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

November 2, 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	November 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 nine months ended September 30, 2018 (January 1 – September 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	%
Nine months ended September 30, 2018	381,044	(2.5)	6,837	(29.8)	5,712	(34.9)	3,568	(25.5)
Nine months ended September 30, 2017	390,732	_	9,733	_	8,778	_	4,791	_

	Profit attribute to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	Yen	yen
Nine months ended September 30, 2018	4,209	(20.5)	(1,890)	_	54.04	51.88
Nine months ended September 30, 2017	5,297	_	10,873	_	68.01	68.00

(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	%
Nine months ended September 30, 2018	644,835	170,866	167,912	26.0
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 nine months ended September 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 nine months ended September 30, 2018: None

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):
September 30, 2018: 78,794,298 shares
December 31, 2017: 78,794,298 shares

2) Number of shares held in treasury at end of period:
September 30, 2018: 904,334 shares
December 31, 2017: 901,792 shares

3) Average number of outstanding share during the period:
Nine months ended September 30, 2018: 77,891,824 shares
Nine months ended September 30, 2017: 77,894,397 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 quarter of 2018. For the purpose of comparison, financial data for fiscal 2017 is also presented on the IFRS basis.

(1) Operating Results

In the first nine months of 2018 (January 1 – September 30, 2018), the Japanese economy remained in a moderate recovery trend, underscored by firm consumer spending and corporate capital investment. However, natural disasters such as July’s torrential rain and September’s Hokkaido Eastern Iburi Earthquake have had a significant impact on Japan’s economy. In addition, the outlook for the global economy remains clouded by various risk factors, especially the trade frictions among major economies.

In this environment, the Sapporo Group’s consolidated sales during the first three quarters of 2018 were 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 Food & Soft Drinks business were down year on year.

Operating profit declined, with a decrease in Japanese Alcoholic Beverages sales having a significant impact.

As a result of the above factors, in the first nine months of 2018 the Sapporo Group posted consolidated revenue of ¥381.0 billion (down ¥9.7 billion or 2% year on year), operating profit of ¥6.8 billion (down ¥2.9 billion or 30%), and profit attributable to owners of parent of ¥4.2 billion (down ¥1.1 billion or 21%).

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

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

Japanese Alcoholic Beverages

We estimate that total domestic demand for beer and beer-type beverages in the first nine months of 2018 was 3% lower than in the same period of 2017, with the decline mainly reflecting the impact of the torrential rain that hit western Japan and the earthquake in Hokkaido.

In this operating environment, 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 our 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 nine months of 2018. Meanwhile, the happoshu and new-genre beer categories faced a more difficult market environment, including stiffer competition and a shift in consumer demand toward RTD[*1] products. As a result, overall shipments of our beer and beer-type beverages fell 8% from the level seen in the first three quarters of 2017.

In the RTD category, we followed up the April launch of Rirakusu with the release in August of Sapporo Chuhai 99.99, a “strong”-type high-alcohol beverage. Both new offerings were well received. We also continued to see steady sales growth for 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 during the first three quarters of 2018.

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 Dewar's.

The Japanese liquor business continued to enjoy strong sales of Imo Shochu Kokuimo, Japan's No.1 selling*3 blended imo shochu. Overall category sales, however, were lower than in the first three quarters of 2017.

Overall, the Japanese Alcoholic Beverages business' revenue in the first three quarters of 2018 totaled ¥179.8 billion, down ¥7.8 billion or 4% year on year. Operating profit was ¥1.8 billion, down ¥3.0 billion or 62%.

*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 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 January 2017 to August 2018.

International Business

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

In this environment, our International Business continued its efforts to strengthen brand recognition, especially 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 achieve a year-on-year increase in overall beer sales volume (excluding Sapporo brand beer). 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, an increasingly difficult business environment led to a year-on-year decrease in the combined revenue of County Pure Foods and Silver Springs Citrus. During the second quarter of 2018, these two U.S. subsidiaries were merged with a view to improving their combined performance.

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 continue to make structural reforms at the Vietnam business.

Thanks to the efforts of our Group companies around the world, the International Business' shipments of Sapporo brand beers in overseas markets during the first nine months of 2018 increased 2% year on year.

