–		–
Total changes in the ownership interest in subsidiaries	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	–	1,875	–	(41,403)	(4,853)	(46,256)
Balance at end of current period	(641)	(1,839)	50,103	100,637	–	1,146,420	3,227	1,149,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for Preparation of Consolidated Financial Statements

(1) Basis of consolidated financial statements

The Company and subsidiaries of the Company (hereinafter collectively referred to as the “Group”) have prepared their consolidated financial statements in accordance with the International Financial Reporting Standards (hereinafter referred to as the “IFRS”), pursuant to the provisions of Article 120-1 of the Rules of Corporate Accounting. The latter part of the Article 120-1 prescribes some omissions of disclosure items required under IFRS.

(2) Consolidation

Number of consolidated subsidiaries: 142

Please see Item 1 of the “Business Report” (“Overview of Operations of the Asahi Group, section (5) Status of Major Establishments and Principal Subsidiaries”), for a summary of the current status of principal consolidated subsidiaries.

PT Asahi Indofood Beverage Makmur, PT Prima Cahaya Indobeverages and PT Tirta Sukses Perkasa were excluded from the scope of consolidation this fiscal year due to the sale of their shares.

(3) The equity method

Number of companies accounted for using the equity method: 24

Principal affiliates accounted for using the equity method were Asahi Business Solutions Corp. and Asahi Beer Communications, Ltd.

(4) Significant accounting policies

1) Financial assets

(i) Initial recognition and measurement

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

Financial assets measured at fair value through profit or loss are initially recognized at fair value. Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition.

a. Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost only when the requirements that the objective of the Group’s business model is to hold assets in order to collect the contractual cash flows and that the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are both met.

b. Financial assets measured at fair value

Financial assets that do not satisfy either of the two requirements above are classified as financial assets measured at fair value.

With regard to financial assets measured at fair value, the Group decides to irrevocably designate each financial instrument as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading, which must be measured at fair value

through profit or loss.

Information on derivatives is provided in 11) Derivatives and hedge accounting.

(ii) Subsequent measurement

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

a. Financial assets measured at amortized cost

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

b. Financial assets measured at fair value

These financial assets are measured at fair value at the reporting date.

Changes in fair value of such financial assets are recognized in profit or loss or other comprehensive income, depending on their classification.

Dividend income arising from equity instruments designated as measured at fair value through other comprehensive income is recognized in profit or loss. If the fair value decreases significantly or the equity instrument is disposed of, the accumulated other comprehensive income is transferred to retained earnings.

(iii) Derecognition

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

(iv) Impairment of financial assets

The Group estimates expected credit losses at the end of each fiscal year for recoverability of financial assets measured at amortized cost.

For financial instruments of which the credit risk has not increased significantly after initial recognition, expected credit losses within the next 12 months are recognized as loss allowance. For financial instruments of which the credit risk has increased significantly after initial recognition, lifetime expected credit losses are recognized as loss allowance. However, for trade receivables, loss allowance is always measured based on lifetime expected credit losses.

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

In determining whether any objective evidence of impairment exists, the Group uses the following requirements:

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

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

If in a subsequent period, the credit risk decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), reversal of previously recognized impairment loss is recognized in profit or loss.

2) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost is calculated mainly using the weighted-average method for merchandise, finished goods and semi-finished goods, and mainly using the moving-average method for raw materials and supplies. The cost of merchandise, finished goods and semi-finished goods consists of raw material costs, direct labor costs, other direct costs and related production overhead costs (based on the normal production capacity). Net realizable value is determined at the estimated selling price in the ordinary course of business less the relevant estimated selling expenses.

3) Property, plant and equipment

Buildings and structures, machinery and vehicles, tools, furniture and fixtures, and land mainly consist of production and processing equipment and facilities for the head office. Property, plant and equipment are recognized at cost, and carried at cost less accumulated depreciation and accumulated impairment losses. The cost includes the purchase price, the costs directly related to acquisition of the asset, costs for asset dismantlement and removal and site restoration, and borrowing costs that are required to be capitalized. Concerning expenditure after acquisition, in cases when it is highly probable that future economic benefit relating to the item will flow to the Group, and the item has a cost that can be measured reliably, such costs are recognized either together in the carrying amount of the asset, or when deemed appropriate, as a separate asset. The carrying amounts of parts that are replaced are derecognized. Other repair and maintenance costs are recognized in profit or loss in the accounting period in which the cost was incurred.

Land is not depreciated. The amount of depreciation of other assets is calculated by allocating the cost of each asset less the residual value using the straight-line method over the following major estimated useful lives:

Buildings and structures	3 to 50 years
Machinery and vehicles	2 to 15 years
Tools, furniture and fixtures	2 to 20 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at the end of each fiscal year, and revised where necessary.

Gains or losses on disposal are computed by comparing the carrying amount with the proceeds from disposal, and then recognized in profit or loss.

