Financial Results
for the Year Ended December 31, 2017 — Consolidated
(Based on Japanese GAAP)

February 15, 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/
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Scheduled dates:

Annual general meeting of shareholders	March 29, 2018
Filing of annual financial report	March 30, 2018
Commencement of dividend payments	March 30, 2018
Supplementary information to the year-end earnings results	Available
Year-end earnings results briefing held	Yes (mainly targeted at institutional investors and analysts)

1. Consolidated Financial Results for the Year Ended December 31, 2017 (January 1 – December 31, 2017)

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

<Note>
On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, values for the items noted below have been recalculated on the assumption that the share consolidation took place at the beginning of the previous fiscal year.

- Profit per share
- Diluted profit per share
- Net assets per share
- Number of shares issued at end of period (treasury stock included)
- Number of shares held in treasury at end of period
- Average number of outstanding shares during the period

(1) Operating Results

(Percentage figures represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Profit attribute to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2017	551,548	1.8	17,032	(16.0)	16,410	(14.5)	10,977	15.9
Year ended December 31, 2016	541,847	1.5	20,267	45.3	19,202	45.3	9,469	55.0

Note: Accumulated other comprehensive income

Year ended December 31, 2017: 14,183 million yen (172.2)%

Year ended December 31, 2016: 5,211 million yen (31.2)%

	Profit per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	yen	%	%	%
Year ended December 31, 2017	140.93	–	6.6	2.6	3.1
Year ended December 31, 2016	121.56	–	5.9	3.1	3.7

Note: Equity method investment gains

Year ended December 31, 2017: 19 million yen

Year ended December 31, 2016: 15 million yen

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
December 31, 2017	630,630	177,662	27.5	2,227.02
December 31, 2016	626,351	166,380	25.7	2,062.86

Note: Shareholders' equity

December 31, 2017: 173,467million yen

December 31, 2016: 160,687million yen

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 31, 2017	30,004	(17,822)	(10,171)	12,536
Year ended December 31, 2016	32,570	(27,586)	(4,827)	10,475

2. Dividends

	Dividend per share					Total dividends paid (full year)	Payout ratio (consol.)	Dividends to net assets (consol.)
Record date or period	End Q1	End Q2	End Q3	Year-end	Full year			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 31, 2016	—	0.00	—	37.00	37.00	2,887	30.4	1.8
Year ended December 31, 2017	—	0.00	—	40.00	40.00	3,121	28.4	1.9
Year ending December 31, 2018 (forecast)	—	0.00	—	40.00	40.00		—	

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

* The Company decided to apply International Financial Reporting Standard (IFRS) from the first quarter of fiscal 2018. As a result, forecasts shown here for fiscal 2018 are based on IFRS.

(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	555,800	0.8	18,700	9.8	17,700	(0.6)	11,100	1.1	142.50

Note: Earnings forecasts for the six months ending June 30, 2018 are omitted because the company manages performance targets on a yearly basis.

4. Other

(1) Changes to scope of consolidation: None

(2) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accordance with amendments to accounting standards etc.: None

2) Changes other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

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

1) Number of shares issued at end of period (treasury stock included):

December 31, 2017: 78,794,298 shares
December 31, 2016: 78,794,298 shares

2) Number of shares held in treasury at end of period:

December 31, 2017: 901,792 shares
December 31, 2016: 898,911 shares

3) Average number of outstanding share during the period:

Year ended December 31, 2017: 77,894,040 shares
Year ended December 31, 2016: 77,900,282 shares

Audit Status

The year-end financial results are outside the scope of audit procedures based on 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. For the assumptions underlying the forecasts herein and other information on the use of earnings forecasts, refer to “Outlook for the fiscal year ending December 31, 2018” on page 12.

1. Analysis of Operating Results and Financial Condition

(1) Analysis of Operating Results

(a) Review of the fiscal year ended December 31, 2017

Millions of yen, except percentages

	Net sales	Operating income	Ordinary income	Profit attribute to owners of the parent
2017	551,548	17,032	16,410	10,977
2016	541,847	20,267	19,202	9,469
Change (%)	1.8	(16.0)	(14.5)	15.9

In 2017, the Japanese economy stayed on a moderate recovery track, supported by rebounding exports and an improved employment and income environment. Nonetheless, rising geopolitical risks and unseasonable weather weighed on investment and consumption, and the overall economic environment thus remained rather unpredictable.

The domestic alcoholic beverage industry saw demand depressed by unseasonal summer weather, higher store prices following revision of Japan's liquor tax law, and weakness in the pub/restaurant space owing to a growing cost-cutting mindset among Japanese consumers. Overseas, the North American beer market appears to have contracted, but the Asian market continued to exhibit strong growth. Demand in Japan’s soft drinks industry appears to have been largely the same as in 2016. Meanwhile, the real estate industry, saw continued improvement in vacancy rates and rents in the Greater Tokyo office leasing market.

In this environment, the Sapporo Group endeavored to accelerate growth under its Long-Term Management Vision “SPEED150” and the First Medium-Term Management Plan 2020 and achieve its financial target for 2017 as it seeks to be a company with highly unique brands in the fields of "Alcoholic Beverages", "Food", and "Soft Drinks" around the world.

The Japanese Alcoholic Beverage business redoubled its efforts to strengthen core brands in line with its “Beer Revival Declaration.” In particular, the launch of an integrated marketing strategy for Sapporo Draft Beer Black Label, one of those core brands, resulted in a third consecutive year of sales growth for the brand despite the decline in overall beer demand. In non-beer growth areas, we continued to build a highly diversified product lineup with a focus on high-value-added products in the wine and spirits categories.

The International Business continued to strengthen its position in North America’s premium beer market, with aggressive marketing campaigns carried out by SLEEMAN BREWERIES in Canada and by Sapporo USA. In addition, in September we took concrete action to accelerate our growth in North America and purchased Anchor Brewing Company. In the U.S. soft drinks market, Country Pure Foods achieved sales growth but Silver Springs Citrus' sales were negatively affected by changes in U.S. consumers’ preferences. In Vietnam, we revised our marketing approach in an effort to improve the business’ profitability.

The Food & Soft Drinks business continued to focus on two key management initiatives in Japan—strengthening marketing and lowering costs—while concentrating investment on our strengths in beverages made from the highest quality ingredients and our core lemon-related and soup product brands.

The Restaurants business continued to strengthen its Japan operations by opening new outlets and renovating existing outlets, with the focus on our core Ginza Lion and Yebisu Bar chains. We also endeavored to improve profitability by closing or changing the format of unprofitable outlets. In Singapore, we continued our efforts to spread the reputation of our Ginza Lion brand to the world.

The Real Estate business enjoyed high occupancy rates at its rental properties throughout 2017. At Yebisu Garden Place, our core real estate asset, we continued to upgrade the dining floor and take other actions to raise the property’s value and enhance the appeal of the surrounding area. The GINZA PLACE commercial complex conceived as a “base for information dissemination and exchange” also contributed to earnings in 2017.

The efforts outlined above and explained in more detail later in this report enabled the Sapporo Group to achieve the financial results presented below.

Net Sales

In 2017, the Sapporo Group posted consolidated net sales of ¥551.5 billion, up ¥9.7 billion or 2% year on year. At the Japanese Alcoholic Beverage business, efforts to strengthen core brands contributed to solid sales of beer and diversified alcoholic beverage products, but sales volumes for happoshu and new-genre beers fell below the previous year's levels. As a result, segment sales were less than in 2016. Meanwhile, the International Business achieved sales growth, driven by increased shipments of Sapporo brand beer products overseas and a solid contribution from Country Pure Foods' fruit juice sorbet business. The Food & Soft Drinks business expanded its lemon-based drinks and soup products sales volumes in Japan. However, the Singapore business' domestic and export sales volumes both declined year on year. As a result, overall segment sales were largely the same as in 2016. The Restaurants business achieved sales growth in 2017, supported by solid sales at existing outlets in Japan and full-year contributions from two new subsidiaries that were consolidated in June 2016—Marushinkawamura and Ginrin Suisan. The Real Estate business also achieved sales growth, supported in part by the full-year contribution from the GINZA PLACE commercial complex that opened in September 2016.