As a result, the International Business posted revenue of ¥59.1 billion, up ¥1.2 billion or 2% year on year and operating profit of ¥0.4 billion, down ¥0.6 billion or 58%.

Food & Soft Drinks

We estimate that overall demand for soft drinks in Japan increased 2% year on year in the first nine months 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.

At the domestic soft drinks business, new product launches during the period under review included the latest addition to our core Kireto Lemon brand, Kireto Lemon Calcium, which has been officially designated as a “beverage with a nutritional function” and which is creating new demand. We also added to our popular JELEETS dessert drink series with the launch of a new flavor, JELEETS Purin Shake. Core lemon-based drinks, sugar-free teas made from domestic tea leaves, and beverages with a food-like texture all enjoyed steady sales. However, overall shipments of soft drinks in Japan fell below the previous year’s level owing to lower sales of coffee drinks in a weak market for canned coffees as well as disruption of distribution channels caused by the disastrous heavy rains that hit western Japan.

At the domestic food business, sales of cold canned soups expanded steadily as the business strengthened sales promotions for spring and summer season products. We also have prepared a rich variety of autumn and winter season products, centering on our Jikkuri Kotokoto soups.

Shipments of lemon-based food products expanded a sharp 18% year on year, with growth driven by strong sales of our core Pokka Lemon 100 and a completely reformulated Lemon kajū o hakkō sasete tsukutta lemon no su, a lemon vinegar made from fermented lemon juice. The soy beans and chilled products business will add a new soymilk yogurt production line at its Gunma plant as it plans to create new demand in Japan and aggressively expand its business scale. It also launched new flavors of its Almond Breeze, the world’s leading almond milk brand.

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 were below the previous year’s level.

Our overseas soft drinks business was negatively affected by the new tax systems introduced in some countries, which depressed consumer spending and slightly reduced the business’ exports to other countries in the region from its base in Singapore. Nonetheless, it maintained its top share* in Singapore’s tea drinks market, including its dominant 70% share of the green tea market.

As a result of above, the Food & Soft Drinks segment posted sales of ¥94.2 billion in the first three quarters of 2018, ¥3.0 billion or 3% less than the year-earlier result. Segment operating profit came to ¥1.3 billion, down ¥0.1 billion or 5% from 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 nine months 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, the 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.”

Our domestic restaurant business has faced a particularly difficult operating environment thus far in 2018, as Japan has suffered through several natural disasters caused by a series of typhoons, extended periods of rain, and a major earthquake in Hokkaido. Nonetheless, the business persevered and stayed on track with new store openings. Following the March opening in Fukuoka's Hakata district of our first Yebisu Bar outlet in Kyushu and the May opening of a Ginza Lion Beer Garden in Chiba Prefecture’s Kashiwa City, we opened two of our mainstay Ginza Lion pub format branches—one in Kawasaki in August and one in Hiroshima in September. Also, in April we reopened the fully renovated Ginza Lion outlet in Tokyo’s Aoyama district and opened the first outlet of our new Sobaemon Japanese restaurant format, located in Tokyo’s Osaki area. All of these recently opened outlets have won rave reviews from local customers and are putting up solid numbers. Meanwhile, we have closed four outlets thus far in 2018, including unprofitable stores. In addition, affiliated company Marushinkawamura Inc. opened two new outlets in Sapporo—Taishu Tempura Manekiya, a new format tempura restaurant, in August, and Taishu Izakaya Manekiya, a Japanese-style pub, in September. Reflecting the above openings and closings, the domestic restaurant business had 197 outlets open for business at the end of September. Going forward, we plan to continue aggressive expansion of our restaurant chains, opening new stores, remodeling existing stores, and changing formats when and where desirable.

Meanwhile, the restaurant business in Singapore has seen a wave of new entrants that has created an extremely competitive market environment. In response, we have transferred certain businesses, including the Japanese restaurant business, to a local food and beverage company. As a result, we now have only one Ginza Lion store operating in Singapore. Going forward, the overseas restaurant business will concentrate its resources in the beer hall format and continue to promote the spread of beer hall culture.

