Financial Results
for the six months ended June 30, 2018 — Consolidated
(Based on IFRS)

August 3, 2018

Company name	**Sapporo Holdings Limited**
Security code	2501
Listed on	Tokyo Stock Exchange (First Section); Sapporo Securities Exchange
URL	http://www.sapporoholdings.jp/english/
Representative	Masaki Oga, President and Representative Director
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Scheduled dates:	

Filing of quarterly financial report	August 13, 2018
Commencement of dividend payments	-
Supplementary information to the quarterly earnings results	Available
Quarterly earnings results briefing held	Yes (mainly targeted at institutional investors and analysts)

1. Consolidated Financial Results for the six months ended June 30, 2018 (January 1 – June 30, 2018)

(Amounts in million yen rounded to the nearest million yen)

(1) Operating Results

(Percentage figures represent year-over-year changes)

	Revenue		Operating profit		Profit before tax		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended June 30, 2018	241,740	(3.6)	(3,043)	_	(3,641)	_	(2,909)	_
Six months ended June 30, 2017	250,683	_	1,161	_	680	_	(440)	_

	Profit attribute to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	Yen	yen
Six months ended June 30, 2018	(2,516)	_	(10,966)	_	(32.30)	(32.30)
Six months ended June 30, 2017	(188)	_	3,299	_	(2.41)	(2.41)

(2) Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity ratio attributable to owners of parent
	million yen	million yen	million yen	%
Six months ended June 30, 2018	643,937	161,796	158,653	24.6
December 31, 2017	664,731	175,710	172,055	25.9

2. Dividends

	Dividend per share				
Record date or period	End Q1	End Q2	End Q3	Year-end	Full year
	yen	yen	yen	yen	yen
Year ended December 31, 2017	—	0.00	—	40.00	40.00
Year ended December 31, 2018	—	0.00			
Year ending December 31, 2018 (forecast)			—	40.00	40.00

Note: Changes were made to dividends forecasts in the six months ended June 30, 2018: None

3. Forecast of Consolidated Earnings for the Year Ending December 31, 2018 (January 1 – December 31, 2018)

(Percentage figures represent year-over-year changes)

	Revenue		Operating profit		Profit before tax		Profit attribute to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	Yen
Year ending December 31, 2018	537,800	0.2	16,100	25.7	15,100	30.9	9,200	28.0	118.11

Note: Changes were made to earnings forecasts in the Six months ended June 30, 2018: Yes

4. Other

(1) Changes to scope of consolidation: None
(2) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accounting policies required by IFRS: None
2) Changes other than 1) above: None
3) Changes in accounting estimates: None

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued at end of period (treasury stock included):
June 30, 2018: 78,794,298 shares
December 31, 2017: 78,794,298 shares

2) Number of shares held in treasury at end of period:
June 30, 2018: 901,816 shares
December 31, 2017: 901,792 shares

3) Average number of outstanding share during the period:
Six months ended June 30, 2018: 77,892,030 shares
Six months ended June 30, 2017: 77,894,480 shares

*Quarterly review status
The quarterly financial results are not subject to quarterly reviews pursuant to the Financial Instruments and Exchange Act.

Appropriate Use of Earnings Forecasts and Other Important Information

This document contains projections and other forward-looking statements based on information available to the Company as of the date of this document. Actual results may differ from those expressed or implied by forward-looking statements due to various factors.

1. Analysis of Operating Results and Financial Condition

The Sapporo Group has applied the International Financial Reporting Standards (IFRS) to its consolidated accounts from the first half of 2018. For the purpose of comparison, financial data for the first half and entire fiscal 2017 are also presented on the IFRS basis.

(1) Operating Results

In the first half of 2018 (January 1 – June 30, 2018), the Japanese economy remained in a moderate recovery trend, underscored by firm consumer spending. However, the outlook for the global economy remained clouded with uncertainties, including concerns about trade frictions among major countries.

In this economic environment, the Sapporo Group's first-half consolidated revenue was down year on year. The Japanese Alcoholic Beverages business posted strong sales of its Sapporo Draft Beer Black Label in cans and RTD offerings, and the International Business' Canadian subsidiary SLEEMAN BREWERIES also put up strong sales figures. However, the Japanese Alcoholic Beverages business saw sales of its happoshu and new-genre beers fall below the previous year's levels. In addition, sales of soft drinks in Japan handled by the Food & Soft Drinks business were down year on year.

With all segments except for the Real Estate business reporting year-on-year revenue declines, the Group's profits declined in the first half of the fiscal year.

First-half 2018 consolidated revenue totaled ¥241.7 billion (down ¥8.9 billion or 4% year on year). The Group posted a first-half operating loss of ¥3.0 billion (compared with a ¥1.2 billion profit a year earlier), and the net loss attributable to owners of the parent came to ¥2.5 billion (compared with a net loss of ¥0.2 billion a year earlier).

Results by segment are outlined below. From the consolidated financial statements for the first half of 2018, the export business of Sapporo International Inc., which was included in the International Business segment, has been transferred to Sapporo Breweries Ltd., which is included in the Japanese Alcoholic Beverages segment.

To enable year-over-year comparisons in this document, figures for the year-earlier period have been adjusted to reflect the new segmentation.

Seasonal Factors

The Group's operating results exhibit substantial seasonal variation in demand for the products and services offered by the Japanese Alcoholic Beverages, International Business, Food & Soft Drinks, and Restaurants businesses. As a result, revenue in the first half tends to be lower than revenues in the other three quarters.

Japanese Alcoholic Beverages

We estimate that total domestic demand for beer and beer-type beverages in the first half of 2018 fell 3% from the level seen in the first half of 2017.

Under such market conditions, the Japanese Alcoholic Beverage business continued its efforts to realize management's vision of "Seek to be No.1 by accumulating one-of-a-kind products" and achieve further growth by constantly providing customers with a unique value proposal and by investing aggressively in the beer business in line with the business policy of "Continuation of strengthening of the beer business."

Among beer products, sales of Sapporo Draft Beer Black Label, especially the canned version, were strong throughout the first half of the fiscal year. In the happoshu and new-genre beer categories, we launched LEVEL 9 Zeitaku Strong, a high alcoholic-content new-genre beer. However, due to increasingly intense market competition and other factors, overall shipments of our beer and beer-type beverages fell 9% from the level seen in the first half of 2017.

In the RTD[*1] category, Rirakusu, a strong cocktail-like beverage launched in April received a favorable response from consumers. In addition, we continued to see steady sales growth for the core RTD collaboration products, such as Otoko Ume Sour, Ai no Skal White Sour, and Kireto Lemon Sour. As a result, the RTD category achieved year-on-year sales growth.

In the wine category, we continued to strengthen marketing of domestic and imported fine wines[*2], including the imported wine Penfolds, Taittinger champagne, and our domestic Grande Polaire wines. However, weak sales of our everyday wines[*2] led to a year-on-year decline in sales for the wine category as a whole.

Our spirits business achieved year-on-year sales growth, led by strong sales of products from major overseas brands, such as Bacardi and Dewars.