Operating Income

Operating income at the Japanese Alcoholic Beverage business was in line with the 2016 level despite lower sales, as strong sales growth in the beer and diversified alcoholic beverages product offerings improved our product mix and the business improved manufacturing cost efficiencies. At the International Business, sales of alcoholic beverages in North America were favorable, but lower sales volumes at Silver Springs Citrus and expenses related to the acquisition of Anchor Brewing Company weighed on segment profits, which thus fell below the previous year's result. Profits also declined at the Food & Soft Drinks business, largely because of lower sales at the Singapore business. The Restaurants business enjoyed solid sales but rising prices of food materials and higher labor costs pushed profit below the 2016 level. Lastly, the Real Estate business achieved year-on-year profit growth, supported by an increase in rental income at core properties, including the first full-year contribution from GINZA PLACE.
As a result of the above, consolidated operating income totaled ¥17.0 billion, a ¥3.2 billion or 16% year-on-year decline.

Ordinary Income

Consolidated ordinary income totaled ¥16.4 billion, a ¥2.7 billion or 15% year-on-year decline, reflecting a decrease in the consolidated operating income.

Profit Attributable to Owners of Parent

In 2017, profit attributable to owners of parent totaled ¥10.9 billion, up ¥1.5 billion or 16% year on year, thanks in part to a ¥4.8 billion gain on sales of investment securities and a ¥1.9 billion gain on sales of property, plant and equipment.

Results by segment are outlined below.

(2) Results by Business Segment

Millions of yen, except percentages

	Net sales			Operating income		
	2016	2017	% change	2016	2017	% change
Japanese Alcoholic Beverages	279,476	278,692	(0.3)	11,745	11,767	0.2
International Business	65,400	69,837	6.8	906	(1,214)	-
Food & Soft Drinks	137,918	137,898	(0.0)	1,314	564	(57.1)
Restaurants	28,120	29,140	3.6	663	330	(50.2)
Real Estate Business	22,900	24,134	5.4	10,328	11,261	9.0

Japanese Alcoholic Beverages

We estimate that total domestic demand for beer and beer-type beverages in 2017 was 2% lower than in 2016, mainly owing to the impact of June's liquor tax revision and unseasonable summer weather, which together added fuel to consumers shift into RTD*1 beverages and contraction in the commercial-use market.

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 outlined in our "Beer Revival Declaration."

Among beer products, Sapporo Draft Beer Black Label continued to enjoy strong sales, especially the canned version. Among our Yebisu brand products, Yebisu Hana Miyabi, launched in March, received favorable response from customers. As a result, total domestic shipments of beers increased 2% year on year, for a third consecutive year of growth. Meanwhile, in the happoshu category, sales of Goku Zero and our new-genre category offering Mugi to Hop fell below previous year levels. Overall, shipments of our beer and beer-type beverages slipped 1.9% year on year, a slightly better result than for the total domestic demand, as noted above.

In the RTD category, sales were up sharply over the 2016 result, boosted by the nationwide expansion of the sales area for Ai no Skal White Sour, one of our high-value-added collaboration products, and steady growth in sales of other core RTD products, including Otoko Ume Sour and Kireto Lemon Sour.

We also achieved year-on-year sales growth in the wine category, as we strengthened marketing of domestic and imported fine wines*2, including the imported wine Penfolds, Taittinger champagne, and our domestic Grande Polaire wines.

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

Our Japanese liquor business also achieved sales growth, driven by continued strong sales of Imo Shochu Kokuimo, Japan's No. 1 selling*3 blended *imo shochu*.

Overall, the Japanese Alcoholic Beverages business posted sales of ¥278.6 billion, down ¥0.7 billion or 0% year on year, and operating income, at ¥11.7 billion, up ¥0.0 billion or 0%.

*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 (¥1,500 and higher 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 2016 to December 2017.

International Business

We estimate that total demand in the North American beer market in 2017 fell from the 2016 level, with overall shipments down in both the United States and Canada. Meanwhile, demand in Asian markets was solid but growth momentum slowed in line with the widely divergent pace of growth in national and regional economies.

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. In addition, we expanded our sales channel in the U.S. fruit juice market.

Our Canadian subsidiary SLEEMAN BREWERIES continued to invest in the marketing of its core premium brands and as a result expanded its market share. However, overall beer sales volume (excluding Sapporo brand beer) slipped 1% year on year, reflecting shrinkage of the overall market. In the U.S. beer market, Sapporo USA's efforts to expand its customer base among the general population as well as Asian Americans led to a 6% year-on-year increase in shipments of Sapporo brand beers in 2017. Meanwhile, our position in the North American premium beer market was strengthened by the September acquisition of Anchor Brewing Company, which became a 100% consolidated subsidiary. In the U.S. soft drinks market, County Pure Foods achieved strong sales of its commercial-use soft drinks and its fruit juice sorbet. Silver Springs Citrus, however, saw its sales volume decrease significantly amid an overall decline in orange juice sales in the United States. The combined sales of these two group companies was lower than in 2016.

In Southeast Asia, our Vietnam business saw its beer shipments decline year on year owing to an increase in the country's liquor tax in January and a decrease in the number of sales outlets stocking our products following a change in our marketing methods. The Singapore business, meanwhile, achieved growth in beer shipments thanks to its efforts to expand its sales channels in the household- and commercial-use markets.

Elsewhere in Asia, our Korean business achieved sharp year-on-year growth in beer shipments thanks to the popularity of Sapporo Premium Beer in both the household- and commercial-use markets and to the market launch of Yebisu beer. In Oceania, continued efforts to strengthen sales via licensing agreements with local brewing partners led to a year-on-year growth in beer sales volumes.

The efforts outlined above enabled the International Business to achieve solid 15% year-on-year increase in shipments of Sapporo brand products in overseas markets.

As a result, the International Business posted sales of ¥69.8 billion, up ¥4.4 billion or 7% year on year, but posted an operating loss of ¥1.2 billion, compared with a profit of ¥0.9 billion in 2016.

Food & Soft Drinks

We estimate that overall demand for soft drinks in Japan in 2017 was the same as in 2016.

In this market environment, the Food & Soft Drinks business remained committed to delivering value unique to the Sapporo Group by strengthening its Kireto Lemon, *sozai-kei* (ingredient), *shokkan-kei* (texture), and Gabunomi series of brands in the domestic soft drinks business and bolstering its lineup of core lemon-based and soup products in the domestic food business.

In 2017, the domestic soft drinks business launched several new products that leverage our core strengths, such as Lemon no Genki, a lemon-based drink with a functional food label made possible by our extensive research into lemons, and Nippon Mugi-cha, made from 100% domestic-grown six-row barley. Meanwhile, our Gabunomi brand created quite a buzz in the market with its offering of uniquely flavored beverages, such as Gabunomi Lemon Cream Soda. During the year, we received a Most Impressive Partner (MIP) award from Food Action Nippon for the contribution to raising the organization's name recognition achieved by our series of sugar-free teas made from domestic tea leaves, which continued to enjoy strong sales in 2017, driven in particular by Kaga Bo-Hojicha.

The domestic food business enjoyed steady sales of its soup products, including its cold canned soups and cup-based instant soups. In addition, sales of our soup products increased 5% year on year, as we stimulated demand in the autumn and winter seasons with the renewal of the Jikkuri Kotokoto Gohobi Dining series of retort-packaged soups that can easily be heated in a microwave oven and a new TV ad campaign. Lemon-based food product sales were also strong in 2017, up 8% year on year, led by strong sales of our core Pokka Lemon 100 brand products. In 2017, we entered into a new partnership agreement with Hiroshima Prefecture's Kure City with the aim of promoting the city and its lemons and contributing to regional revitalization. The new agreement adds to our partnership with Hiroshima Prefecture, which includes a similar partnership with the town of Osaki-Kamijima. We also enhanced our lineup of soymilk-based yogurt products by marking the 20th anniversary of the launch of the SOYAFARM

Tōnyū de Tsukutta Yogurt series with the series' first revision in 10 years. These yogurts made from soy milk have been certified as food for specified health uses (FOSHU).