Reflecting the above, the Restaurants business' results for the first three quarters of 2018 included sales of ¥20.9 billion (down ¥0.9 billion, or 4%) and an operating loss of ¥0.1 billion (compared with a profit of ¥0.1 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 Greater Tokyo 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 continues to contribute to Sapporo City's urban redevelopment program focused on the area to the east of the Sosei River with the renovation of the Sapporo Factory commercial complex. Part of the 3-Jo Kan facility will be opened in November as the first phase of the program. We will continue our efforts to make the Sapporo Factory complex an attractive urban space.

To further enhance the value of our real estate business, we are carrying out a strategic restructuring of our property portfolio from a long-term perspective. As part of this initiative, we are considering acquiring properties in Ebisu that will contribute to the development of our urban development business.

As a result of the efforts outlined above, the Real Estate business posted revenue of ¥18.3 billion in the first three quarters of 2018 (up ¥0.5 billion or 3% year on year) and operating profit of ¥8.2 billion (up ¥0.7 billion or 9%).

(2) Consolidated Financial Position

Consolidated assets as of September 30, 2018 totaled ¥644.8 billion, ¥19.9 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 ¥474.0 billion, ¥15.1 billion less than on December 31, 2017, primarily owing to the decrease in other current liabilities, which helped to offset an increase in bonds and borrowings (non-current).

Consolidated total equity totaled ¥170.9 billion, down ¥4.8 billion from the end of the previous fiscal year, primarily reflecting the payment of year-end dividends.

(3) Consolidated Earnings Forecast

The consolidated earnings forecast for the full fiscal year ending December 31, 2018, is unchanged from the forecast announced by the Company on August 3, 2018.

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(millions of yen)

	Transition date January 1, 2017	December 31, 2017	September 30, 2018
	Amount	Amount	Amount
Assets			
I Current assets			
1 Cash and cash equivalents	10,476	12,537	10,751
2 Trade and other receivables	96,574	98,325	80,804
3 Inventories	37,619	37,873	39,903
4 Other financial assets	9,967	9,107	4,437
5 Other current assets	7,386	6,914	10,233
subtotal	162,022	164,755	146,127
6 Assets held for sale	359	-	-
Total current assets	162,381	164,755	146,127
II Non-current assets			
1 Property, plant and equipment	151,602	151,334	152,618
2 Investment property	223,595	219,658	218,108
3 Goodwill	21,483	24,942	24,945
4 Intangible assets	10,305	13,339	13,219
5 Investments accounted for using equity method	372	391	405
6 Other financial assets	79,278	78,677	78,712
7 Other non-current assets	8,921	9,309	8,090
8 Deferred tax assets	2,176	2,326	2,610
Total non-current assets	497,733	499,976	498,707
Total assets	660,114	664,731	644,835

	Transition date January 1, 2017	December 31, 2017	September 30, 2018
	Amount	Amount	Amount
Liabilities and equity			
Liabilities			
I Current liabilities			
1 Trade and other payables	38,460	36,488	36,313
2 Bonds and borrowings	75,580	80,716	75,378
3 Lease liabilities	6,609	6,533	6,710
4 Income tax payable	1,570	5,207	738
5 Other financial liabilities	33,108	33,277	30,579
6 Other current liabilities	66,424	66,590	60,751
Total current liabilities	221,750	228,809	210,468
II Non-current liabilities			
1 Bonds and borrowings	165,235	153,184	157,008
2 Lease liabilities	24,623	24,295	24,973
3 Other financial liabilities	48,125	45,956	45,556
4 Net defined benefit liabilities	8,996	6,283	7,659
5 Other non-current liabilities	2,689	2,621	2,788
6 Deferred tax liabilities	26,455	27,872	25,517
Total non-current liabilities	276,122	260,212	263,501
Total liabilities	497,872	489,021	473,969
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)	(1,813)
4 Retained earnings	36,315	44,491	44,748
5 Other components of equity	28,515	34,659	30,083
Total equity attributable to owners of parent	157,628	172,055	167,912
Non-controlling interests	4,613	3,655	2,954
Total equity	162,241	175,710	170,866
Total liabilities and equity	660,114	664,731	644,835