Our Japanese liquor business continued to enjoy strong sales of Imo Shochu Kokuimo, Japan's No.1 selling[*3] blended imo shochu. Overall category sales were in line with those in the first half of 2017.

Overall, the Japanese Alcoholic Beverages business' first-half revenue came to ¥113.4 billion, ¥5.8 billion or 5% less than a year earlier. The segment posted an operating loss of ¥2.3 billion, compared with a profit of ¥0.6 billion one year earlier.

*1) RTD, or ready-to-drink, beverages are already-mixed, low-alcohol content cocktail-like beverages that can be consumed as is immediately after opening.

*2) Fine wines are wines priced in the mid- to high-price range of ¥1,500 or more per bottle, while everyday wines are those with a low price of less than ¥1,500 per bottle.

*3) Based on Intage SRI market research on combined blended imo shochu sales in the supermarket, convenience store, and direct sales channels from November 2016 to May 2018.

International Business

We estimate that total demand in the North American beer market in the first half of 2018 was below the previous-year level in the United States but was up slightly year on year in Canada. In Asian countries, demand is being affected by slower economic growth and governments' increasingly assessing new taxes on a wider range of consumer goods.

In this environment, our International Business continued its efforts to strengthen brand recognition primarily in the premium beer markets in North America and Southeast Asia.

Our Canadian subsidiary SLEEMAN BREWERIES continued to invest in the marketing of its core premium brands, which enabled it to increase its overall beer sales volume (excluding Sapporo brand beer) year on year. In the U.S. beer market, Sapporo USA's shipments of Sapporo brand beers declined year on year despite the subsidiary's continued efforts to expand its customer base among the general population as well as to Asian Americans. Since the acquisition of Anchor Brewing Company in September 2017, Sapporo USA has been working to strengthen sales synergies with the new group company, especially on the U.S. west coast.

In the U.S. soft drinks market, County Pure Foods and Silver Springs Citrus both saw their revenues fall in an increasingly difficult management environment. During the second quarter of the fiscal year, we successfully completed the management integration of these two U.S. subsidiaries and think they are now ready to aim for improved earnings.

In Southeast Asia, Sapporo Vietnam managed to increase its beer shipments over the previous year's level despite the January hike in the country's liquor tax. We are continuing to make structural reforms at the Vietnam business.

As a result, the International Business posted revenue of ¥37.8 billion, down ¥0.1 billion or 0%. The business posted an operating loss of ¥0.2 billion, compared with a profit of ¥0.5 billion a year earlier.

Food & Soft Drinks

We estimate that overall demand for soft drinks in Japan increased 2% year on year in the first half of 2018.

In this environment, the Food & Soft Drinks business continued to strengthen its brand lineups and provide customers with value unique to the Sapporo Group.

In the first half of the fiscal year, the domestic soft drinks business launched a new version of its core Kireto Sparkling brand and stepped up marketing of the product. The JELEETS series of dessert drinks that was introduced in March enjoyed steady sales growth, with cumulative unit shipments surpassing the 10 million bottles mark in June. Core lemon-based drinks, sugar-free teas made from domestic tea leaves, and beverages with a food-like texture all enjoyed steady sales. However, sales of coffee drinks declined in a weak market for canned coffees. Overall, shipments of soft drinks in Japan fell below the previous year's level.

As part of its plans to more aggressively expand the instant soup business, the domestic food business decided to set up equipment for producing cup-based instant soups and granulation equipment for processing powdered soup granulated materials at Sapporo Breweries' Sendai plant. In addition, sales of cold canned soups expanded steadily as the business strengthened sales promotions for spring and summer season products. Shipments of lemon-based food products expanded a sharp 17% year on year, with the growth driven by strong sales of our core Pokka Lemon 100 and the February renewal of Lemon kajū o hakkō sasete tsukutta lemon no su, a lemon vinegar made from fermented lemon juice. Seeking to expand the market for industrial-use lemon products, the Food and Soft Drinks business joined with Guranavi, Inc., in planning and staging the “Lemon Sour Grand Prix 2018 in Kanto.” The soy beans and chilled products business stepped up its efforts to build larger customer bases for its new SOYBIO Soymilk Yogurt and Almond Breeze, the world's leading brand of almond milk.

At the domestic restaurants business, Pokka Create, the POKKA SAPPORO subsidiary that operates the Café de Crié coffee shop chain, continued its efforts to boost sales by introducing new menus with seasonal and trendy dishes, but existing store sales fell below the previous year's level.

Our overseas soft drinks business maintained its top share* in Singapore's tea drinks market, including its dominant 70% share of the green tea market. However, exports to other countries in the region fell slightly as new tax systems introduced in some countries since last year have depressed consumer spending. In Indonesia, PT. POKKA DIMA INTERNATIONAL continued its efforts to expand sales of core products.

As a result of above, the Food & Soft Drinks segment recorded revenue of ¥59.6 billion in the first half of the fiscal year, ¥3.1 billion or 5% less than in the first half of 2017. The segment's operating loss was ¥1.3 billion, compared with a ¥0.3 billion loss a year earlier.

* Based on data from Nielsen Singapore MarketTrack December 2017 (Copyright 2017, The Nielsen Company)

Restaurants

Japan's restaurant industry continued to enjoy year-on-year growth in revenues in the first half of 2018, but the industry also remains faced with a severe operating environment characterized by labor shortages and by increases in labor costs and food material procurement prices.

In this environment, our Restaurants business continued to pursue the fulfillment of its philosophy of “Enhancing the Joy of Living” through constant efforts to deliver safe and sound food and service to customers while also striving to create restaurants that “deliver 100% satisfaction to customers.”

New store openings in Japan included the March opening in Fukuoka's Hakata district of the first Yebisu Bar outlet in Kyushu, followed by the opening in May of a Ginza Lion Beer Garden in Chiba Prefecture's Kashiwa City. The new outlets have won rave reviews from local customers and both are putting up solid numbers. We plan to continue expanding our presence throughout Japan by opening new outlets in regional cities as well as the Tokyo metropolitan area. We also continue to renovate existing outlets and change formats as needed. This April we re-opened the fully renovated Ginza Lion outlet in Tokyo's Aoyama district. During the same month, we opened Sobaemon, the first outlet of a new Japanese restaurant format, located in Tokyo's Osaki area. Meanwhile, we closed two unprofitable outlets, keeping the total number of restaurants operating in Japan as of end-June at 195.

Our restaurant business in Singapore continues to promote the spread of Japan's beer hall culture. However, we closed one unprofitable store during the first half, reducing the total number of outlets in Singapore to 12 stores as of end-June.

Overall, our Restaurants business' first-half revenue came to ¥13.2 billion, down ¥0.4 billion or 3% year on year. The segment posted an operating loss of ¥0.5 billion, compared with a loss of ¥0.3 billion a year earlier.

Real Estate

Japan's real estate industry remains concerned about a sharp increase in supply of new office space deteriorating conditions in the Greater Tokyo office leasing market, but for now vacancy rates remain low as strong corporate earnings support demand for office space. As a result, rents remain on a moderate upward trend.