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. As a result, existing store sales were solid, supporting growth in the chain's overall sales.

Meanwhile, 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 from Singapore to other countries in the region were slowed a bit by next tax regulations in some countries. In Indonesia, PT. POKKA DIMA INTERNATIONAL started up commercial production at its new plant in April and began shipping the plant's main output, including a 450ml PET bottle of Jasmine Green Tea and a 350ml PET bottle of Lemon Black Tea.

Overall, the Food & Soft Drinks segment recorded sales of ¥137.8 billion, down ¥0.0 billion or 0%. Operating income came to ¥0.5 billion, down ¥0.7 billion or 57% year on year.

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

Restaurants

Japan's restaurant industry remained on the recovery track in terms of sales in 2017, while grappling with a severe operating environment characterized by labor shortages and the resulting increase in labor costs as well as upwardly trend in 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."

New store openings in Japan included the February opening of a Yebisu Bar outlet in Hiroshima, the chain's first outlet in the Chugoku–Shikoku region, the March opening of another Yebisu Bar outlet in Shin Yokohama, and the May opening of a new Ginza Lion Beer Garden in Omiya, a suburb of Tokyo in Saitama Prefecture. During the year, we also renovated the Beer Hall LION GINZA 7-Chome outlet, one of that chain's flagship stores, and completely renovated the Ginza Lion Haneda Airport outlet. In addition to these three new openings and two renovations, we closed eight unprofitable outlets, bringing the total number of outlets in Japan to 195 as of end-2017.

Meanwhile, in Singapore we renovated three Tonkichi stores in the center of the city-state and opened a new RIVE GAUCHE cake shop in the CityLink Mall. We also closed three stores, bringing the Singapore chain size at year end to 13 stores.

Overall, the Restaurants business sales in 2017 totaled ¥29.1 billion, up ¥1.0 billion or 4% year on year. Segment operating income was ¥0.3 billion, down ¥0.3 billion or 50%.

Real Estate

Japan's real estate industry is beginning to anticipate a slowdown in the recent improvement in vacancy rates in Greater Tokyo's office leasing market owing to a large supply of new office space becoming available over the next several years, starting in 2018. Nonetheless, vacancy rates continue to fall and rents are rising slightly as strong corporate earnings continue to buoy demand for office space.

In this environment, during 2017 our real estate business was able to maintain high occupancy rates at its properties in Tokyo, including Yebisu Garden Place Tower, the business' core source of earnings. In addition, the high occupancy rates provided a solid platform for more assertive efforts to increase rents of existing tenants.

Our efforts in 2017 included the establishment of a consortium-type child day care center that can be used by employees of the many companies with offices in the complex as well as Shibuya Ward residents. The new facility opened its doors in April. In August, we celebrated the grand opening of the Yebisu Garden Place Tower's completely renovated panorama-view restaurant rows on the building's 38th and 39th floors. The renovation was based on the concept of "Grand & Casual — the luxury of casual enjoyment of the essence." With a "Think the World" theme, the 39th floor now offers a wide selection of carefully selected restaurants offering cuisine from around world. The 38th floor meanwhile features restaurants offering a wide variety of Japanese cuisine.

GINZA PLACE, the commercial complex we opened in September 2016, made a solid contribution to earnings in 2017, its first full-year of operation. 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, these efforts are increasing the property's drawing power and helping make the Ginza district an even more dynamic and bustling urban center.

Meanwhile, our real estate development business is making steady progress on the renovation of the Sapporo Factory commercial complex built on the former site of a Sapporo brewery located on the east side of the Sosei River, an area which is a focus of Sapporo City's urban redevelopment program. In May we completed the redevelopment of the adjacent parking lot into a three-story, 6,900m^2 commercial complex, and in July a housing-related company opened a showroom in the new complex. We will continue our efforts to make this complex an attractive urban space that delivers enhanced convenience to Sapporo residents and visitors.

Meanwhile, we are constantly reviewing and revising our property portfolio from a long-term perspective. As a result, in October we sold the Seiwa Koraibashi Building in Osaka.

As a result of the efforts outlined above, Real Estate business sales in 2017 totaled ¥24.1 billion, up ¥1.2 billion or 5%. Operating income was ¥11.2 billion, for a year-on-year increase of ¥0.9 billion or 9%.

(2) Review of Consolidated Financial Condition

Consolidated total assets as of December 31, 2017, totaled ¥630.6 billion, ¥4.2 billion more than at the end of the previous fiscal year (December 31, 2016). The asset growth reflects increases in notes and accounts receivable, land holdings, investment securities and certain other assets, which offset declines related to goodwill amortization and long-term loans receivable.

Consolidated total liabilities totaled ¥452.9 billion, a ¥7.0 billion decrease from December 31, 2016, primarily owing to decreases in long-term bank loans and net defined benefit liability, which outweighed increases in short-term bank loans, income taxes payable and some other liability categories.

Consolidated net assets totaled ¥177.6 billion, up ¥11.2 billion from the end of the previous fiscal year. The increase primarily reflects the posting of profit attributable to owners of parent and an increase in unrealized holding gain on securities, which outweighed such negative factors as an increase in the loss attributable to non-controlling interests and the payment of year-end dividends.

(3) Review of Consolidated Cash Flows

Cash and cash equivalents (collectively, “cash”) totaled ¥12.5 billion as of December 31, 2017, a ¥2.0 billion or 20% increase from December 31, 2016.

Following is an explanation of consolidated cash flows by category in 2017 and the factors that affected cash flows in each category.

Cash flows from operating activities
Operating activities in 2017 provided net cash of ¥30.0 billion, ¥2.5 billion or 8% less than in 2016. The major positive contributors to annual operating cash flow included ¥23.5 billion from depreciation and amortization and ¥17.8 billion from profit before income taxes. The largest cash outflow was the ¥5.5 billion in income taxes paid.

Cash flows from investing activities
Investing activities in 2017 used net cash of ¥17.8 billion, ¥9.7 billion or 35% less than in 2016. Major investment outflows included ¥13.0 billion for purchases of property, plant and equipment and ¥11.6 billion for the purchase of subsidiaries’ shares resulting in change in scope of consolidation.

Cash flows from financing activities
Financing activities in 2017 used net cash of ¥10.1 billion, a ¥5.3 billion or 111% increase over the amount used in 2016. The main inflows from financing activities were ¥12.5 billion in proceeds from long-term bank loans and ¥9.9 billion from the issuance of bonds. These inflows were outweighed by outflows, including ¥12.6 billion for the repayment of long-term bank loans and ¥10.0 billion for redemption of bonds.

Cash Flow Indicators

	As of December 31,				
	2013	2014	2015	2016	2017
Equity ratio (%)	24.6	25.0	25.5	25.7	27.5
Equity ratio based on market capitalization (%)	28.0	31.9	33.4	37.4	42.6
Cash flow to interest-bearing debt (years)	8.8	13.0	7.8	8.6	9.1
Interest coverage ratio (%)	11.9	8.9	14.8	14.9	15.3

Equity ratio: Total net assets / Total assets
Equity ratio based on market capitalization: Market capitalization / Total assets
Cash flow to interest-bearing debt: Interest-bearing debt / Cash flow
Interest coverage ratio: Cash flow / Interest expense
Notes:

1. All of the above indicators are calculated based on consolidated financial statement data.
2. Market capitalization is calculated based on the number of shares issued and outstanding, excluding treasury stock.
3. “Cash flow” is operating cash flow.
4. Of the debt carried on the consolidated balance sheet, interest-bearing debt is total debt on which interest is currently payable.