4) Goodwill and intangible assets

(i) Goodwill

Goodwill is tested for impairment annually, and the carrying amount is the cost less accumulated impairment losses. Impairment losses of goodwill are not reversed. Gain or loss on sales of business operations includes carrying amount of goodwill related to the business operation.

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

(ii) Trademarks

Separately acquired trademarks are recognized at cost. Trademarks acquired through business combinations are recognized at fair value as of the acquisition date. Trademarks, for which a certain useful life is determined, except for those with indefinite useful lives,

are recorded at cost less accumulated amortization and accumulated impairment losses. The amount of amortization is calculated by allocating the cost of trademarks using the straight-line method mainly over the estimated useful life of 20 to 40 years.

(iii) Software

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

Development costs directly related to design and testing of the Group's proprietary software are recognized as intangible assets only when they are reliably measurable, they are technically feasible, it is highly probable to generate future economic benefits, and the Group has an intention and adequate resources to complete the development and use the assets.

Other development costs that do not satisfy these requirements are recognized as expenses as incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent fiscal years.

Software is amortized mainly using the straight-line method over the estimated useful life of 5 years.

Expenses related to maintenance of software are recognized as expenses as incurred.

(iv) Other intangible assets

Other intangible assets are initially recognized at cost. Other intangible assets, for which a certain useful life is determined, are carried at the cost less accumulated amortization and accumulated impairment losses. However, some intangible assets (such as leasehold interests in land) are determined to have indefinite useful lives and are not amortized, because they exist fundamentally as long as the business continues. The amount of amortization is calculated by allocating the cost of each other intangible asset using the straight-line method over the estimated useful life.

Residual values, useful lives and amortization methods of intangible assets are reviewed at the end of each fiscal year, and revised where necessary.

5) Leases

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

Each lease payment is allocated between liabilities and finance costs. The interest element, which is a finance cost, is expensed in profit or loss over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability in each fiscal year. Property, plant and equipment and intangible assets acquired through finance lease are depreciated or amortized using the straight-line method over the useful life of the asset or, if shorter, the lease term.

Leases other than finance leases are classified as operating leases. Lease payments in operating leases, less incentives received from the lessor, are recognized in profit or loss on a straight-line basis over the lease term.

6) Impairment of non-financial assets

Goodwill and intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually. Other non-financial assets are examined for impairment if there is an indication that the carrying amount may not be recovered due to

occurrence of an event or change in the circumstances. When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized at the excess amount. The recoverable amount is the higher of its fair value less costs of disposal of the asset and value in use. To assess impairment, an asset is grouped at the smallest unit which generates separately identifiable cash flows (cash-generating unit). Non-financial assets for which impairment losses are recognized, excluding goodwill, are reassessed at the end of each fiscal year for the possibility that the impairment losses may be reversed.

7) Provisions

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

Where there are a number of similar obligations, the probability that an outflow of resources will be required in settlement is determined taking into account the similar obligations as a whole. Provisions are recognized even if the likelihood of the outflow is low for one item in the similar obligations.

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

8) Employee benefits

(i) Post-employment benefits

The Group companies have various plans. The Group has adopted defined benefit plans, and certain consolidated subsidiaries have established a retirement benefit trust. In addition to these plans, certain consolidated subsidiaries have introduced defined contribution plans and retirement benefit prepayment plans.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Defined contribution plans are post-employment benefit plans in which the employer pays fixed contributions to other separate entities and has no legal or constructive obligations to make further contributions.

In defined benefit plans, the present value of defined benefit obligations is calculated separately for each plan by estimating the amount of future benefits that employees have earned in exchange for their service rendered in the prior fiscal years and the current fiscal year and discounting that amount. The Group recognizes the amount calculated by deducting fair value of plan assets from the present value of defined benefit obligations as net defined benefit liability (asset).

Defined benefit obligations are calculated using the projected unit credit method. The discount rates are determined based on market yields of high quality corporate bonds at the end of the fiscal year that correspond to the discount period, which is set on the basis of a period up to the estimated date of benefit payment for each future year.

Contributions to the plans are determined based on periodic actuarial calculation and are usually paid to the funds managed by insurance companies and trust companies.

In case that the Group has a surplus in the defined benefit plans as a result of calculation, the net defined benefit asset is measured to the extent of the present value of economic benefits available in the form of a future refund from the plan or a reduction in future contributions to the plan. In calculating the present value of economic benefits, the Group takes into account minimum funding requirements applicable to its plan. Economic benefits shall be available to the Group, if the economic benefits can be realized during the life of the plan or at the time when the pension liabilities are settled.

The Group recognizes remeasurements of the net defined benefit liability (asset) arising

from the defined benefit plans in other comprehensive income and immediately reclassifies them to retained earnings.

Contributions to the defined contribution plan are recognized as employee benefits expense in profit or loss in the period during which employees render their service.