In this environment, our real estate leasing business is maintaining high occupancy rates at its properties in the Tokyo metropolitan area, including Yebisu Garden Place Tower, the business' core source of earnings. In addition, the high occupancy rates provide a solid platform for more assertive efforts to increase rents of existing tenants.

Meanwhile we continue to enhance the asset value of our Yebisu Garden Place commercial complex—a landmark in the stylish and sophisticated Ebisu district of Tokyo—through constant efforts to provide tenants and visitors with enjoyable experiences in comfortable and pleasant surroundings that raise convenience levels and strengthen the property's brand appeal.

At our GINZA PLACE commercial complex, we continue to enhance the facility's information dissemination capability in line with its original concept as a "base for information dissemination and exchange." In addition to enhancing the property's brand value, this effort is increasing the property's drawing power and making the Ginza district an even more dynamic and bustling urban center.

The real estate development business is proceeding with the renovation of the Sapporo Factory commercial complex as part of Sapporo City's urban redevelopment program focused on the nearby area on the east side of the Sosei River. We will continue our efforts to make the new complex an attractive urban space.

As a result of the efforts outlined above, the Real Estate business's first-half revenue totaled ¥12.1 billion, a year-on-year increase of ¥0.4 billion or 3%. Segment operating profit came to ¥4.6 billion, up ¥0.3 billion or 8%.

(2) Consolidated Financial Condition

Consolidated assets as of June 30, 2018, totaled ¥643.9 billion, ¥20.8 billion less than at the end of the previous fiscal year (December 31, 2017). The decline is attributable mainly to a decrease in trade and other receivables, which more than offset an increase in other current assets. Consolidated total liabilities totaled ¥482.1 billion, ¥6.9 billion less than on December 31, 2017, primarily owing to a decrease in other current liabilities, which helped to offset an increase in bonds and borrowings (non-current). Consolidated total equity totaled ¥161.8 billion, down ¥13.9 billion from the end of the previous fiscal year, primarily owing to the payment of year-end dividends and the posting of a net loss attributable to owners of parent.

(3) Consolidated Cash Flows

Cash and cash equivalents (hereafter, "cash") as of June 30, 2018, totaled ¥9.8 billion, a decline of ¥2.7 billion or 22% from December 31, 2017. Consolidated cash flows for the six months ended June 30, 2018, and the main factors affecting those flows were as follows.

Cash flows from operating activities

Operating activities provided net cash of ¥11.1 billion, ¥7.2 billion or 39% less than in the first half of the previous fiscal year. The main positive contributors to cash inflows were a ¥16.3 billion decrease in trade and other receivables and depreciation and amortization totaling ¥14.3 billion. These were outweighed by outflow related to a ¥5.2 billion decrease in liquor taxes payable.

Cash flows from investing activities

Investing activities used net cash of ¥11.5 billion, ¥5.5 billion or 91% more than in the first half of 2017. The main outflows were ¥6.0 billion for purchases of property, plant and equipment and ¥6.3 billion for purchases of investment securities.

Cash flows from financing activities

Financing activities in the first half of 2018 resulted in net cash used totaling ¥2.1 billion, ¥10.2 billion or 83% less than a year earlier. The main cash outflows were ¥17.3 billion for the repayment of long-term bank loans and ¥10.1 billion for the redemption of bonds. The main inflow came from the issuance of bonds totaling ¥20.0 billion.

(4) Consolidated Earnings Forecast

Considering the impact of intensifying competition in the Japanese Alcoholic Beverage business and the progress made by other businesses in the first half of the fiscal year, the consolidated earnings forecast for the full fiscal year ending December 31, 2018 has been revised as follows.

Revision to consolidated earnings forecast for the full fiscal year (January 1 – December 31, 2018)

(millions of yen, except percentages and per-share data)

	Revenue	Operating profit	Profit before tax	Profit attribute to owners of parent	Basic earnings per share
Previous forecast (A)	555,800	18,700	17,700	11,100	142.50
Current forecast (B)	537,800	16,100	15,100	9,200	118.11
Change (B-A)	(18,000)	(2,600)	(2,600)	(1,900)	—
Percent change	(3.2)%	(13.9)%	(14.7)%	(17.1)%	—
For reference: Results for the fiscal year ended December 31, 2017	536,585	12,806	11,538	7,187	92.27

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(millions of yen)

	Transition date January 1, 2017	December 31, 2017	June 30, 2018
	Amount	Amount	Amount
Assets			
I Current assets			
1 Cash and cash equivalents	10,476	12,537	9,803
2 Trade and other receivables	96,574	98,325	81,681
3 Inventories	37,619	37,873	39,955
4 Other financial assets	9,967	9,107	4,176
5 Other current assets	7,386	6,914	10,274
subtotal	162,022	164,755	145,890
6 Assets held for sale	359	-	-
Total current assets	162,381	164,755	145,890
II Non-current assets			
1 Property, plant and equipment	151,602	151,334	151,622
2 Investment property	223,595	219,658	219,107
3 Goodwill	21,483	24,942	24,701
4 Intangible assets	10,305	13,339	13,206
5 Investments accounted for using equity method	372	391	401
6 Other financial assets	79,278	78,677	78,001
7 Other non-current assets	8,921	9,309	8,263
8 Deferred tax assets	2,176	2,326	2,746
Total non-current assets	497,733	499,976	498,048
Total assets	660,114	664,731	643,937

	Transition date January 1, 2017	December 31, 2017	June 30, 2018
	Amount	Amount	Amount
Liabilities and equity			
Liabilities			
I Current liabilities			
1 Trade and other payables	38,460	36,488	35,753
2 Bonds and borrowings	75,580	80,716	73,956
3 Lease liabilities	6,609	6,533	6,867
4 Income tax payable	1,570	5,207	1,124
5 Other financial liabilities	33,108	33,277	36,248
6 Other current liabilities	66,424	66,590	58,055
Total current liabilities	221,750	228,809	212,002
II Non-current liabilities			
1 Bonds and borrowings	165,235	153,184	163,698
2 Lease liabilities	24,623	24,295	25,418
3 Other financial liabilities	48,125	45,956	45,564
4 Net defined benefit liabilities	8,996	6,283	8,073
5 Other non-current liabilities	2,689	2,621	2,773
6 Deferred tax liabilities	26,455	27,872	24,613
Total non-current liabilities	276,122	260,212	270,140
Total liabilities	497,872	489,021	482,142
Equity			
1 Share capital	53,887	53,887	53,887
2 Capital surplus	40,706	40,825	41,007
3 Treasury shares	(1,796)	(1,807)	(1,807)
4 Retained earnings	36,315	44,491	37,579
5 Other components of equity	28,515	34,659	27,987
Total equity attributable to owners of parent	157,628	172,055	158,653
Non-controlling interests	4,613	3,655	3,142
Total equity	162,241	175,710	161,796
Total liabilities and equity	660,114	664,731	643,937