(4) Outlook for fiscal year ending December 31, 2018

Millions of yen, except percentages

	Revenue	Operating profit	Profit before tax	Profit attribute to owners of parent
2018 forecast	555,800	18,700	17,700	11,100
2017 results	551,548	17,032	17,801	10,977
Projected increase (%)	0.8	9.8	(0.6)	1.1

In 2018, the second year of the Sapporo Group Long-Term Management Vision “SPEED150” and the First Medium-Term Management Plan 2020, we will redouble our efforts to supply distinctive products and services worldwide in our three core business areas - Alcoholic Beverages, Food, and Soft Drinks - and expand contact points with customers as we strive to achieve robust growth in line with the goals of our longer term vision and the first-stage management plan.

In addition, the Company has decided to voluntarily apply International Financial Reporting Standards (IFRS) to its consolidated financial statements for the fiscal year through December 2018. Consequently, management’s forecasts for the year ending December 31, 2018, are on an IFRS basis. The voluntarily application of IFRS results in certain types of rebates on product sales being excluded from sales, which in turn results in sales on an IFRS basis being less than on the Japanese GAAP basis used until now. Operating income, meanwhile, is positively affected (increased) by removal of Japanese GAAP’s requirement to amortize goodwill but negatively affected (decreased) by reclassification of income statement line items, changes in the method for calculating retirement benefit expenses, and other accounting changes.

Our consolidated forecasts and outlook for the Sapporo Group in 2018 are as follows.

Net Sales

In line with its commitment to “continue strengthening beer business,” the Japanese Alcoholic Beverage business will continue its efforts to further enhance the value of our core Sapporo Draft Beer Black Label and Yebisu brands as it aims to increase total shipments of beer and beer-type beverages. The business also aims for further increased sales of its wine products and will strengthen fine wine brands to achieve that goal. In the RTD category, we aim for growth by developing one-of-a-kind products that surprise and delight consumers. We will also redouble our efforts to expand sales in other growth areas, including spirits and Japanese liquors, as we build a more diverse and multilayered product lineup.

The International business will strive to expand sales volumes of our beer products in overseas markets by strengthening brand recognition for our core premium beer brands, starting with the Sapporo brands, especially in North American and Southeast Asian markets, the two regions where the business is concentrating its resources and efforts. Toward that end, we will execute strategies that match the unique characteristics of the market in each country in which we do business. In North America, we will promote synergies among the Sapporo, Sleeman, and recently acquired Anchor brands. In Vietnam, we are focused on expanding sales of Sapporo Premium Beer by carrying out effective and efficient marketing.

The Food & Soft Drinks business will continue strengthen its position in the Japanese food and beverage markets by providing customers with new value propositions in lemon-based and soup products, two areas where we have distinct competitive advantages. Overseas, it will focus on strengthening the POKKA brand in the core Singapore market. In the soy beans and chilled products business, from March 2018 we will begin producing and selling Blue Diamond Growers’ Almond Breeze almond drinks while also aiming for growth of our core soy milk–based yogurt products.

The Restaurants business targets sales growth driven by the steady expansion of its core Ginza Lion and Yebisu Bar formats via new store openings as well as renovations and format changes for existing outlets. Overseas, our Singapore business continues to strive for growth by increasing the awareness of the beer hall format among local consumers.

The Real Estate business will continue its efforts to enhance the competitiveness of its properties, including Yebisu Garden Place and GINZA PLACE, as it seeks to maintain high occupancy rates and achieve higher rent levels. We will continue with the renovation of the Sapporo Factory commercial complex as part of the redevelopment program of the area on the east side of the Sosei River, a focus of the Sapporo City's urban redevelopment program.

We expect the efforts outlined above to generate consolidated revenue of ¥555.8 billion in 2018, a year-on-year increase of ¥4.2 billion or 1%.

Operating Profit

We expect the Japanese Alcoholic Beverage business to achieve growth in sales and operating income on a Japanese GAAP basis as it expands sales of its core beer brands and continues to diversify its product offerings. On the newly adopted IFRS basis, however, we forecast a decrease in operating profit. We expect the International business to achieve profit growth driven by sales of alcoholic beverages and soft drinks in North America and progress with structural reforms at the Vietnam operations. We also expect the Food & Soft Drinks business to achieve profit growth by increasing sales of its food and soft drinks products and improving the product mix in Japan while implementing flexible strategies to expand our presence in overseas markets. Profit growth at our International and Food & Soft Drinks businesses will be boosted by the voluntarily application of IFRS, which will eliminate goodwill amortization. The Restaurants business and the Real Estate business are expected to achieve profit growth—the Restaurants business by increasing sales at existing stores and opening new outlets while the Real Estate business' profits should be driven upwards by contributions from Yebisu Garden Place, GINZA PLACE, and the business' other properties. On the newly adopted IFRS basis, however, we forecast a decrease in operating profit.

Overall, we forecast consolidated operating profit will reach ¥18.7 billion in 2018, an increase of ¥1.6 billion, or 10%, over 2017.

Profit Before Tax

While we expect operating profit to increase in 2018, we forecast consolidated profit before tax will fall ¥0.1 billion, or 1% year on year, to ¥17.7 billion, owing to the absence of the ¥4.8 billion gain on the sale of investment securities and the ¥1.9 billion gain on the sale of property, plant, and equipment that were both posted in 2017.

Profit Attributable to Owners of Parent

We project profit attributable to owners of the parent will total ¥11.1 billion in 2018, an increase of ¥0.1 billion or 1% over 2017.

The 2018 outlook for each segment is presented below.

(2) Outlook by Business Segment

Millions of yen, except percentages

	Revenue			Operating profit		
	2017	2018 forecast	% change	2017	2018 forecast	% change
Japanese Alcoholic Beverages	278,692	272,500	(2.2)	11,767	10,500	(10.8)
International Business	69,837	81,900	17.3	(1,214)	1,400	-
Food & Soft Drinks	137,898	135,600	(1.7)	564	3,600	538.2
Restaurants	29,140	28,800	(1.2)	330	100	(69.8)
Real Estate Business	24,134	24,900	3.2	11,261	10,500	(6.8)

Japanese Alcoholic Beverages

The Japanese Alcoholic Beverages business expects to face a difficult market environment in 2018. In addition to the impact from price revisions for bottled and keg products, the business expects overall demand will be lower than in 2017.

In this challenging environment, the Japanese Alcoholic Beverages business will aim for further growth by continuing efforts in line with our vision of “Seek to be No.1 by accumulating one-of-a-kind products” and by providing customers with value available only from Sapporo.

In the beer business, we will continue to strengthen our beer brands, which have achieved sales growth in each of the past three years. Having set forth the “Continuation of strengthening beer business” as the core direction, we aim to further expand sales of Sapporo Draft Beer Black Label by strengthening advertising and sales promotions and by linking the brand's appeal as a beer to be enjoyed at home and at commercial establishments. Our Yebisu brand strategy will seek to strengthen casual gift item sales and appeal to the brand as a beer that can be enjoyed every day, thus enhancing the value it provides customers.

In addition, we will seize upon the opportunities provided by diversification of consumption patterns and changes in the social environment by strengthening the development and cultivation of distinct new products and introducing a variety of products in smaller lots.

In the RTD[*1] space, we will redouble our efforts to date to take advantage of the current acceleration in the market’s growth as well as expected growth in the future. We will strengthen development of unique value products through collaborations with other companies, such as Otoko Ume Sour, and strive to develop products from new perspectives that lead to one-of-a-kind products that surprise and delight consumers.

In the wine category, we will continue to strengthen our lineup of fine wines[*2]. We will seek to expand sales and enhance the brand images of our wine offerings, including our premium Japanese wine Grande Polaire, as well as our imported brands, especially Penfors wine and Taittinger champagne. In the everyday wine space, we plan to bolster sales of power brands by delivering a wide range of products and through stronger promotional activities.