(ii) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and recognized as expenses when the related service is rendered. Bonuses are recognized as a liability at the amount estimated to be paid under the plans, when the Group has present legal or constructive obligations to pay as a result of past service rendered by employees, and the amount of obligations can be reliably estimated.

9) Revenue

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (hereinafter collectively referred to as “IFRS 15”) effective from this fiscal year.

The Group recognizes revenue based on the following five step approach in accordance with IFRS 15.

Step 1: Identify the contract 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 the entity satisfies a performance obligation

For sales of goods, as the customer obtains control over the goods upon delivery, the performance obligation is determined to have been satisfied and revenue is therefore recognized upon delivery of the goods. Revenue is measured using the net amount after eliminating goods returned, rebates and discounts.

Because the period from satisfaction of the performance obligation to receipt of consideration is usually within one year or less, the Group uses the practical expedient and does not adjust the promised amount of consideration for the effects of a significant financing component for such receivables.

The Group’s view is that acting as a principal if it controls promised goods before transferring them to a customer and recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods to be transferred.

10) Foreign currency translation

(i) Functional currency and presentation currency

Items included in financial statements of each company of the Group are measured using the currency of the primary economic environment in which the company operates (hereinafter referred to as the “functional currency”). The consolidated financial statements are presented in Japanese Yen, which is the presentation currency of the Group.

(ii) Transactions and transaction balances

Foreign currency transactions are translated into functional currencies using the exchange rate at the date of the transactions. Foreign exchange differences arising from settlement of transactions and those arising from the translation of monetary assets and liabilities denominated in foreign currencies using the exchange rate at the end of the fiscal year are recognized in profit or loss. However, exchange differences arising from financial assets

measured through other comprehensive income, qualifying cash flow hedges and hedges of net investments in foreign operations are recognized in other comprehensive income.

(iii) Foreign operations

Operating results and financial position of all the foreign operations using a functional currency that is not the presentation currency are translated into the presentation currency in the ways described below. Among the foreign operations, there is no company that uses a currency of a hyperinflationary economy.

- a. Assets and liabilities are translated using the closing rate as of the end of the fiscal year.
- b. Income and expenses are translated using the average rate (unless the average rate is not a reasonable approximation of the cumulative effect of the exchange rates prevailing on the transaction date, in which case income and expenses are translated using the rate on the transaction date).
- c. All resulting exchange differences are recognized in other comprehensive income and accumulated in exchange differences on foreign operations, which is other components of equity.

When a foreign operation is partially disposed of or sold, the exchange differences recognized in other comprehensive income are recognized in profit or loss as part of a gain or loss on the sale.

11) Derivatives and hedge accounting

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

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

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

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

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

Accumulated gains or losses recognized through other comprehensive income are transferred to profit or loss in the period during which cash flows arising from the hedged

item affect profit or loss. However, when a forecast transaction as the hedged item results in the recognition of non-financial assets (e.g. inventories or property, plant and equipment), gains or losses previously deferred in other comprehensive income are transferred and included in the initial measurement of the cost of the assets. The deferred amount is eventually recognized as cost of sales for inventories, and as depreciation expense for property, plant and equipment.

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

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

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

12) Accounting for consumption taxes

Consumption taxes that are received from customers and paid to tax authorities are excluded from revenue, cost of sales, and expense on the consolidated statement of profit or loss.

(5) Changes in accounting policies

(Revenue)

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (hereinafter collectively referred to as “IFRS 15”) effective from this fiscal year. In applying IFRS 15, the Group has adopted the method to recognize the cumulative effect of applying this standard at the date of initial application, which is permitted as a transitional measure.

The Group recognizes revenue based on the following five-step approach in accordance with IFRS 15.

Step 1: Identify the contract 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 the entity satisfies a performance obligation

The impact on the consolidated financial statements is immaterial compared with the application of the previous accounting standard.

2. Notes to Consolidated Statement of Financial Position

(1) Pledged assets and secured liabilities

The following assets are pledged as collateral for borrowings and other current liabilities of ¥3,257 million.

Property, plant and equipment	¥2,261 million
Cash and cash equivalents	¥345 million

(2) Accumulated depreciation on property, plant and equipment ¥872,919 million

(3) Bad debt provisions directly deducted from assets

Trade and other receivables	¥2,803 million
Other financial assets	¥906 million

(4) Contingent liabilities

Guarantees	¥892 million
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3. Notes to Consolidated Statement of Changes in Equity

(1) Total number of the issued shares as of the end of this fiscal year

Common stock	483,585,862 shares
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(2) Dividends during this fiscal year

1) It was resolved at the 94th Annual General Meeting of Shareholders of March 27, 2018 as follows:

Dividends on common stock	
Total amount of dividends:	¥20,615 million
Dividend per share:	¥45
Record date:	December 31, 2017
Effective date:	March 28, 2018

2) It was resolved at the Board of Directors Meeting of August 2, 2018, as follows:

Interim dividends on common stock	
Total amount of interim dividends:	¥20,615 million
Interim dividend per share:	¥45
Record date:	June 30, 2018
Effective date:	September 3, 2018

Total amount of interim dividends include dividends of 1 million yen for shares of the Company held by Japan Trustee Services Bank, Ltd. as the trust assets of a performance-linked stock compensation plan.