(2) Consolidated Statement of Profit or Loss and Comprehensive Income

Consolidated Income statements (millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
	Amount	Amount
Revenue	250,683	241,740
Cost of sales	175,660	169,827
Gross profit	75,023	71,913
Selling, general and administrative expenses	73,264	74,303
Other operating income	534	516
Other operating expense	1,132	1,169
Operating profit (loss)	1,161	(3,043)
Financial income	854	656
Financial expense	1,345	1,263
Share of profit (loss) of investments accounted for using equity method	10	10
Profit (loss) before tax	680	(3,641)
Income tax expense	1,120	(731)
Profit (loss)	(440)	(2,909)
Profit attributable to		
Owners of parent	(188)	(2,516)
Non-controlling interests	(252)	(394)
Total	(440)	(2,909)
Basic earnings per share (JPY)	(2.41)	(32.30)
Diluted earnings per share(JPY)	(2.41)	(32.30)

Consolidated Statement of Comprehensive Income

	Six months ended June 30, 2017	Six months ended June 30, 2018
	Amount	Amount
Profit(loss)	(440)	(2,909)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	3,795	(4,677)
Remeasurements of defined benefit plans	497	(1,200)
Total of items that will not be reclassified to profit or loss	4,291	(5,876)
Items that might be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(548)	(2,317)
Effective portion of gains and losses on fair value of cash flow hedges	(5)	137
Total of items that might be reclassified to profit or loss	(552)	(2,180)
Other comprehensive income, net of taxes	3,739	(8,057)
Comprehensive income	3,299	(10,966)

Comprehensive income attributable to		
Owners of parent	3,780	(10,462)
Non-controlling interests	(482)	(505)
Comprehensive income	3,299	(10,966)

(3) Consolidated Statements of Changes in Equity

(millions of yen)

	Equity attributable to owners of parent											
					Other components of equity					Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of gains and losses on fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2017	53,887	40,706	(1,796)	36,315	-	(317)	28,832	-	28,515	157,628	4,613	162,241
										(188)	(252)	(440)
Profit (loss)				(188)					-	3,968	(229)	3,739
Other comprehensive income, net of taxes					(372)	47	3,797	497	3,968	3,780	(482)	3,299
Total comprehensive income	-	-	-	(188)	(372)	47	3,797	497	3,968	(5)	-	(5)
Purchase of treasury shares			(5)						-	0	-	0
Disposal of treasury shares		0	0						-	-	-	-
Issuance of convertible bonds with stock acquisition rights									-			
Dividends				(2,888)					-	(2,888)	(19)	(2,907)
Transfer from other components of equity to retained earnings				517			(20)	(497)	(517)	-	-	-
Total transactions with owners	-	0	(5)	(2,371)	-	-	(20)	(497)	(517)	(2,892)	(19)	(2,912)
Balance as of June 30, 2017	53,887	40,706	(1,800)	33,756	(372)	(270)	32,609	-	31,967	158,516	4,112	162,628

	Equity attributable to owners of parent											
					Other components of equity					Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of gains and losses on fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2018	53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	-	34,659	172,055	3,655	175,710
Profit (loss)				(2,516)					-	(2,516)	(394)	(2,909)
Other comprehensive income, net of taxes					(2,184)	113	(4,676)	(1,200)	(7,946)	(7,946)	(111)	(8,057)
Total comprehensive income	-	-	-	(2,516)	(2,184)	113	(4,676)	(1,200)	(7,946)	(10,462)	(505)	(10,966)
Purchase of treasury shares			(4)						-	(4)	-	(4)
Disposal of treasury shares		0	4						-	4	-	4
Issuance of convertible bonds with stock acquisition rights		182							-	182	-	182
Dividends				(3,122)					-	(3,122)	(9)	(3,130)
Transfer from other components of equity to retained earnings				(1,274)			74	1,200	1,274	-	-	-
Total transactions with owners	-	182	(0)	(4,396)	-	-	74	1,200	1,274	(2,940)	(9)	(2,948)
Balance as of June 30, 2018	53,887	41,007	(1,807)	37,579	(1,046)	(77)	29,111	-	27,987	158,653	3,142	161,796

(4) Consolidated Statements of Cash Flows

(millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
	Amount	Amount
I Cash flows from operating activities		
1 Profit (loss) before income taxes	680	(3,641)
2 Depreciation and amortization	14,461	14,266
3 Loss on impairment of property, plant and equipment	217	557
4 Interest and dividend income	(853)	(641)
5 Interest expenses	1,191	1,188
6 Share of loss (profit) of investments accounted for using equity method	(10)	(10)
7 (Gain) loss on sales and disposal of property, plant and equipment, and intangible assets	229	286
8 (Increase) decrease in trade and other receivables	17,849	16,251
9 (Increase) decrease in inventories	(4,179)	(2,806)
10 Increase (decrease) in trade and other payables	(2,182)	(361)
11 Increase (decrease) in liquor taxes payable	(11,201)	(5,244)
12 Other	4,861	(830)
Sub total	21,063	19,015
13 Interest and dividends received	959	692
14 Interest paid	(1,178)	(1,102)
15 Income taxes paid	(2,598)	(7,541)
Net cash provided by (used in) operating activities	18,245	11,064
II Cash flows from investing activities		
1 Purchases of property, plant and equipment	(5,633)	(5,961)
2 Proceeds from sales of property, plant and equipment	303	1,692
3 Purchase of investment property	(1,946)	(2,699)
4 Purchases of intangibles	(1,194)	(1,202)
5 Purchases of investment securities	(6)	(6,339)
6 Proceeds from sale of investment securities	87	109
7 Payments for long-term loans receivable	(41)	(46)
8 Collection of long-term loans receivable	4,066	4,016
9 Other	(1,656)	(1,076)
Net cash provided by (used in) investing activities	(6,021)	(11,505)
III Cash flows from financing activities		
1 Net increase (decrease) in short-term bank loans	1,906	1,897
2 Increase (decrease) in commercial paper	(3,500)	3,000
3 Proceeds from long-term bank loans	6,500	7,000
4 Repayment of long-term bank loans	(10,904)	(17,300)
5 Proceeds from issuance of bonds	9,960	20,021
6 Redemption of bonds	(10,017)	(10,062)
7 Cash dividends paid	(2,906)	(3,129)
8 Repayment of finance lease obligations	(3,292)	(3,503)
9 Other	(5)	(0)
Net cash provided by (used in) financing activities	(12,258)	(2,076)
IV Effect of exchange rate changes on cash and cash equivalents	(123)	(217)
V Net increase (decrease) in cash and cash equivalents	(157)	(2,734)
VI Cash and cash equivalents at beginning of period	10,476	12,537
VII Cash and cash equivalents at end of period	10,319	9,803

(5)Notes on the Going-concern Assumption
Not applicable

(6).Segment Information

1. Overview of reportable segments

The Company's reportable segments are components of the Sapporo Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's board of directors to decide how to allocate resources and assess performance.