In the spirits business, we will continue to focus sales efforts on such world-famous brands as Bacardi, the world’s best-selling rum in both sales volume and value[*3], as well as Dewar’s, Bombay Sapphire, and Martini.

In our Japanese liquor business, we will step up efforts to expand sales of our blended *imo shochu* Kokuimo, while using our Otoko Ume no Sake and Ume Kaku series of plum-wine based cocktails to deliver to consumers unique drinking experience and value not available from other plum wine (umeshu) offerings.

The Japanese Alcoholic Beverages business as a whole will strive to achieve its profit targets by spending effectively and efficiently on marketing that enhances brand values while cutting other costs wherever possible.

*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 priced at less than ¥1,500 per bottle.
*3) Based on a survey by International Wine & Spirits Research 2016

International Business

We look for the world economy to continue to grow at a moderate pace and think the positive impact of the U.S. large-scale tax cuts on corporate earnings will boost personal consumption. Meanwhile, the Canadian economy should benefit from the stable upswing in crude oil prices. These positives aside, we forecast overall demand in the North American beer market will stay on a horizontal trend line, reflecting the ongoing diversification in alcoholic beverage consumption. In the Asian beer market, we expect to see continued growth in countries with growing populations and firm economic growth. In some countries, however, economic slowdowns and stricter regulations on alcoholic sales and consumption are expected to curtail market growth.

Under such circumstances, our International Business will strive to expand sales of its premium beer brands, beginning with Sapporo Premium Beer, and establish a unique position in North America and Southeast Asia, the two regions where the business is concentrating its resources and efforts. Toward that end, we will execute strategies that match the unique characteristics of the market in each country in which we do business.

In Canada, SLEEMAN BREWERIES will continue to devote its resources to expanding sales of its premium brands by executing marketing strategies that match the special characteristics of those brands. In addition, SLEEMAN aims to expand its share of Canada's beer market and achieve its profit targets by making efficient use of its nationwide sales network to increase sales of new group member Anchor Brewing Company's brands in Canada. In the U.S. beer market, Sapporo USA plans to establish a wider presence for the Sapporo Premium Beer brand by strategically allocating resources in areas and sales channels that are expected to grow. Sapporo USA also aims for early realization of synergies with Anchor Brewing Company in production as well as sales. In the U.S. soft drinks market, we plan to expand sales and profits by acquiring new sales channels, using cost-efficient operations to realize price-based competitive advantages, and making transition to a management platform that will leverage the strengths of our two subsidiaries, Silver Springs Citrus and Country Pure Foods.

In Southeast Asia, we aim to establish a unique brand position in the Vietnam market for Sapporo Premium Beer through in-store contact with customers. In addition, the Vietnam business plans to improve its profitability by revamping its sales network and implementing more efficient marketing methods. In the Singapore market, we will continue to expand sales channels in the household and commercial markets through cooperative efforts with our local subsidiary.

Food & Soft Drinks

Japan's soft drinks industry continues to face a difficult operating environment, characterized by the diversification of consumer preferences, stiff competition among beverage makers, and cost increases caused by forex fluctuations and rising raw material prices.

Under such difficult conditions, our domestic food and soft drinks business plans to deliver new value to its customers in areas where the Sapporo Group has demonstrated advantages.

The domestic soft drinks business seeks to carve out a unique market position by leveraging the core strengths of the Sapporo Group and strengthening its Kireto Lemon, *sozai-kei* (ingredient), *shokkan-kei* (texture) and Gabunomi series of brands.

With growing needs for simple foods expanding the times and places at which people consume soup, our domestic food business will continue its efforts to increase demand for its instant soups by developing soups suitable for consumption in a wider range of situations throughout a year. In the lemon-based foods category, we will continue our efforts to expand demand for Pokka Lemon 100 and lemon vinegar products, including by spreading the word about lemon's health benefits. In the commercial-use products category, we will leverage group synergies to expand sales in all market segments, from our alcoholic-beverage mixers and raw ingredients for lemon-based products to powdered teas and soups. In the soymilk product category, we aim to uncover new demand and increase sales by developing new soymilk-based yogurt products, our core strength in this category.

At the domestic restaurants business, the Café de Crié chain will carry out fine-tuned marketing to stimulate business at its existing outlets. It will also accelerate efforts to establish new formats that will enhance brand value.

The overseas soft drinks business expects to see stiffer competition in its Southeast Asian markets. In response, the business plans to expand sales by maintaining its advantages in the tea drinks and juice beverages segments in the core Singapore market. We aim to grow our Southeast Asian business by providing products that meet the needs of consumers in each priority region, including Indonesia, where we have already begun full-fledged production and sales activities.

Restaurants

Japan’s restaurant industry is expected to be saddled with a difficult operating environment, with labor shortages pushing up hiring costs, food material costs continuing to rise, and competition growing ever more intense as foreign restaurant chains entering the Japan market add to the strains already being applied by cross-industry competition from retailers and other non-traditional players.

In this environment, our Restaurants business will emphasize raising the quality of its menus, service, and store atmosphere in a return to basics focused on “delivering 100% satisfaction to customers.” As part of that commitment, our restaurants are taking extra care to ensure the provision of safe and healthy food to their customers.

New store openings in 2018 again will focus on developing new formats as well as territorial expansion for our two core formats, Ginza Lion and Yebisu Bar. We will also continue to renovate existing outlets and, as needed, alter their format in order to sustain and enhance their future earnings power.

Overseas, we remain devoted to spreading Japan’s beer hall culture. In Singapore, we will undertake cost restructuring to enhance profitability while implementing measures to reestablish the Ginza Lion brand.

Real Estate

Japan’s real estate industry expects to see a sudden increase in new office supply in the Greater Tokyo office leasing market in 2018, but we expect that robust demand and other positive factors will keep vacancy rates at low levels. We think low vacancy rates should support a continued moderate upward trend in office rents. However, competition between new buildings and currently existing ones is expected to intensify, which could lead to a change in market conditions, including the emergence of secondary vacancies.

In this environment, our Real Estate business will continue its efforts to enhance the competitiveness of its buildings and related services as it seeks to raise occupancy rates and rent levels at its properties.

At our flagship property, Yebisu Garden Place, we will continue to enhance the convenience of facilities in all areas of the complex, beginning with the commercial areas, as we aim to increase the entire property's brand value by providing new added-value.

At GINZA PLACE, our commercial complex that opened in September 2016, we plan to add to 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 will increase the property’s drawing power and make the Ginza district an even more dynamic and bustling urban center.

The real estate development business will continue 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.

During 2018, we will continue to review and revise our property portfolio to enhance the overall value of our Real Estate business. We also plan to acquire properties and construct a new business domain centered on urban renewal.

(NOTE) The outlook for 2018 presented above contains forward-looking statements that are based on information available when the materials were prepared and subject to risks and uncertainties. Actual performance may differ materially from the future outlook described for various reasons.

(5) Dividend Policy and Dividends for 2017 and 2018

The Company considers the appropriate return of profits to its shareholders as a fundamental aspect of management policy and has adopted a basic policy to undertake stable dividend payments taking into consideration the Company's performance and financial condition.

Meanwhile, pursuant to the Sapporo Group Long-Term Management Vision "SPEED 150", which was announced in November 2016, the Company, starting from 2017, is working under the First Medium-Term Management Plan 2020, which calls for a dividend payout ratio of 30% as a target for return of profits to its shareholders. However, if profit attributable to owners of parent changes significantly because of an extraordinary profit or loss stemming from special factor, the impact from this may be taken in consideration when deciding a dividend amount.

Given the foregoing situation and taking into consideration the operating results for the current term and the management environment etc. going forward, the Company has decided to pay a dividend of ¥40 per share for 2017. The Company's Articles of Incorporation stipulate that interim dividends may also be distributed, but we currently are distributing an annual dividend once a year. Decisions regarding the payment of dividends from surplus are, in the case of the year-end distribution, approved at the general meeting of shareholders, while the interim dividend, if any, is determined at the sole discretion of the Board of Directors.