(3) Dividends after the end of this fiscal year

The following item has been placed on the agenda for approval at the 95th Annual General Meeting of Shareholders scheduled for March 26, 2019.

Dividends on common stock	
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Source of dividends:	Retained earnings
Total amount of dividends:	¥24,738 million
Dividend per share:	¥54
Record date:	December 31, 2018
Effective date:	March 27, 2019

Total amount of dividends include dividends of 2 million yen for shares of the Company held by Japan Trustee Services Bank, Ltd. as the trust assets of a performance-linked stock compensation plan.

4. Notes on Financial Instruments

(1) Status of financial instruments

1) Capital management

The Group's purpose for capital management is to maintain its ability to continue as a going concern in order to provide returns to shareholders, grant benefits to other stakeholders and maintain the most appropriate capital structure for reducing capital cost.

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

The Group monitors the capital based on the capital and liabilities ratio. This ratio is calculated by dividing the amount of net liabilities by the capital. The amount of net liabilities is calculated by deducting cash and cash equivalents from interest-bearing debts. The capital shall be the "equity" presented in the consolidated statement of financial position (equity attributable to owners of parent).

2) Risk management

The Group's activities are exposed to various financial risks such as market risks (including foreign exchange risk, price risk and interest rate risk), credit risks and liquidity risks. The Group's risk management policy focuses on the unpredictability of financial markets and minimize the potentially adverse impact on the Group's financial performance. The Group uses derivative transactions to hedge certain risk exposures.

The Company and its principal consolidated subsidiaries procure necessary funds via loans from financial institutions and by issuing commercial papers and bonds, while taking into account the balance between direct and indirect financing or the balance between short- and long-term debt from the perspective of fund procurement cost and risk diversification in response to changes in the business environment. To use funds efficiently in the entire Group, the Company and its principal consolidated subsidiaries have introduced a cash management system to reduce consolidated interest-bearing debt. If surplus funds are generated temporarily, the Company invests it only in safe financial instruments.

The Group uses derivative transactions to the extent of balances of foreign currency denominated assets and liabilities and bonds and borrowings, as means to mitigate foreign exchange risk, price risk of raw materials and others and interest rate risk, as well as to reduce fund procurement cost.

When using derivative transactions, the Company trades with financial institutions only with high credit ratings.

At the Company, the Finance Section is in charge of executing and managing derivative transactions, in accordance with internal rules. Contracts on each derivative transaction are entered into after approval is received in accordance with the internal authorization criteria. The Finance Section reviews the status of derivative transactions including the content and balances, and reports it to the General Manager of the Finance Section and Directors in

charge of finance as needed.

The consolidated subsidiaries also enter into such agreements in accordance with the Group's authorization criteria, and the Company reviews their status based on reports submitted by them on regular basis.

(i) Market risk

a. Foreign exchange risk

The Group conducts business activities internationally and is exposed to foreign exchange risk mainly related to US dollar, euro and Czech Koruna. Foreign exchange risk arises from forecast transactions such as future purchase, sale, financing and repayment of assets and liabilities that have already been recognized.

The Group uses foreign exchange contracts and currency swaps to mitigate foreign exchange risk. Hedge accounting is applied to the transactions that qualify for hedge accounting.

When designating hedging instruments, currency basis spreads for currency swap are excluded as costs of hedging.

Although receivables, payables and others denominated in a foreign currency have a risk of foreign exchange fluctuations, the impact is limited since the risk is offset with the exchange contracts.

b. Price risk

The Group is exposed to price risk of equity instruments since it holds investments classified as the category measured at fair value in the consolidated statement of financial position. To manage price risk arising from investments in equity instruments, the Group regularly keeps track of fair value, financial conditions of issuers and others, and also reviews the overall status on an ongoing basis.

The Group has no equity instruments held for short-term trading and does not intend to actively trade these investments.

Furthermore, the Group is exposed to price risk of raw materials since prices of major raw materials used in its products fluctuate according to weather, natural disaster and other factors. The Group engages in commodity swap transactions to mitigate risks of fluctuations in raw materials prices. Although commodity swap transactions used by the Group have risks of fluctuations in market prices of commodities, price risk is limited because these risks are offset with risks of fluctuations in market prices of commodities in association with trade payables of those commodities that the Group has.

c. Interest rate risk

The Group raises funds with variable interest rates and is exposed to interest rate risk. Interest rate risk mainly arises from non-current borrowings.