The Group's businesses are segmented mainly based on the products, services, and sales markets of Group companies and their affiliated companies. The Company's five reportable segments are Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants, and Real Estate.
The Japanese Alcoholic Beverages segment produces and sells alcoholic beverages in Japan, while the international segment produces and sells alcoholic beverages and soft drinks overseas.
The Food & Soft Drinks segment produces and sells foods and soft drinks.
The Restaurants segment operates restaurants of various styles.
The Real Estate segment's activities include leasing and development of real estate.

2. Revenue, profit (or loss)

(millions of yen)

	Six months ended June 30, 2017 (January 1, 2017 – June 30, 2017)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	119,160	37,884	62,761	13,600	11,707
Inter-segment revenue	1,534	35	127	0	1,276
Total	120,694	37,919	62,888	13,601	12,984
Operating profit	591	486	(257)	(348)	4,215

	Six months ended June 30, 2017 (January 1, 2017 – June 30, 2017)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	5,570	250,683	-	250,683
Inter-segment revenue	9,749	12,721	(12,721)	-
Total	15,319	263,404	(12,721)	250,683
Operating profit	(168)	4,519	(3,359)	1,161

(millions of yen)

	Six months ended June 30, 2018 (January 1, 2018 – June 30, 2018)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	113,383	37,818	59,624	13,159	12,066
Inter-segment revenue	1,356	228	113	1	1,354
Total	114,739	38,046	59,737	13,160	13,420
Operating profit	(2,340)	(195)	(1,266)	(470)	4,553

	Six months ended June 30, 2018 (January 1, 2018 – June 30, 2018)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	5,690	241,740	-	241,740
Inter-segment revenue	9,804	12,856	(12,856)	-
Total	15,494	254,597	(12,856)	241,740
Operating profit	(99)	184	(3,227)	(3,043)

(1) "Other" comprises businesses, such as logistics businesses, that are not included in reportable segments.

(2) Segment income and losses are adjusted based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

(3) The export business of Sapporo International Inc. has been transferred to Sapporo Breweries Ltd. effective January 1, 2018. Accordingly, the business was previously included in the International business segment, but has been included in the Japanese Alcoholic Beverages segment. The consolidated financial statements for fiscal 2017 have been adjusted retroactively to reflect these changes.

(First time adoption)
Sapporo Group (the Group) started to disclose the consolidated financial statements based on the International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2018. The last consolidated financial statements prepared based on JGAAP is those for the fiscal year ended December 31, 2017, and the date of transition to IFRS is January 1, 2017.

In principle, IFRS requires that first-time adopters apply IFRS retrospectively. However, IFRS 1 sets out exceptions under which first-time adopters are optionally exempted or prohibited from the retrospective application of some of the standards required by IFRS.

The exemptions applied by the Group are as follows:

・ Business combination

As IFRS provides exemptions from IFRS 3 "Business Combinations," the Group elected not to apply the standards retrospectively to business combinations that occurred before the date of transition to IFRS. Consequently, the amounts of goodwill arising from business combinations that occurred before the date of transition to IFRS were recognized based on their book value under JGAAP at the transition date. For reference, at the transition date, an impairment test was implemented for such goodwill with or without evidence that indicates impairment loss.

・ Deemed cost

With respect to property, plant and equipment items and intangible assets items, IFRS 1 permits the first-time adopter to use their fair value at the date of transition to IFRS as deemed cost at the date of transition to IFRS. The Group applied the exemption to certain property, plant and equipment items and used their fair value at the date of transition to IFRS as deemed cost at the date of transition to IFRS.

・ Exchange differences on translation of foreign operations

As is permitted by IFRS 1, the Group elected to deem the cumulative exchange differences on translation of foreign operations to be zero at the date of transition to IFRS.

・ Designation of financial instruments recognized before the transition date

With respect to the classification described in IFRS 9, IFRS 1 permits an entity to assess financial assets on the basis of the facts and circumstances that exist at the date of transition to IFRS, instead of those existed at the initial recognition. In addition, based on the facts and circumstances that exist at the date of transition to IFRS, an entity may designate change in fair value of equity instruments as financial assets measured at fair value through other comprehensive income. For the classification described in IFRS 9, the Company assessed financial assets on the basis of the facts and circumstances that exist at the date of transition to IFRS, and designated certain equity instruments as financial assets measured at fair value through other comprehensive income.

・ Lease for lessee

With respect to recognition of lease liabilities and right-of-use assets, IFRS 1 permits a first-time adopter that is a lessee to measure all of its lease liabilities and right-of-use assets at the date of transition to IFRS. The Group measured lease liabilities at the date of transition to IFRS at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of transition to IFRS. The Group also measured right-of-use assets at the date of transition to IFRS at an amount equal to the lease liabilities.

For leases whose period ends within 12 months from the transition date and leases for which the underlying asset is of low value, the lease payments are expensed over the lease period with the straight-line method or another systematic basis.

The reconciliation which IFRS requires a first-time adaptor to disclose are presented below. For reference, "Presentation reclassification" in the following reconciliation tables include items that do not affect retained earnings and comprehensive income. "Recognition and measurement differences" include items that affect retained earnings or comprehensive income.

Reconciliations of equity as of the IFRS transition date (January 1, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	10,589	(114)	—	10,476		Cash and cash equivalents
Notes and accounts receivable - trade	96,851	(82)	(194)	96,574	①	Trade and other receivables
Merchandise and finished products	24,657	(24,657)	—	—		
Raw materials and supplies	13,315	(13,315)	—	—		
	—	38,343	(724)	37,619	①	Inventories
	—	7,452	2,516	9,967	⑥	Other financial assets
Other	15,213	(7,696)	(131)	7,386		Other current assets
Deferred tax assets	3,640	(3,640)	—	—		
Allowance for doubtful receivables	(82)	82	—	—		
	164,184	(3,627)	1,466	162,022		Subtotal
	—	359	—	359		Assets held for sale
Total current assets	164,184	(3,269)	1,466	162,381		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	345,496	(223,544)	29,651	151,602	③④	Property, plant and equipment
Intangible assets						
Goodwill	27,439	—	(5,956)	21,483	⑤	Goodwill
Other	10,511	(409)	202	10,305		Intangible assets
	—	223,595	—	223,595		Investment property
Investments and other assets						
Investment securities	59,296	(59,296)	—	—		
	—	372	—	372		Investments accounted for using equity method
	—	68,783	10,495	79,278	⑥	Other financial assets
Long-term loans receivable	4,790	(4,790)	—	—		
Other	14,760	(6,265)	426	8,921		Other non-current assets
Deferred tax assets	1,071	(3,308)	4,414	2,176	②	Deferred tax assets
Allowance for doubtful receivables	(1,195)	1,195	—	—		
Total fixed assets	462,168	(3,666)	39,231	497,733		Total non-current assets
Total assets	626,352	(6,935)	40,697	660,114		Total assets