We plan to pay an annual per-share dividend of ¥40 in 2018.

2. Basic Approach to Selecting Accounting Standards

The Sapporo Group plans to voluntarily apply the International Financial Reporting Standards (IFRS) to the consolidated accounts for the first quarter of 2018. This change in accounting standard is aimed at unifying accounting procedures throughout the Group and facilitating international comparisons of Group financial information in the capital markets.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(millions of yen)

	December 31, 2016	December 31, 2017
	Amount	Amount
Assets		
I Current assets		
1 Cash and cash equivalents	10,589	12,717
2 Notes and accounts receivable - trade	96,850	98,604
3 Merchandise and finished products	24,657	24,681
4 Raw materials and supplies	13,315	13,638
5 Deferred tax assets	3,639	3,900
6 Other	15,213	15,413
7 Allowance for doubtful receivables	(82)	(103)
Total current assets	164,183	168,852
II Fixed assets		
1 Property, plant and equipment		
(1) Buildings and structures	393,022	395,836
Accumulated depreciation	(220,233)	(224,311)
Buildings and structures, net	172,788	171,524
(2) Machinery and vehicles	231,559	230,812
Accumulated depreciation	(187,660)	(188,393)
Machinery and vehicles, net	43,898	42,419
(3) Land	111,636	113,041
(4) Lease assets	16,970	15,081
Accumulated depreciation	(7,694)	(7,131)
Machinery and vehicles, net	9,276	7,949
(5) Construction in progress	3,694	4,363
(6) Other	17,731	17,822
Accumulated depreciation	(13,529)	(13,358)
Other, net	4,201	4,464
Total property, plant and equipment	345,495	343,763
2 Intangible assets		
(1) Goodwill	27,439	26,948
(2) Other	10,511	13,575
Total intangible assets	37,950	40,523
3 Investments and other assets		
(1) Investment securities	59,296	62,145
(2) Long-term loans receivable	4,789	427
(3) Deferred tax assets	1,070	1,306
(4) Other	14,760	14,827
(5) Allowance for doubtful receivables	(1,195)	(1,216)
Total investments and other assets	78,721	77,491
Total fixed assets	462,168	461,778
Total assets	626,351	630,630

	December 31, 2016	December 31, 2017
	Amount	Amount
Liabilities		
I Current liabilities		
1 Notes and accounts payable - trade	38,503	36,530
2 Short-term bank loans	30,337	37,882
3 Commercial Paper	33,000	32,000
4 Current portion of bonds	10,083	10,068
5 Lease obligations	3,024	2,690
6 Liquor taxes payable	34,228	34,408
7 Income taxes payable	1,680	5,202
8 Accrued bonuses	2,980	3,089
9 Deposits received	8,214	7,817
10 Other	50,071	50,484
Total current liabilities	212,123	220,173
II Long-term liabilities		
1 Bonds	50,128	50,060
2 Long-term bank loans	114,593	103,578
3 Lease obligations	6,968	5,960
4 Deferred tax liabilities	18,804	21,292
5 Net defined benefit liability	8,995	5,492
6 Dealers' deposits for guarantees	33,241	31,086
7 Other	15,115	15,323
Total long-term liabilities	247,847	232,794
Total liabilities	459,971	452,968
Net Assets		
I Shareholders' equity		
1 Common stock	53,886	53,886
2 Capital surplus	46,089	46,090
3 Retained earnings	41,932	50,022
4 Treasury stock, at cost	(1,795)	(1,806)
Total shareholders' equity	140,112	148,193
II Accumulated other comprehensive income		
1 Unrealized holding gain on securities	22,517	25,951
2 Deferred hedge gains (losses)	41	(6)
3 Foreign currency translation adjustments	(1,943)	(818)
4 Remeasurements of defined benefit plans	(41)	148
Total accumulated other comprehensive income	20,574	25,274
III Non-controlling Interests	5,693	4,194
Total net assets	166,380	177,662
Total liabilities and net assets	626,351	630,630

(2) Consolidated Statements of Income

(millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
	Amount	Amount
I Net sales	541,847	551,548
II Cost of sales	352,420	358,572
Gross profit	189,426	192,976
III Selling, general and administrative expenses		
1 Sales incentives and commissions	38,750	39,918
2 Advertising and promotion expenses	20,420	20,239
3 Salaries	32,039	33,493
4 Provision for bonuses	1,726	1,921
5 Retirement benefit expenses	784	715
6 Other	75,438	79,655
Total selling, general and administrative expenses	169,159	175,943
Operating income	20,267	17,032
IV Non-operating income		
1 Interest income	231	164
2 Dividend income	1,111	1,162
3 Equity in income of affiliates	15	19
4 Other	958	746
Total non-operating income	2,316	2,092
V Non-operating expenses		
1 Interest expense	2,142	1,924
2 Foreign exchange losses	217	86
3 Loss on valuation of derivatives	252	73
4 Other	769	629
Total non-operating expenses	3,381	2,714
Ordinary income	19,202	16,410
VI Extraordinary gains		
1 Gain on sales of property, plant and equipment	45	1,977
2 Gain on sales of investment securities	13	4,836
Total extraordinary gains	59	6,813
VII Extraordinary losses		
1 Loss on disposal of property, plant and equipment	1,413	1,068
2 Loss on sales of property, plant and equipment	26	38
3 Loss on impairment of property, plant and equipment	1,018	3,735
4 Loss on devaluation of investment securities	22	273
5 Compensation expenses	376	307
Total extraordinary losses	2,858	5,422
Profit before income taxes	16,403	17,801
Income taxes：current	6,185	8,243
Income taxes：deferred	838	(61)
Total Income taxes	7,023	8,182
Profit	9,380	9,619
Loss attributable to non-controlling interests	(89)	(1,358)
Profit attributable to owners of parent	9,469	10,977

Profit	9,380	9,619
Other comprehensive income		
Unrealized holding gain on securities	(1,408)	3,416
Deferred hedge gains (losses)	52	(60)
Foreign currency translation adjustments	(896)	1,019
Remeasurements of defined benefit plans	(1,915)	189
Total other comprehensive income	(4,168)	4,564
Comprehensive income	5,211	14,183
(Breakdown)		
Comprehensive income attributable to owners of parent	5,509	15,677
Comprehensive income attributable to non-controlling interests	(298)	(1,494)

(3) Statements of Changes in Shareholders' Equity

(millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
	Amount	Amount
Shareholders' Equity		
Common stock		
Balance at beginning of year	53,886	53,886
Changes during period	-	-
Balance at end of period	53,886	53,886
Capital surplus		
Balance at beginning of year	45,913	46,089
Changes during period		
Disposition of treasury stock	175	1
Total changes during period	175	1
Balance at end of period	46,089	46,090
Retained earnings		
Balance at beginning of year	35,189	41,932
Changes during period		
Cash dividends	(2,726)	(2,887)
Profit attributable to owners of parent	9,469	10,977
Total changes during period	6,742	8,090
Balance at end of period	41,932	50,022
Treasury stock		
Balance at beginning of year	(1,595)	(1,795)
Changes during period		
Purchase of treasury stock	(471)	(17)
Disposition of treasury stock	271	6
Total changes during period	(199)	(11)
Balance at end of period	(1,795)	(1,806)
Total shareholders' equity		
Balance at beginning of year	133,394	140,112
Changes during period		
Cash dividends	(2,726)	(2,887)
Profit attributable to owners of parent	9,469	10,977
Purchase of treasury stock	(471)	(17)
Disposition of treasury stock	447	7
Total changes during period	6,718	8,080
Balance at end of period	140,112	148,193
Accumulated other comprehensive income		
Unrealized holding gain on securities		
Balance at beginning of year	23,926	22,517
Changes during period		
Net change in items other than shareholders' equity during period	(1,408)	3,433
Total changes during period	(1,408)	3,433
Balance at end of period	22,517	25,951