(2) Consolidated Statement of Profit and Comprehensive Income

Consolidated Income statements (millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
	Amount	Amount
Revenue	390,732	381,044
Cost of sales	270,480	264,128
Gross profit	120,252	116,916
Selling, general and administrative expenses	109,741	110,103
Other operating income	730	1,493
Other operating expense	1,508	1,469
Operating profit	9,733	6,837
Financial income	931	750
Financial expense	1,901	1,889
Share of profit of investments accounted for using equity method	14	14
Profit before tax	8,778	5,712
Income tax expense	3,987	2,144
Profit	4,791	3,568
Profit attributable to		
Owners of parent	5,297	4,209
Non-controlling interests	(506)	(641)
Total	4,791	3,568
Basic earnings per share (JPY)	68.01	54.04
Diluted earnings per share(JPY)	68.00	51.88

Consolidated Statement of Comprehensive Income

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
	Amount	Amount
Profit	4,791	3,568
Other comprehensive income		
Items that will not be reclassified to profit		
Financial assets measured at fair value through other comprehensive income	4,349	(3,946)
Remeasurements of defined benefit plans	677	(863)
Total of items that will not be reclassified to profit	5,026	(4,809)
Items that might be reclassified to profit		
Exchange differences on translation of foreign operations	999	(785)
Effective portion of gains and losses on fair value of cash flow hedges	57	136
Total of items that might be reclassified to profit	1,056	(649)
Other comprehensive income, net of taxes	6,082	(5,458)
Comprehensive income	10,873	(1,890)
Comprehensive income attributable to		
Owners of parent	11,547	(1,197)
Non-controlling interests	(674)	(693)
Comprehensive income	10,873	(1,890)

(3) Consolidated Statements of Changes in Equity

(millions of yen)

	Equity attributable to owners of parent									Total equity attributable to owners of parent	Non-controlling interests	Total equity
					Other components of 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
Profit				5,297					-	5,297	(506)	4,791
Other comprehensive income, net of taxes					1,146	60	4,366	677	6,249	6,249	(168)	6,082
Total comprehensive income	-	-	-	5,297	1,146	60	4,366	677	6,249	11,547	(674)	10,873
Purchase of treasury shares			(7)						-	(7)	-	(7)
Disposal of treasury shares		2	3						-	5	-	5
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				1,198			(521)	(677)	(1,198)	-	-	-
Total transactions with owners	-	2	(4)	(1,690)	-	-	(521)	(677)	(1,198)	(2,890)	(19)	(2,910)
Balance as of September 30, 2017	53,887	40,708	(1,800)	39,923	1,146	(257)	32,678	-	33,567	166,285	3,920	170,204

	Equity attributable to owners of parent									Total equity attributable to owners of parent	Non-controlling interests	Total equity
					Other components of 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				4,209					-	4,209	(641)	3,568
Other comprehensive income, net of taxes					(731)	132	(3,945)	(863)	(5,406)	(5,406)	(52)	(5,458)
Total comprehensive income	-	-	-	4,209	(731)	132	(3,945)	(863)	(5,406)	(1,197)	(693)	(1,890)
Purchase of treasury shares			(11)						-	(11)	-	(11)
Disposal of treasury shares		0	5						-	5	-	5
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				(830)			(33)	863	830	-	-	-
Total transactions with owners	-	183	(6)	(3,951)	-	-	(33)	863	830	(2,945)	(9)	(2,954)
Balance as of September 30, 2018	53,887	41,007	(1,813)	44,748	407	(58)	29,734	-	30,083	167,912	2,954	170,866

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

(5).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)

	Nine months ended September 30, 2017 (January 1, 2017 – September 30, 2017)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	187,665	57,835	97,173	21,786	17,783
Inter-segment revenue	2,540	84	206	1	1,973
Total	190,206	57,920	97,379	21,787	19,756
Operating profit	4,758	1,060	1,363	132	7,481

	Nine months ended September 30, 2017 (January 1, 2017 – September 30, 2017)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	8,489	390,732	-	390,732
Inter-segment revenue	15,268	20,073	(20,073)	-
Total	23,757	410,805	(20,073)	390,732
Operating profit	(236)	14,558	(4,825)	9,733

(millions of yen)

	Nine months ended September 30, 2018 (January 1, 2018 – September 30, 2018)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	179,842	59,056	94,192	20,918	18,311
Inter-segment revenue	2,321	357	190	1	2,091
Total	182,163	59,414	94,382	20,920	20,402
Operating profit	1,793	447	1,288	(137)	8,156

	Nine months ended September 30, 2018 (January 1, 2018 – September 30, 2018)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	8,725	381,044	-	381,044
Inter-segment revenue	15,482	20,443	(20,443)	-
Total	24,207	401,487	(20,443)	381,044
Operating profit	(100)	11,447	(4,610)	6,837

(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.