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
						Liabilities and equities
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	38,503	―	(43)	38,460		Trade and other payables
Short-term bank loans	30,337	(30,337)	―	―		
Commercial Paper	33,000	(33,000)	―	―		
Current portion of bonds	10,083	(10,083)	―	―		
	―	73,421	2,159	75,580	⑥	Bonds and borrowings
Lease obligations	3,024	―	3,584	6,609	④	Lease liabilities
Income taxes payable	1,681	―	(111)	1,570		Income tax payables
	―	32,988	120	33,108	⑥	Other financial liabilities
Accrued bonuses	2,980	(2,980)	―	―		
Liquor taxes payable	34,228	(34,228)	―	―		
Deposits received	8,215	(8,215)	―	―		
Other	50,072	12,338	4,014	66,424	⑦	Other current liabilities
Total current liabilities	212,123	(96)	9,724	221,750		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	50,129	(50,129)	―	―		
Long-term bank loans	114,594	(114,594)	―	―		
	―	164,723	512	165,235	⑥	Bonds and borrowings
	―	47,609	517	48,125	⑥	Other non-current financial liabilities
Net defined benefit liability	8,996	―	―	8,996		Net defined benefit liability
Lease obligations	6,969	―	17,654	24,623	④	Lease liabilities
Dealers' deposits for guarantees	33,242	(33,242)	―	―		
Other	15,115	(14,367)	1,941	2,689		Other non-current liabilities
Deferred tax liabilities	18,804	(6,839)	14,490	26,455	②	Deferred tax liabilities
Total long-term liabilities	247,848	(6,839)	35,113	276,122		Total non-current liabilities
Total liabilities	459,971	(6,935)	44,837	497,872		Total liabilities
Net assets						Equity
Common stock	53,887	―	―	53,887		Share capital
Capital surplus	46,089	―	(5,383)	40,706	⑤	Capital surplus
Treasury stock, at cost	(1,796)	―	―	(1,796)		Treasury shares
Retained earnings	41,932	―	(5,617)	36,315	⑨	Retained earnings
Accumulated other comprehensive income	20,574	―	7,941	28,515	⑧	Other components of equity
				157,628		Total equity attributable to owners of parent
Non-controlling interests	5,694	―	(1,081)	4,613		Non-controlling interests
Total net assets	166,381	―	(4,140)	162,241		Total equity
Total liabilities and net assets	626,352	(6,935)	40,697	660,114		Total liabilities and equity

Reconciliations of equity as of the end of the six months of FY2017 (June 30, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	10,521	(203)	–	10,319		Cash and cash equivalents
Notes and accounts receivable - trade	78,909	(58)	(212)	78,639	①	Trade and other receivables
Merchandise and finished products	29,632	(29,632)	–	–		
Raw materials and supplies	12,385	(12,385)	–	–		
	–	42,322	(748)	41,574	①	Inventories
	–	7,411	388	7,799	⑥	Other financial assets
Other	19,136	(11,233)	(116)	7,787		Other current assets
Allowance for doubtful receivables	(58)	58	–	–		
	150,525	(3,720)	(688)	146,117		Subtotal
	–	359	–	359		Assets held for sale
Total current assets	150,525	(3,362)	(688)	146,476		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	342,307	(222,155)	29,434	149,585	③④	Property, plant and equipment
Intangible assets						
Goodwill	25,343	–	(4,023)	21,320	⑤	Goodwill
Other	9,926	(394)	162	9,694		Intangible assets
	–	222,191	–	222,191		Investment property
Investments and other assets						
Investment securities	63,720	(63,720)	–	–		
	–	382	–	382		Investments accounted for using equity method
	–	68,878	11,370	80,248	⑥	Other financial assets
Long-term loans receivable	467	(467)	–	–		
Other	14,948	(7,360)	402	7,989		Other non-current assets
	–	(2,791)	5,077	2,287	②	Deferred tax assets
Allowance for doubtful receivables	(1,201)	1,201	–	–		
Total fixed assets	455,510	(4,235)	42,422	493,697		Total non-current assets
Total assets	606,035	(7,597)	41,734	640,172		Total assets

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
						Liabilities and equities
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	36,281	—	(43)	36,238		Trade and other payables
Short-term bank loans	39,272	(39,272)	—	—		
Commercial paper	29,500	(29,500)	—	—		
Current portion of bonds	10,067	(10,067)	—	—		
	—	78,838	142	78,980	⑥	Bonds and borrowings
	—	2,864	4,081	6,945	④	Lease obligations
Income taxes payable	2,340	—	(0)	2,339		Income tax payables
	—	40,006	9	40,015	⑥	Other financial liabilities
Accrued bonuses	2,010	(2,010)	—	—		
Liquor taxes payable	23,024	(23,024)	—	—		
Deposits received	8,407	(8,407)	—	—		
Other	56,672	(9,523)	5,318	52,467	⑦	Other current liabilities
Total current liabilities	207,572	(94)	9,508	216,985		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	50,129	(50,129)	—	—		
Long-term bank loans	102,730	(102,730)	—	—		
	—	152,859	51	152,910	⑥	Bonds and borrowings
	—	44,503	474	44,977	⑥	Other financial liabilities
Net defined benefit liability	8,355	—	(324)	8,031		Net defined benefit liability
	—	6,531	17,995	24,526	④	Lease obligations
Dealers' deposits for guarantees	30,931	(30,931)	—	—		
Other	40,733	(39,917)	1,907	2,724		Other non-current liabilities
	—	12,311	15,081	27,392	②	Deferred tax liabilities
Total long-term liabilities	232,878	(7,503)	35,184	260,559		Total non-current liabilities
Total liabilities	440,450	(7,597)	44,692	477,544		Total liabilities
Net assets						Equity
Common stock	53,887	—	—	53,887		Share capital
Capital surplus	46,090	—	(5,383)	40,706	⑤	Capital surplus
Treasury stock, at cost	(1,800)	—	—	(1,800)		Treasury shares
Retained earnings	39,267	—	(5,511)	33,756	⑨	Retained earnings
Accumulated other comprehensive income	22,873	—	9,094	31,967	⑧	Other components of equity
				158,516		Total equity attributable to owners of parent
Non-controlling interests	5,269	—	(1,157)	4,112		Non-controlling interests
Total net assets	165,585	—	(2,958)	162,628		Total equity
Total liabilities and net assets	606,035	(7,597)	41,734	640,172		Total liabilities and equity

Reconciliations of equity as of the end of FY2017 (December 31, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	12,718	(181)	—	12,537		Cash and cash equivalents
Notes and accounts receivable - trade	98,605	(103)	(176)	98,325	①	Trade and other receivables
Merchandise and finished products	24,681	(24,681)	—	—		
Raw materials and supplies	13,638	(13,638)	—	—		
	—	38,718	(846)	37,873	①	Inventories
	—	8,216	892	9,107	⑥	Other financial assets
Other	15,413	(8,433)	(66)	6,914		Other current assets
Deferred tax assets	3,900	(3,878)	(22)	—		
Allowance for doubtful receivables	(103)	103	—	—		
Total current assets	168,852	(3,878)	(219)	164,755		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	343,763	(219,266)	26,837	151,334	③④	Property, plant and equipment
Intangible assets						
Goodwill	26,948	—	(2,006)	24,942	⑤	Goodwill
Other	13,575	(391)	155	13,339		Intangible assets
	—	219,658	—	219,658		Investment property
Investments and other assets						
Investment securities	62,146	(62,146)	—	—		
	—	391	—	391		Investments accounted for using equity method
	—	66,904	11,773	78,677	⑥	Other financial assets
Long-term loans receivable	428	(428)	—	—		
Other	14,828	(5,938)	419	9,309		Other non-current assets
Deferred tax assets	1,306	(5,201)	6,220	2,326	②	Deferred tax assets
Allowance for doubtful receivables	(1,216)	1,216	—	—		
Total fixed assets	461,779	(5,201)	43,398	499,976		Total non-current assets
Total assets	630,631	(9,079)	43,179	664,731		Total assets