Deferred hedge gains (losses)		
Balance at beginning of year	(11)	41
Changes during period		
Net change in items other than shareholders' equity during period	52	(47)
Total changes during period	52	(47)
Balance at end of period	41	(6)
Foreign currency translation adjustments		
Balance at beginning of year	(1,255)	(1,943)
Changes during period		
Net change in items other than shareholders' equity during period	(687)	1,124
Total changes during period	(687)	1,124
Balance at end of period	(1,943)	(818)
Remeasurements of defined benefit plans		
Balance at beginning of year	1,874	(41)
Changes during period		
Net change in items other than shareholders' equity during period	(1,915)	189
Total changes during period	(1,915)	189
Balance at end of period	(41)	148
Total accumulated other comprehensive income		
Balance at beginning of year	24,533	20,574
Changes during period		
Net change in items other than shareholders' equity during period	(3,959)	4,700
Total changes during period	(3,959)	4,700
Balance at end of period	20,574	25,274
Non-controlling interests		
Balance at beginning of year	5,894	5,693
Changes during period		
Net change in items other than shareholders' equity during period	(200)	(1,498)
Total changes during period	(200)	(1,498)
Balance at end of period	5,693	4,194
Total net assets		
Balance at beginning of year	163,822	166,380
Changes during period		
Cash dividends	(2,726)	(2,887)
Net income attributable to owners of parent	9,469	10,977
Purchase of treasury stock	(471)	(17)
Disposition of treasury stock	447	7
Net change in items other than shareholders' equity during period	(4,160)	3,201
Total changes during period	2,558	11,281
Balance at end of period	166,380	177,662

(4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
	Amount	Amount
I Cash flows from operating activities		
1 Profit before income taxes	16,403	17,801
2 Depreciation and amortization	22,341	23,571
3 Loss on impairment of property, plant and equipment and leased assets	1,018	3,735
4 Goodwill amortization	3,920	3,954
5 Decrease in net defined benefit liability	(1,720)	(3,229)
6 Increase (decrease) in allowance for doubtful receivables	(53)	34
7 Interest and dividend income	(1,342)	(1,326)
8 Interest expense	2,142	1,924
9 Gain on sales of property, plant and equipment	(45)	(1,977)
10 Loss on sales and disposal of property, plant and equipment	1,440	1,107
11 Gain on sales of investment securities	(13)	(4,836)
12 Loss on devaluation of investment securities	22	273
13 Increase in notes and accounts receivable - trade	(3,756)	(1,152)
14 Decrease in inventories	968	196
15 Increase (decrease) in notes and accounts payable - trade	1,608	(2,336)
16 Increase (decrease) in accrued consumption taxes	(807)	291
17 Increase in liquor taxes payable	338	131
18 Decrease in deposits received	(623)	(401)
19 Increase (decrease) in dealers' deposits for guarantees	350	(2,155)
20 Increase (decrease) in other current liabilities	173	316
21 Other	1,999	(425)
Sub total	44,364	35,495
22 Interest and dividends received	1,359	1,382
23 Interest paid	(2,190)	(1,963)
24 Income taxes paid	(10,986)	(5,595)
25 Income taxes refundable	22	685
Net cash provided by operating activities	32,570	30,004
II Cash flows from investing activities		
1 Purchases of property, plant and equipment	(19,748)	(13,056)
2 Proceeds from sales of property, plant and equipment	428	3,085
3 Purchases of intangibles	(2,060)	(2,197)
4 Payments for purchases of investment securities	(235)	(1,020)
5 Proceeds from sale and redemption of investment securities	137	8,278
6 Purchase of affiliates securities	(154)	(298)
7 Purchase of subsidiaries' shares resulting in change in scope of consolidation	(438)	(11,622)
8 Payments for transfer of business	(1,493)	-
9 Increase in long-term loans receivable	(77)	(68)
10 Collection of long-term loans receivable	167	4,265
11 Other	(4,112)	(5,189)
Net cash used in investing activities	(27,586)	(17,822)
III Cash flows from financing activities		
1 Net decrease in short-term bank loans	(1,248)	(3,076)
2 Increase (decrease) in commercial paper	16,000	(1,000)
3 Proceeds from long-term bank loans	32,746	12,500
4 Repayment of long-term bank loans	(46,594)	(12,603)
5 Proceeds from issuance of bonds	9,960	9,960
6 Redemption of bonds	(10,016)	(10,083)
7 Cash dividends paid	(2,730)	(2,893)
8 Cash dividends paid to non-controlling interests	(9)	(19)
9 Repayment of finance lease obligations	(2,910)	(2,946)
10 Purchase of treasury stock	(471)	(17)
11 Proceeds from sale of treasury stock	447	7
Net cash used in financing activities	(4,827)	(10,171)
IV Effect of exchange rate changes on cash and cash equivalents	(79)	50
V Net increase in cash and cash equivalents	76	2,061
VI Cash and cash equivalents at beginning of period	10,399	10,475
VII Cash and cash equivalents at end of period	10,475	12,536

(5) Notes on the Going-concern Assumption
Not applicable
(6) Changes in Accounting Policy
Not applicable

[Business combination by acquisition]

The Company acquired 100% of the outstanding shares of Anchor Brewing Company, LLC, with the acquisition to be made through a newly established 100% subsidiary, to be established for the purpose of entering into the agreement.

A)
1. Name and business content of company to be acquired

Name:	Anchor Brewing Company, LLC (and a subsidiary)
Location:	San Francisco, California, USA
Business content:	Beer brewing and sales

2. Purpose of business combination

In November 2016, the Sapporo Group formulated the new Long-Term Management Vision "SPEED 150" through 2026, the year marking the Group's 150th anniversary since its founding. The vision set forth in Speed 150 is for the Sapporo Group to be a company with highly unique brands in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks" around the world.

Regarding its "Promote Global Business Expansion" policy, a key component of the Group's growth strategy, Sapporo Group is promoting a distinctive plan that prioritizes expanding business in North America, already a core part of the Group's business foundation, and Southeast Asia, a regional market with high growth prospects.

The addition of Anchor's strong brand power and network to the Sapporo Group's US beer business portfolio through the conclusion of this agreement is expected to generate further synergies and accelerate the growth of the Group's US business.

3. Transaction counterparty
Anchor Brewers & Distillers, LLC

4. Acquisition date
August 31, 2017

5. Legal form of business combination
Equity shares were acquired for a cash consideration.

6. Name of acquired company after acquisition
No change

7. Share of outstanding stock acquired:
100%

8. Basis for determining the acquiring company
A Group consolidated subsidiary acquired an equity stake through a cash consideration.

B)
1. Inclusion of acquired company's results in consolidated financial statements
As the acquisition was deemed completed on September 30, 2017, the acquired company's results were not included in the consolidated statements of income for the nine months ended on that same date.

2. Acquisition cost and consideration paid, by type, for the acquired company
Acquisition cost (cash): ¥11,913 million
3. Main acquisition-related expenses and amount
Advisory fees, commissions, etc.: ¥404 million

4. Goodwill generated by acquisition, reason, amortization method and period
1) Goodwill generated by acquisition: ¥3,532 million

2) Reason for goodwill
Business activities are expected to generate excess profitability in the future.

3) Amortization method and period
12 years with the straight-line method

5. Assets acquired and liabilities assumed at the date of business combination

Current assets:	¥1,126 million
Fixed assets:	¥8,034 million
Total assets:	¥9,161 million
Current liabilities:	¥778 million
Long-term liabilities:	¥1 million
Total liabilities:	¥780 million

6. Approximate effects on the consolidated statements of income for the year ended December 31, 2017, assuming that the business combination was completed on January 1, 2017, and method of calculation

Net sales:	¥2,577 million
Operating loss:	¥(217) million
Loss attributable to Owners of Parent:	¥(126) million

(Method adopted to estimate approximate effects)

The approximate effects correspond to the acquired company's net sales and income/loss recorded on its consolidated statements of income assuming that the business combination was completed on January 1, 2017.