Subsequent Events
(Transfer of assets)

At a meeting of the Board of Directors held on October 3, 2018, the Company resolved to transfer the following fixed assets (trust beneficiary rights) owned by Sapporo Real Estate Co., Ltd., a consolidated subsidiary of the Company.

1. Reason for the transfer
The transfer is part of a strategic restructuring of the Company's property portfolio with a view to further enhancing earnings.

2. Assets to be transferred
Two rental properties located in Tokyo, one of which is located in Shinjuku Ward.

3. Overview of the transferee
The transferee is a domestic corporation, but its name and other details remain confidential at the request of the transferee. The Company and the transferee do not have any capital ties or business and personal relationships that need to be stated. The transferee is not considered to be a party related to the Company.

4. Date of sales contract agreement
October 17, 2018

5. Date of handover
November 30, 2018 (scheduled)

6. Transfer price
JPY 7,250 million (total for two properties)

(Acquisition of assets)

At the Board of Directors meeting held on October 3, 2018, it was resolved that the Company's consolidated subsidiary Sapporo Real Estate Co., Ltd. would acquire the following fixed assets (including trust beneficiary rights).

1. Reason for the acquisition
The acquisition is part of a plan to further enhance the Company's earnings through a strategic restructuring of its business and property portfolio while also contributing to development of the Ebisu district by promoting initiatives to enhance the area's value through urban development.