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
						Liabilities and equities
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	36,530	—	(43)	36,488		Trade and other payables
Short-term bank loans	37,882	(37,882)	—	—		
Commercial paper	32,000	(32,000)	—	—		
Current portion of bonds	10,068	(10,068)	—	—		
	—	79,950	765	80,716	⑥	Bonds and borrowings
Lease obligations	2,691	—	3,842	6,533	④	Lease obligations
Income taxes payable	5,202	—	5	5,207		Income tax payables
	—	33,060	216	33,277	⑥	Other financial liabilities
Accrued bonuses	3,090	(3,090)	—	—		
Liquor taxes payable	34,408	(34,408)	—	—		
Deposits received	7,817	(7,817	—	—		
Other	50,484	12,255	3,850	66,590	⑦	Other current liabilities
Total current liabilities	220,173	(0)	8,636	228,809		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	50,061	(50,061)	—	—		
Long-term bank loans	103,578	(103,578)	—	—		
	—	153,639	(455)	153,184	⑥	Bonds and borrowings
	—	45,548	408	45,956	⑥	Other financial liabilities
Net defined benefit liability	5,493	—	790	6,283		Net defined benefit liability
Lease obligations	5,960	—	18,335	24,295	④	Lease obligations
Dealers' deposits for guarantees	31,086	(31,086)	—	—		
Other	15,324	(14,462)	1,759	2,621		Other non-current liabilities
Deferred tax liabilities	21,292	(9,079)	15,658	27,872	②	Deferred tax liabilities
Total long-term liabilities	232,795	(9,079)	36,496	260,212		Total non-current liabilities
Total liabilities	452,968	(9,079)	45,132	489,021		Total liabilities
Net assets						Equity
Common stock	53,887	—	—	53,887		Share capital
Capital surplus	46,091	—	(5,266)	40,825	⑤	Capital surplus
Treasury stock, at cost	(1,807)	—	—	(1,807)		Treasury shares
Retained earnings	50,023	—	(5,532)	44,491	⑨	Retained earnings
Accumulated other comprehensive income	25,274	—	9,385	34,659	⑧	Other components of equity
	—			172,055		Total equity attributable to owners of parent
Non-controlling interests	4,195	—	(539)	3,655		Non-controlling interests
Total net assets	177,663	—	(1,952)	175,710		Total equity
Total liabilities and net assets	630,631	(9,079)	43,179	664,731		Total liabilities and equity

Notes on reconciliations of equity

(1) Presentation reclassification

A. Trade and other receivables

Under JGAAP, “Notes and accounts receivable - trade” and “Allowance for doubtful receivables” were presented separately, though under IFRS, these line items are included in “Trade and other receivables.”

B. Inventories

Under JGAAP, “Merchandise and finished products” and “Raw materials and supplies” were presented separately, and work in progress was included in “Other,” though under IFRS, these line items are reclassified as “Inventories.”

C. Other financial assets and other financial liabilities

Based on presentation rules of IFRS, “Other financial assets” and “Other financial liabilities” are presented separately.

Under JGAAP, “Investment securities” and “Long-term loans receivable” were separately presented and derivative assets were included in “Other” in Fixed assets. Though under IFRS, they are included in “Other financial assets.”

In addition, under JGAAP, “Deposits received” was separately presented in current liabilities, though under IFRS, it is included in “Other financial liabilities.”

D. Deferred tax assets and deferred tax liabilities

Under JGAAP, “Deferred tax assets” and “Deferred tax liabilities” were separately presented in current assets and current liabilities, respectively, though under IFRS, these line items are presented in non-current assets and non-current liabilities.

E. Assets held for sale

Based on IFRS 5, “Assets held for sale” is presented separately.

F. Investment property

Under JGAAP, fixed assets that meet the definition of investment property was included in “Property, plant and equipment” in fixed assets, though under IFRS, it is presented as “Investment property.”

(2) Differences on recognition and measurement

1) Trade and other receivables and inventories

Under JGAAP, revenue was recognized mainly at the point of shipment, though under IFRS, it is recognized mainly at the point of delivery.

In addition, under JGAAP, goods held mainly for advertisement and promotion were recognized as inventories, though under IFRS, they are recognized as expenses at the point of purchase.

2) Deferred tax assets and deferred tax liabilities

Amounts of deferred tax assets and deferred tax liabilities have been adjusted for reasons such as temporary differences arising from transition to IFRS from JGAAP.

3) Property, plant and equipment

In line with adoption of IFRS, the Group revised the depreciation method and other procedures for property, plant and equipment and reduced their book value. In addition, for certain property, plant and equipment items, the Group applied the exemption that permits the first-time adopter to use the fair value as of the transition date as deemed cost. The book value of those property, plant and equipment before the application of deemed cost as of the transition date was 39,044 million yen and their total fair value was 71,253 million yen.

4) Lease obligations

Under JGAAP, lease transactions of lessee were classified into finance lease and operating lease. For operating lease, lease transactions were accounted for in a similar manner with ordinary rental transactions. Under IFRS, the Group records all of its lease transactions in both leased assets (right-of-use asset) and lease obligations (lease liabilities), as lease transactions of lessee are not classified into finance lease and operating lease.

5) Goodwill

Under JGAAP, goodwill was amortized with the straight-line method over a reasonable period up to 20 years, though from the date of transition to IFRS, the Group ceased to amortize goodwill and instead started to perform an impairment test every year.

In addition, under JGAAP, changes in ownership interests in subsidiaries that do not result in loss of control (additional acquisition of ownership interests) were accounted for as external transaction with adjustments of goodwill or income and loss. Under IFRS, such changes are accounted for as equity transaction, which affects “Capital surplus" without any change in goodwill or income and loss.

6) Other financial assets and other financial liabilities

Under JGAAP, the Group recorded unlisted shares based on their acquisition costs and, if necessary, recognized their impairment when the financial position of an issuer deteriorated, though under IFRS, the Group has elected to measure them at fair value through other comprehensive income.

In addition, under JGAAP, interest-rate swaps that meet specific requirements were treated with a specific accounting method. Under IFRS, however, they are treated with principle hedge accounting, where derivative assets/derivative liabilities are recognized accordingly, and valuation differences are recognized in other comprehensive income.

7) Other current liabilities

Under JGAAP, unused compensated absences were not required to be accounted for, though under IFRS, they are recognized as liabilities.