The Group uses interest rate swaps, which substantially fix interest rates, to mitigate interest rate risk. Hedge accounting is applied to the transactions that qualify for hedge accounting.

(ii) Credit risk

The Group is exposed to credit risks for trade receivables (notes and accounts receivable-trade), other receivables (accounts receivable-other) and other financial assets (operating loans and others).

In accordance with the accounting regulations, the Group regularly monitors the status of major business partners for trade receivables and operating loans and routinely checks the management status of deadlines and balances for each business partner. The Group also monitors credit-impaired financial assets and their collection status.

When executing derivative transactions, the Group trades with financial institutions only with high credit ratings to mitigate credit risk.

The Group classifies receivables based on credit risk profile to calculate loss allowance. For trade receivables, loss allowance is always recognized at the amount equal to lifetime expected credit losses. For receivables other than trade receivables, loss allowance is recognized at the amount equal to 12-month expected credit losses, in principle. However, in cases such as overdue, because the credit risk is considered to have significantly increased from the initial recognition, loss allowance is recognized at the amount equal to lifetime expected credit losses.

The amount of loss allowance is calculated as follows:

- Trade receivables

The simplified approach is applied. The Group categorizes receivables according to credit risk profile of the counterparty and calculates loss allowance by multiplying the receivables by the provision rate, which is determined by adding projection of future economic conditions and others to the historical rate of credit losses calculated according to the category.

- Receivables other than trade receivables

The general approach is applied. Loss allowance for receivables for which the credit risk is not considered to have significantly increased is calculated by multiplying the carrying amount by the provision rate, which is determined by adding projection of future economic conditions and others to the historical rate of credit losses for similar assets. For assets for which the credit risk is considered to have significantly increased and credit-impaired financial assets, loss allowance is calculated as difference between the amount of the present value, which is computed by discounting estimated future cash flows using the original effective interest rate of the asset, and the carrying amount.

(iii) Liquidity risk

The Group raises funds via loans and by issuing commercial papers and bonds, and is exposed to liquidity risk, which means there is a possibility the Group fails to make payment on the due date due to deterioration in the fund procurement environment.

Since the Company and its principal consolidated subsidiaries have introduced the cash management system, the Company manages liquidity risks of those companies participating in this system.

Based on reports from each Group company, the Company creates its cash management plan and updates the plan on a timely basis. The Group monitors an ongoing forecast for fund demand, while always maintaining sufficient margin in the unused portion of the contractual credit line and ensuring that all loan agreements do not conflict with the borrowing limits or covenants (if applicable). In these forecasts, the Group takes into account its borrowing and financing plan, compliance with covenants, adherence to internal targets for the statements of financial position ratio as well as applicable external regulatory and statutory requirements, such as a regulation of currency, if any.

Surplus that the Company and its principal consolidated subsidiaries hold in excess of the balance necessary for management of working capital is managed at the Group level under the cash management system. The Group chooses financial instruments with appropriate maturity and liquidity, and makes investments in current deposits, time deposits, money market deposits and marketable securities to ensure a sufficient margin determined in the above forecast.

(2) Fair value of financial instruments

In fair value measurement, the Group uses observable market data whenever available. The fair value measurement is categorized into any of the following levels based on the level of the input:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities

Level 2: Input consisting of directly or indirectly observable prices other than market prices used in level 1

Level 3: Input that is not based on observable market data

Reclassification between levels in the fair value hierarchy is recognized on the date of the event or change in circumstances that caused the reclassification.

Financial instruments measured at amortized cost

Carrying amounts and fair values of financial instruments measured at amortized cost are as follows:

	Carrying amount	Fair value
Long-term loans receivable	1,404	1,338
Long-term loans payable	383,686	383,786
Bonds	510,896	510,512
Lease obligations	19,660	19,756

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

Financial instruments for which the carrying amount is reasonably approximate to the fair value are not included in the table above.

The fair value of long-term loans receivable is calculated by discounting the expected amount of principal and interest receivable by the interest rate expected if a similar new loan were to be issued, thereby deriving the present value.

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest by the interest rate expected if a similar new borrowing were to be taken out, thereby deriving the present value.

The fair value of bonds is set to market prices when market prices are available.

The fair value of lease obligations is calculated by discounting the total amount of principal and interest by the interest rate expected if a similar new lease transaction were to be conducted.

In the above fair value measurement, bonds are classified into Level 2, while others are classified into Level 3. For bonds in Level 2, fair value is estimated using the reference trading statistics of Japan Securities Dealers Association and others. Fair value of financial instruments in Level 3 is measured by discounting contractual cash flows using the market interest rate, and the difference with carrying amount is due to a difference between the market interest rate and the contractual interest rate.

5. Per Share Information

(1) Equity attributable to owners of parent per share	¥2,502.67
(2) Basic earnings per share	¥329.80

6. Additional Information

In this fiscal year, the provisional accounting treatment for business combinations were finalized regarding the acquisition of the beer business in five Central and Eastern European countries (Czech Republic, Slovak Republic, Poland, Hungary and Romania) and other related assets. There is no change arising from the finalization of the provisional accounting treatment.