2. Assets to be acquired
Three rental properties located in Tokyo's Shibuya Ward

3. Date of sales contract agreement
October 17, 2018

4. Date of handover
November 30, 2018 and April 1, 2019 (scheduled)

5. Acquisition price
JPY 6,400 million (total for three properties)

(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 nine months of FY2017 (September 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	13,085	(170)	－	12,914		Cash and cash equivalents
Notes and accounts receivable - trade	81,727	(120)	(60)	81,546	①	Trade and other receivables
Merchandise and finished products	29,861	(29,861)	－	－		
Raw materials and supplies	12,973	(12,973)	－	－		
	－	43,321	(875)	42,447	①	Inventories
	－	7,962	859	8,820	⑥	Other financial assets
Other	18,919	(11,931)	(108)	6,881		Other current assets
Allowance for doubtful receivables	(120)	120	－	－		
	156,445	(3,652)	(184)	152,609		Subtotal
	－	1,892	－	1,892		Assets held for sale
Total current assets	156,445	(1,760)	(184)	154,501		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	346,469	(223,453)	28,618	151,634	③④	Property, plant and equipment
Intangible assets						
Goodwill	27,982	－	(3,053)	24,929	⑤	Goodwill
Other	13,653	(390)	171	13,434		Intangible assets
	－	221,951	－	221,951		Investment property
Investments and other assets						
Investment securities	64,169	(64,169)	－	－		
	－	386	－	386		Investments accounted for using equity method
	－	69,240	10,963	80,204	⑥	Other financial assets
Long-term loans receivable	470	(470)	－	－		
Other	16,379	(7,321)	419	9,477		Other non-current assets
	－	(2,540)	4,883	2,343	②	Deferred tax assets
Allowance for doubtful receivables	(1,191)	1,191	－	－		
Total fixed assets	467,932	(5,576)	42,001	504,357		Total non-current assets
Total assets	624,377	(7,335)	41,817	658,858		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	37,388	–	(43)	37,345		Trade and other payables
Short-term bank loans	44,302	(44,302)	–	–		
Commercial paper	34,500	(34,500)	–	–		
Current portion of bonds	10,005	(10,005)	–	–		
	–	88,807	745	89,552	⑥	Bonds and borrowings
	–	2,783	4,107	6,890	④	Lease obligations
Income taxes payable	2,275	–	5	2,281		Income tax payables
	–	30,104	7	30,111	⑥	Other financial liabilities
Accrued bonuses	3,934	(3,934)	–	–		
Liquor taxes payable	31,565	(31,565)	–	–		
Deposits received	7,178	(7,178)	–	–		
Other	50,837	9,697	4,586	65,119	⑦	Other current liabilities
Total current liabilities	221,984	(95)	9,408	231,297		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	50,129	(50,129)	–	–		
Long-term bank loans	99,609	(99,609)	–	–		
	–	149,738	(483)	149,255	⑥	Bonds and borrowings
	–	45,452	453	45,905	⑥	Other financial liabilities
Net defined benefit liability	8,234	–	(387)	7,847		Net defined benefit liability
	–	6,216	17,655	23,871	④	Lease obligations
Dealers' deposits for guarantees	31,105	(31,105)	–	–		
Other	41,269	(41,076)	1,898	2,092		Other non-current liabilities
	–	13,272	15,116	28,388	②	Deferred tax liabilities
Total long-term liabilities	230,346	(7,241)	34,252	257,357		Total non-current liabilities
Total liabilities	452,330	(7,335)	43,659	488,654		Total liabilities
Net assets						Equity
Common stock	53,887	–	–	53,887		Share capital
Capital surplus	46,091	–	(5,383)	40,708	⑤	Capital surplus
Treasury stock, at cost	(1,800)	–	–	(1,800)		Treasury shares
Retained earnings	44,470	–	(4,547)	39,923	⑨	Retained earnings
Accumulated other comprehensive income	24,285	–	9,282	33,567	⑧	Other components of equity
				166,285		Total equity attributable to owners of parent
Non-controlling interests	5,114	–	(1,195)	3,920		Non-controlling interests
Total net assets	172,047	–	(1,843)	170,204		Total equity
Total liabilities and net assets	624,377	(7,335)	41,817	658,858		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)	Nine months ended September 30, 2017	Year ended December 31,2017
Trade and other receivables and Inventories (see 1)	(418)	(282)	(510)
Property, plant and equipment (see 3)	(1,610)	(3,000)	(4,851)
Lease obligations (see 4)	252	226	217
Goodwill (see 5)	－	2,859	3,904
Other financial assets、Other financial liabilities (see 6)	263	261	275
Other current liabilities (see 7)	(2,739)	(3,172)	(2,643)
Other components of equity (see 8)	(1,382)	(1,376)	(1,739)
Other	16	(63)	(185)
Total adjustments to retained earnings	(5,617)	(4,547)	(5,532)

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

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	400,845	—	(10,113)	390,732	①	Revenue
Cost of sales	259,026	—	11,454	270,480	①②④	Cost of sales
Gross profit	141,819	—	(21,567)	120,252		Gross profit
Selling, general and administrative expenses	131,087	—	(21,346)	109,741	①②③④	Selling, general and administrative expenses
	—	786	(55)	730		Other operating income
	—	1,637	(129)	1,508		Other operating expenses
Operating income	10,732	(852)	(148)	9,733		Operating profit
Non-operating income	1,497	(1,497)	—	—		
Non-operating expenses	1,971	(1,971)	—	—		
Extraordinary gains	973	(973)	—	—		
Extraordinary losses	1,292	(1,292)	—	—		
	—	1,671	(739)	931	⑤	Finance income
	—	1,625	276	1,901		Finance costs
	—	14	(0)	14		Share of profit of investments accounted for using equity methods
Profit before income taxes	9,941	—	(1,163)	8,778		Profit before tax
Income taxes	4,908	—	(921)	3,987	⑤	Income tax expense
Profit	5,033	—	(242)	4,791		Profit
Other comprehensive income						Other comprehensive income
Unrealized holding gain on securities	2,848	—	1,501	4,349	⑤	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(261)	—	938	677	④	Remeasurements of defined benefit plans
Foreign currency translation adjustments	987	—	12	999		Exchange differences on translation of foreign operations
Deferred hedge gains (losses)	(31)	—	88	57		Effective portion of gains and losses on fair value of cash flow hedges
Comprehensive income	8,576	—	2,297	10,873		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.”