Under JGAAP, levies including real-estate tax were recognized at the time of payment, though under IFRS, they are recognized on the day when the liability is accrued.

8) Other components of equity

With respect to cumulative exchange differences on translations of foreign operations recognized under JGAAP, the total amount was transferred to “Retained earnings” as of the transition date.

Under JGAAP, the Group recorded unlisted shares based on their acquisition costs and, if necessary, recognized their impairment when the financial position of an issuer deteriorated. Under IFRS, the Group has elected to measure them at fair value through other comprehensive income.

Under JGAAP, past service cost was recognized in net assets through other comprehensive income when they occurred and was expensed using the straight-line method over a certain number of years within the average remaining service period of the employees. Under IFRS, past service cost is recognized in full as either profit or loss when it occurs.

9) Retained earnings

(millions of yen)

	Transition date (January 1, 2017)	Six months ended June 30, 2017	Year ended December 31,2017
Trade and other receivables and Inventories (see 1)	(418)	(333)	(510)
Property, plant and equipment (see 3)	(1,610)	(2,611)	(4,851)
Lease obligations (see 4)	252	234	217
Goodwill (see 5)	—	1,904	3,904
Other financial assets、Other financial liabilities (see 6)	263	275	275
Other current liabilities (see 7)	(2,739)	(3,619)	(2,643)
Other components of equity (see 8)	(1,382)	(1,332)	(1,739)
Other	16	(30)	(185)
Total adjustments to retained earnings	(5,617)	(5,511)	(5,532)

Reconciliations of profit or loss and comprehensive income for the six months of FY2017
(January 1, 2017 -June 30, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	257,970	—	(7,287)	250,683	①	Revenue
Cost of sales	167,487	—	8,173	175,660	①②④	Cost of sales
Gross profit	90,483	—	(15,460)	75,023		Gross profit
Selling, general and administrative expenses	87,465	—	(14,201)	73,264	①②③④	Selling, general and administrative expenses
	—	531	3	534		Other operating income
	—	1,339	(207)	1,132		Other operating expenses
Operating loss	3,018	(808)	(1,049)	1,161		Operating loss
Non-operating income	1,240	(1,240)	—	—		
Non-operating expenses	1,604	(1,604)	—	—		
Extraordinary gains	190	(190)	—	—		
Extraordinary losses	916	(916)	—	—		
	—	888	(34)	854		Finance income
	—	1,180	165	1,345		Finance costs
	—	10	(0)	10		Share of profit of investments accounted for using equity methods
Loss before income taxes	1,928	—	(1,248)	680		Loss before tax
Income taxes	1,881	—	(761)	1,120	⑤	Income tax expense
Loss	47	—	(487)	(440)		Loss
Other comprehensive income						Other comprehensive income
Unrealized holding gain on securities	2,894	—	901	3,795	⑤	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(174)	—	671	497	④	Remeasurements of defined benefit plans
Foreign currency translation adjustments	(542)	—	(6)	(548)		Exchange differences on translation of foreign operations
Deferred hedge gains (losses)	(108)	—	104	(5)		Effective portion of gains and losses on fair value of cash flow hedges
Comprehensive income	(2,117)	—	1,182	3,299		Comprehensive income

Reconciliations of profit or loss and comprehensive income for FY2017
(January 1, 2017 - December 31, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	551,549	—	(14,963)	536,585	①	Revenue
Cost of sales	358,573	—	14,576	373,148	①②④	Cost of sales
Gross profit	192,976	—	(29,539)	163,437		Gross profit
Selling, general and administrative expenses	175,944	—	(29,952)	145,991	①②③④	Selling, general and administrative expenses
	—	2,716	(1,687)	1,029		Other operating income
	—	5,813	(144)	5,669		Other operating expenses
Operating income	17,033	(3,097)	(1,130)	12,806		Operating profit
Non-operating income	2,093	(2,093)	—	—		
Non-operating expenses	2,715	(2,715)	—	—		
Extraordinary gains	6,814	(6,814)	—	—		
Extraordinary losses	5,423	(5,423)	—	—		
	—	6,171	(4,833)	1,338	⑤	Finance income
	—	2,324	302	2,626		Finance costs
	—	19	(0)	19		Share of profit of investments accounted for using equity methods
Profit before income taxes	17,802	—	(6,264)	11,538		Profit before tax
Income taxes	8,182	—	(3,012)	5,170	⑤	Income tax expense
Profit	9,619	—	(3,252)	6,367		Profit
Other comprehensive income						Other comprehensive income
Unrealized holding gain on securities	3,416	—	4,785	8,202	⑤	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	189	—	348	537	④	Remeasurements of defined benefit plans
Foreign currency translation adjustments	1,019	—	13	1,032		Exchange differences on translation of foreign operations
Deferred hedge gains (losses)	(60)	—	174	114		Effective portion of gains and losses on fair value of cash flow hedges
Comprehensive income	14,184	—	2,068	16,252		Comprehensive income

Notes on reconciliations of income and comprehensive income

(1) Presentation reclassification

A. Other operating income, other operating expenses, finance income, finance costs and share of profit of investments accounted for using equity methods

With respect to line items presented in “Non-operating income,” “Non-operating expenses,” “Extraordinary gains” and “Extraordinary losses” under JGAAP, the Group has reclassified financial-related items to “Finance income” or “Finance costs” and other items to “Other operating income,” “Other operating expenses” or “Share of profit of investments accounted for using equity methods” in accordance with IFRS.

(2) Differences on recognition and measurement

1) Revenue, cost of sales and selling, general and administrative expenses

Under JGAAP, some rebates and other related costs were presented in “Selling, general and administrative expenses,” though under IFRS, these costs are deducted from “Revenue.”

Under JGAAP, revenue was recognized mainly at the point of shipment, though under IFRS, it is recognized mainly at the point of delivery.

2) Cost of sales and selling, general and administrative expenses

As the Group revised the depreciation method and other procedures for property, plant and equipment in line with adoption of IFRS, depreciation expense included in cost of sales and selling, general and administrative expenses have been changed.

In addition, under JGAAP, levies including real-estate tax were recognized at the time of payment, though under IFRS, they are recognized on the day when the liability is accrued.

3) Selling, general and administrative expenses

Under JGAAP, goodwill was amortized over the period for which its effects are estimated to last, though under IFRS, goodwill is no longer amortized after the transition date.

4) Cost of sales, selling, general and administrative expenses, and remeasurements of defined benefit plans

Under JGAAP, past service cost was recognized in net assets through other comprehensive income when they occurred and was expensed using the straight-line method over a certain number of years within the average remaining service period of the employees. Under IFRS, past service cost is recognized in full as either profit or loss when it occurs.

5) Income tax expense, financial assets measured at fair value through other comprehensive income

Under JGAAP, the Group recognized gain on sales of investment securities and tax on the gain in “Extraordinary gains” and “Income taxes,” respectively. Under IFRS, which permits to designate certain equity instruments as financial assets measured at fair value through other comprehensive income, the Group recognizes the gain on sales of designate equity instruments as “Other comprehensive income.”