7. Significant Subsequent Events

(Acquisition of the beer and cider business of Fuller, Smith & Turner P.L.C.)

Asahi Europe Ltd. (hereinafter referred to as “AEL”), a wholly-owned subsidiary of the Company, reached an agreement to acquire the premium beer/cider business and other related assets (hereinafter referred to as the “Target Business”) held by Fuller, Smith & Turner P.L.C. (hereinafter referred to as “Fuller’s”).

Fuller’s is listed on the London Stock Exchange and operates the pubs/hotels business and the premium beer/cider business. On January 25, 2019, AEL concluded the Sale and Purchase Agreement of the stocks with Fuller’s.

(1) Rationale for the Proposed Transaction

The Company has re-established the new group philosophy “Asahi Group Philosophy” (hereinafter referred to as the “AGP”), introduced in January 2019. The AGP articulates our mission of “Deliver on our great taste promise and bring more fun to life” and our vision of “Be a value creator globally and locally, growing with high-value-added brands.” Under the AGP, the Company will develop high-value-added brands in Japan and other countries and aims to expand our global platform for further growth as a global player by creating integration synergies in each area where the Company has entered into.

As part of the strategy, the Company has recently built strong business foundations in Western, and Central and Eastern Europe by acquiring the alcoholic beverage business which owns global premium brands such as “Peroni” and “Pilsner Urquell.”

The Target Business includes “London Pride,” a prestigious premium ale brand with strong brand recognitions mainly in London, “Frontier,” a growing brand in the premium lager market, and “Cornish Orchards,” a growing brand in the premium cider market.

Through the acquisition of these businesses and brands, the Company aims to establish a unique position as a global player that will grow based on renowned premium brands, in addition to “Asahi Super Dry,” “Peroni,” and “Pilsner Urquell.”

(2) Overview of the Proposed Transaction

Overview of the Sale and Purchase Agreement of the stocks concluded by AEL with regard to the acquisition of the Target Business is as follows:

- 1) Contract parties: Fuller’s (seller), AEL (purchaser)
- 2) Target shares and assets: All shares of the company group consisting of the premium beer/cider business and other related businesses held by Fuller’s, intellectual property rights including Fuller’s brands (trademark rights) and other related assets
- 3) Scheme for the Proposed Transaction: Fuller’s will establish a new company, The Fuller's Beer Company Limited (hereinafter referred to as the “FBC”), to which it will transfer the target beer business. AEL will then acquire all the shares of FBC and the existing three subsidiaries
- 4) Purchase price: GBP 250 million on a cash free and debt free enterprise value basis

- 5) Condition precedent to completion: The completion of a corporate reorganization by Fuller's to transfer the Target Business to FBC, the approvals at Fuller's Extraordinary General Meeting, and receipt of the relevant confirmations from the Competition and Markets Authority in the United Kingdom

(3) Overview of the Seller

1) Company name	Fuller, Smith & Turner P.L.C.
2) Registered head office	London, United Kingdom
3) Representative	Simon Emeny, CEO
4) Business description	Manufacturing, sales and distribution of beer and cider, and operation of managed and tenanted pubs and hotels
5) Capital amount	GBP 23 million
6) Established	August 22, 1929

(4) Expected schedule of the Proposed Transaction

The schedule towards the completion of the acquisition is as follows.

1)	Execution of the Sale and Purchase Agreement of the stocks with Fuller's	January 25, 2019
2)	Completion of the Proposed Transaction upon fulfilment of condition precedents	Estimated in the first half of 2019

(5) Impact on the Company's financial performance

Proposed Transaction is not expected to have a material impact on the Company's financial performance for the fiscal ending 2019.

8. Other

The stated amounts are the figures after truncating fractions less than the representative unit.

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2018

(million yen)

	Shareholders' equity						
	Capital surplus				Retained earnings		
	Issued capital	Legal capital surplus	Other capital surplus	Total capital surpluses	Other retained earnings		
					General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	182,531	130,292	21,390	151,683	195,000	106,450	301,450
Changes of items during period							
Dividends						(41,231)	(41,231)
Profit						230,230	230,230
Transfer from legal capital surplus to other capital surplus		(80,000)	80,000	-			
Purchase of treasury shares							
Disposal of treasury shares			0	0			
Net changes of items other than shareholders' equity							
Total changes of items during period	-	(80,000)	80,000	0	-	188,999	188,999
Balance at end of current period	182,531	50,292	101,390	151,683	195,000	295,449	490,449