[Property Leasing]

The Sapporo Group holds office buildings (including land) for lease in the Tokyo metropolitan and other areas. Net leasing income on those properties in the year ended December 31, 2016 was ¥9,453 million (leasing income was mainly recorded as operating revenues; leasing expenses were mainly recorded as operating expenses). Net leasing income on those properties in the year ended December 31, 2017 was ¥10,625 million (leasing income was mainly recorded as operating revenues; leasing expenses were mainly recorded as operating expenses).

The carrying value of those properties on the consolidated balance sheets, change in carrying value during the years ended December 31, 2016 and 2017, and the total fair value appear in the following table.

(millions of yen)

		Year ended December 31, 2016	Year ended December 31, 2017
Carrying value on consolidated balance sheets			
	January 1	197,666	201,763
	Change during the period	4,097	△1,761
	December 31	201,763	200,001
Fair value at December 31		389,101	397,581

Notes:

1. Carrying value on the consolidated balance sheets represents acquisition costs net of accumulated depreciation and accumulated impairment loss.

2. The change during the year ended December 31, 2016 comprises increase mainly arising from property acquisitions (¥10,134 million) and decrease mainly due to depreciation (¥3,804 million), disposal (¥1,911 million).

The change during the year ended December 31, 2017 comprises increase mainly arising from property acquisitions (¥3,742 million) and decrease mainly due to depreciation (¥4,000 million), sales (¥266 million), disposal (¥405 million).

3. The fair value at December 31 is mainly based on property valuations performed by third-party real estate appraisers.

[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. Calculation methods for sales, income (or loss), assets and other items

Accounting methods applied in reportable segment by business largely correspond to that presented under "The Basis for Preparation of Consolidated Financial Statements" and "Change in Accounting methods." Reportable segment income is based on operating income. Intersegment sales or transfers is based on market price. Intra-group sales and transfers are calculated as if the transactions were to third parties based on market prices.

3. Sales, income (or loss), assets, and other items

(millions of yen)

	Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)					
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total
Net sales						
(1) Operating revenues	279,476	65,400	137,918	28,120	22,900	533,815
(2) Intra-group sales and transfers	2,860	96	282	0	2,569	5,810
Total	282,337	65,497	138,200	28,121	25,469	539,625
Segment income (loss)	11,745	906	1,314	663	10,328	24,958
Segment assets	214,326	66,292	100,594	13,571	211,312	606,097
Other						
Depreciation and amortization	7,221	3,042	5,711	521	4,125	20,622
Increase in property, plant and equipment, and intangible assets	2,691	2,649	8,096	1,143	9,648	24,230

	Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)			
	Other *1	Total	Adjustment	Amounts reported on the statements of income*2
Net sales				
(1) Operating revenues	8,031	541,847	-	541,847
(2) Intra-group sales and transfers	20,158	25,968	(25,968)	-
Total	28,190	567,815	(25,968)	541,847
Segment income (loss)	(95)	24,862	(4,595)	20,267
Segment assets	10,042	616,140	10,211	626,351
Other				
Depreciation and amortization	43	20,665	1,675	22,341
Increase in property, plant and equipment, and intangible assets	58	24,288	2,384	26,673

(millions of yen)

	Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)					
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total
Net sales						
(1) Operating revenues	278,692	69,837	137,898	29,140	24,134	539,702
(2) Intra-group sales and transfers	3,526	108	287	0	2,670	6,593
Total	282,218	69,945	138,185	29,141	26,804	546,296
Segment income (loss)	11,767	(1,214)	564	330	11,261	22,709
Segment assets	218,403	76,535	95,907	12,550	212,010	615,406
Other						
Depreciation and amortization	7,656	3,159	5,696	609	4,436	21,558
Increase in property, plant and equipment, and intangible assets	3,468	3,529	4,486	800	2,812	15,097

	Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)			
	Other *1	Total	Adjustment	Amounts reported on the statements of income*2
Net sales				
(1) Operating revenues	11,845	551,548	-	551,548
(2) Intra-group sales and transfers	21,001	27,595	(27,595)	-
Total	32,847	579,143	(27,595)	551,548
Segment income (loss)	51	22,761	(5,728)	17,032
Segment assets	10,254	625,661	4,969	630,630
Other				
Depreciation and amortization	85	21,643	1,927	23,571
Increase in property, plant and equipment, and	207	15,305	2,225	17,530

Notes:

(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.

■Reconciliation and main components of differences between income and loss of reportable segments and figures on the statement of income (information on differences)

(millions of yen)

Segment income (loss)	December 31, 2016	December 31, 2017
Total for reportable segments	24,958	22,709
Income(loss) from other segments	(95)	51
Unallocated corporate costs*	(4,784)	(5,880)
Intra-segment sales	189	151
Operating income on the statement	20,267	17,032

Note: Unallocated corporate costs consist mainly of SGA that is not attributable to reportable segments.

(millions of yen)

Segment income (loss)	December 31, 2016	December 31, 2017
Total for reportable segments	606,097	615,406
Assets of other segments	10,042	10,254
	(11,134)	(14,461)
Unallocated corporate assets*	21,345	19,431
Total assets on the consolidated financial statements	626,351	630,630

Note: Unallocated corporate assets do not belong to reportable segments and consist mainly of working funds (cash and cash equivalents and marketable securities), long-term investments, and assets of general administration divisions.

■Related Information

1. Information by product and service

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Information by product and service is omitted here, as the same information is disclosed elsewhere.

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

Information by product and service is omitted here, as the same information is disclosed elsewhere.

2. Segment Information by Geographic Area

(1) Net sales (millions of yen)

Year ended December 31, 2016(January 1, 2016 – December 31, 2016)				
Japan	North America	Asia	Other	Total
455,001	61,915	19,910	5,020	541,847

Year ended December 31, 2017(January 1, 2017 – December 31, 2017)				
Japan	North America	Asia	Other	Total
459,611	65,781	20,631	5,524	551,548

(2) Property, plant and equipment

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Information has been omitted as total fixed assets held in Japan constituted more than 90% of that shown on the balance sheets.

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

Information has been omitted as total fixed assets held in Japan constituted more than 90% of that shown on the balance sheets.

(3) Information by major customer

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(millions of yen)

Company Name	Net Sales	Segment
KOKUBU & CO.,LTD.	82,686	Japanese Alcoholic Beverages Food & Soft Drinks

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(millions of yen)

Company Name	Net Sales	Segment
KOKUBU & CO.,LTD.	77,851	Japanese Alcoholic Beverages Food & Soft Drinks

3. Impairment loss on fixed assets or goodwill by reportable segment

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(millions of yen)

	Reportable segments						Other	General corporate and intercompany eliminations	Total
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total			
Impairment loss	55	-	819	138	-	1,014	4	-	1,018

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(millions of yen)

	Reportable segments						Other	General corporate and intercompany eliminations	Total
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total			
Impairment loss	-	2,686	335	548	-	3,570	164	-	3,735

4. Amortization for and unamortized balance of goodwill

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(millions of yen)

	Reportable segments						Other	General corporate and intercompany eliminations	Total
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total			
Amortization	54	1,670	2,160	34	-	3,920	-	-	3,920
Unamortized Balance as of Dec. 31, 2016	288	11,214	15,556	379	-	27,439	-	-	27,439

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(millions of yen)

	Reportable segments						Other	General corporate and intercompany eliminations	Total
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total			
Amortization	54	1,719	2,121	59	-	3,954	-	-	3,954
Unamortized Balance as of Dec. 31, 2017	233	12,958	13,435	320	-	26,948	-	-	26,948

5. Gain on negative goodwill by reportable segment

Year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Not applicable

Year ended December 31, 2017 (January 1, 2017 – December 31, 2017)

Not applicable

【Subsequent Events】

None