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	(76,747)	558,917	7,175	(631)	6,543	565,460
Changes of items during period						
Dividends		(41,231)				(41,231)
Profit		230,230				230,230
Transfer from legal capital surplus to other capital surplus		-				-
Purchase of treasury shares	(250)	(250)				(250)
Disposal of treasury shares	0	0				0
Net changes of items other than shareholders' equity			(2,673)	1,643	(1,029)	(1,029)
Total changes of items during period	(250)	188,749	(2,673)	1,643	(1,029)	187,719
Balance at end of current period	(76,997)	747,666	4,502	1,011	5,513	753,180

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Notes to Significant Accounting Policies

(1) Valuation basis and method for securities

Shares in subsidiaries and affiliates:

Stated at cost based on the moving-average method

Available-for-sale securities

Securities with market value:

Carried at the average market value for the month immediately preceding the balance sheet date (related valuation differences are directly charged or credited to net assets, and the cost of securities sold is computed by the moving-average method.)

Securities without market value:

Stated at cost based on the moving-average method

(2) Valuation basis and method for derivatives

Market price method

(3) Depreciation methods for non-current assets

Property, plant and equipment (excluding leased assets):

Property, plant and equipment are depreciated using the straight-line method.

The estimated useful lives of the assets are based on the same standards as those specified in the Corporation Tax Act.

Intangible assets (excluding leased assets):

Intangible assets are amortized using the straight-line method.

The estimated useful lives of the assets are based on the same standards as those specified in the Corporation Tax Act.

Software for internal use is amortized by the straight-line method over a useful life of 5 years. Trademarks is mainly amortized over 20 years using the straight-line method.

Leased assets:

Finance leases that do not transfer ownership rights are amortized to a residual value of zero using the straight-line method, with the lease period as the estimated useful life.

(4) Accounting criteria for allowances

Allowance for doubtful accounts:

The allowance for doubtful accounts consists of the individually estimated uncollectible amounts with respect to certain identified doubtful receivables and the amounts calculated using the rate of actual collection losses with respect to the other receivables.

Provision for bonuses:

A provision for bonuses is provided to prepare for the bonus payment to employees at the estimated amount applicable to this fiscal year out of the estimated future bonus payment amount.

Provision for directors' bonuses:

A provision for directors' bonuses is provided to prepare for the bonus payment to officers at the estimated amount applicable to this fiscal year out of the estimated future bonus payment amount.

(5) Hedging accounting method

1) Hedging accounting method

The Company defers gains or losses on its hedges.

For foreign exchange contracts and currency swaps, the Company allocates differences in the values of hedging instruments when such hedges meet all requirements for such allocations. For interest rate swaps, the Company applies exceptional treatment when the swap in question meets the conditions for application of such exceptional treatment.

2) Hedging instruments and hedged items

Hedging instruments: Foreign exchange contracts, interest rate swaps, currency swaps and borrowings denominated in foreign currencies

Hedged items: Forecasted foreign currency transactions, loans receivable in foreign currencies, interest on borrowings, bonds denominated in foreign currencies and investments in foreign subsidiaries

3) Hedging policy

Derivatives are used to avoid risks associated with fluctuations in foreign exchange markets and in interest rates and to reduce the costs of financing. It is the Company's policy not to engage in speculative transactions that deviate from real demand or in highly leveraged derivatives.

4) Method of evaluating the effectiveness of hedging

The Company assesses the effectiveness of its hedges by comparing changes in the market values of the hedging instruments and of the hedged items over the entire period of the hedge.

When the Company allocates differences in the values of hedging instruments or when it accounts for the value of swaps under exceptional treatment, these determinations allow it to forgo evaluation of the effectiveness of hedges in these cases.

(6) Other significant items associated with the preparation of non-consolidated financial statements

Treatment of consumption taxes

Consumption taxes are excluded from the statement of income, except in the case of non-deductible consumption taxes related to non-current assets that are charged when incurred.

2. Notes to the Non-Consolidated Balance Sheet

(1) Accumulated depreciation on property, plant and equipment ¥31,252 million

(2) Contingent liabilities

1) Guarantees against bank loans

Guarantees: ¥12,711 million

2) Guarantees against derivatives

Guarantees: ¥75 million

(3) Monetary claims and obligations with associates (excluding those classified separately in the Balance Sheet)

Short-term monetary claims on associates:	¥227,365 million
Short-term monetary obligations to associates:	¥118,112 million

3. Notes to the Non-Consolidated Statement of Income

(1) Gain on sales of shares of subsidiaries and associates

The gain on sales of shares of subsidiaries and associates was mainly due to a gain on sales relating to the transfer of the shares of Tsingtao Brewery Company Limited, an associate in the China business.

(2) Transactions with associates

Operating revenue:	¥244,028 million
Operating expenses:	¥5,168 million
Transactions other than operating transactions:	¥1,062 million

4. Notes to the Non-Consolidated Statement of Changes in Net Assets

Treasury shares

				(shares)
Type of stock	Number of shares as of Jan. 1, 2018	Increase during this fiscal year	Decrease during this fiscal year	Number of shares as of Dec. 31, 2018
Common stock	25,461,769	44,565	153	25,506,181

(The outline of a change reason)

The increase in the number of shares was the result of the following:

Increase resulting from purchases of Less-than-One-Unit Shares from shareholders upon request: 5,865 shares

Increase resulting from purchase by the trust for the share-based payment plans: 38,700 shares

The decrease in the number of shares was the result of the following:

Decrease resulting from sales of Less-than-One-Unit Shares to shareholders upon request: 153 shares

Treasury shares include 38,700 common shares of the Company held by Japan Trustee Services Bank, Ltd. as the trust assets of a performance-linked stock compensation plan.

5. Notes to tax effect accounting

(1) Breakdown of main reasons for deferred tax assets and liabilities

(Deferred tax assets)

Shares of subsidiaries and associates due to restructuring:	¥16,703 million
Allowance for doubtful accounts, in excess of tax-deductible amount:	¥605 million
Loss on valuation of investment in subsidiaries, non-tax deductible:	¥31,613 million
Loss on valuation of capital contributions for subsidiaries, non-tax deductible:	¥4,558 million
Deferred loss on transfer of business between consolidated corporations:	¥942 million
Others:	¥1,019 million
Subtotal deferred tax assets:	¥55,443 million
Valuation allowance:	¥(37,893) million
Total deferred tax assets	¥ 17,549 million

(Deferred tax liabilities)

Valuation difference on available-for-sale securities:	¥(1,834) million
Deferred gain on transfer of business between consolidated corporations:	¥(5,026) million
Deferred gains or losses on hedges:	¥(446) million
Others:	¥(219) million
Total deferred tax liabilities	¥(7,527) million

Net deferred tax assets ¥10,021 million

(2) Breakdown of main items which caused the difference between the statutory effective tax rate and the effective tax rate after adoption of tax effect accounting

Statutory effective tax rate:	30.9%
(Adjustments)	
Permanent difference (non-deductible), including entertainment expenses:	0.1%
Valuation allowance:	(0.1)%
Permanent difference (non-taxable), including dividend income:	(26.4)%
Others:	0.3%
Effective tax rate after adoption of tax effect accounting:	<u><u>4.8%</u></u>

6. Notes to related party transactions Subsidiaries and affiliates

(million yen)

Type	Company	Percentage of voting rights held	Relationship with related party	Description of transaction	Transaction amount	Account item	Balance as of Dec. 31, 2018
Subsidiary	Asahi Breweries, Ltd.	100% direct ownership	Interlocking of directors/ corporate auditors	Operating revenue (Note 1)	88,306	–	–
				Loaning funds (Note 2)	(4,829)	Short-term loans receivable	166,916
Subsidiary	Asahi Soft Drinks Co., Ltd.	100% direct ownership	Interlocking of directors/ corporate auditors	Operating revenue (Note 1)	26,922	–	–
Subsidiary	Asahi Group Foods, Ltd.	100% direct ownership	Interlocking of directors/ corporate auditors	Loaning funds (Note 2)	5,023	Short-term loans receivable	24,167
Subsidiary	AI Beverage Holding Co., Ltd.	100% direct ownership	Interlocking of directors/ corporate auditors	Operating revenue (Note 1)	53,405	–	–
				Deposits received (Note 3)	(54,576)	Deposits received	14,266
Subsidiary	Asahi Breweries Europe Ltd	100% direct ownership	–	Operating revenue (Note 1)	35,071	–	–
				Borrowing of funds (Note 3)	14,430	Short-term loans payable	68,601
Subsidiary	Asahi Holdings (Australia) Pty Ltd	100% direct ownership	Interlocking of directors/ corporate auditors	Guarantees for liabilities (Note 4)	5,902	–	–
Subsidiary	Asahi Professional Management Co., Ltd.	100% direct ownership	Interlocking of directors/ corporate auditors	Outsourcing indirect services, etc. (Note 5)	4,508	–	–

Terms and conditions of transaction and policy on determination thereof

Note 1: Operating revenue is determined in accordance with certain reasonable standards in order to provide supervision and guidance, etc. regarding business management.

Note 2: The interest rate for the loans receivable is reasonably determined, taking the market interest rate into consideration.

For the transaction amount, the amount of net increase (decrease) in this fiscal year is stated.

Note 3: The interest rates for the deposits received and short-term loans payable are reasonably determined, taking the market interest rate into consideration.

For the transaction amount, the amount of net increase (decrease) in this fiscal year is stated.

Note 4: The Company guaranteed bank loans in the amount of AUD75 million.

Note 5: The amount of outsourced indirect services, etc. is determined based on certain reasonable standards.

7. Notes to per share information

(1) Net assets per share:	¥1,644.21
(2) Earnings per share (Net income per share):	¥502.59

8. Other

The stated amounts are the figures after truncating fractions less than the representative unit.