Financial Results
for the three months ended March 31, 2018 — Consolidated
(Based on IFRS)

May 10, 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	May 14, 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 three months ended March 31, 2018 (January 1 – March 31, 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	%
Three months ended March 31, 2018	111,342	(2.8)	(5,505)	_	(6,053)	_	(4,449)	_
Three months ended March 31, 2017	114,564	_	(3,655)	_	(4,243)	_	(3,389)	_

	Profit attribute to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	Yen	yen
Three months ended March 31, 2018	(4,286)	_	(12,877)	_	(55.03)	(55.01)
Three months ended March 31, 2017	(3,372)	_	(4,807)	_	(43.29)	_

(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	%
Three months ended March 31, 2018	630,264	159,709	156,458	24.8
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	—				
Year ending December 31, 2018 (forecast)		0.00	—	40.00	40.00

Note: Changes were made to dividends forecasts in the three months ended March 31, 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	555,800	3.6	18,700	46.0	17,700	53.4	11,100	54.4	142.50

Note: Changes were made to earnings forecasts in the three months ended March 31, 2018: None

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 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):
March 31, 2018: 78,794,298 shares
December 31, 2017: 78,794,298 shares

2) Number of shares held in treasury at end of period:
March 31, 2018: 902,656 shares
December 31, 2017: 901,792 shares

3) Average number of outstanding share during the period:
Three months ended March 31, 2018: 77,891,842 shares
Three months ended March 31, 2017: 77,894,901 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 International Financial Reporting Standards (IFRS) to its consolidated accounts from the first quarter of 2018. For the purpose of comparisons, financial data for the first quarter and entire fiscal 2017 have been adjusted and are also presented on the IFRS basis.

(1) Operating Results

In the first quarter of 2018 (January 1 – March 31, 2018), the Japanese economy remained in a moderate recovery trend, underscored by firm consumer spending. The future outlook, however, is clouded by worsening conditions in some countries and regions and rising concerns about trade wars.

In this economic environment, the Sapporo Group recorded a year-on-year decline in first-quarter consolidated sales, as favorable sales performances by the Japanese Alcoholic Beverages business' Sapporo Draft Beer Black Label and RTD offerings and the International Business' Canadian subsidiary SLEEMAN BREWERIES were offset by year-on-year declines in shipments of the Japanese Alcoholic Beverages business' happoshu and new-genre beers and weak sales in Japan and overseas of soft drinks handled by the International Business and the Food & Soft Drinks business.

With all segments except for the Real Estate business reporting year-on-year sales declines, the Group posted a larger first-quarter operating loss than it did a year earlier.

In short, in the first quarter of 2018 consolidated revenues totaled ¥111.3 billion (down ¥3.2 billion, or 3% year on year), the operating loss came to ¥5.5 billion (compared with a ¥3.7 billion loss in the first quarter of the previous fiscal year), and the net loss attributable to owners of the parent came to ¥4.3 billion (compared with a net loss of ¥3.4 billion a year earlier).

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

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

Seasonal Factors

The Group's operating results exhibit substantial seasonal variation because demand for the products and services offered by the Japanese Alcoholic Beverages, International Business, Food & Soft Drinks, and Restaurant businesses tends to be concentrated in the summer months. Revenues and profits consequently tend to be lower in the first quarter than in the other three quarters.

Results by segment are outlined below.

Japanese Alcoholic Beverages

We estimate that total domestic demand for beer and beer-type beverages in the first quarter of 2018 fell 1% from the level seen in the first quarter of 2017.

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

Among beer products, Sapporo Draft Beer Black Label continued to enjoy strong sales, especially the canned version. The Yebisu brand also performed solidly, contributing to a 1% year-on-year increase in domestic shipments of our beer products. However, shipments of products in the happoshu and new genre categories declined in a highly competitive market environment. As a result, overall shipments of our beer and beer-type beverages were 2% lower than in the first quarter of 2017.

In the RTD[*1] category, revenue increased over the previous year's level on strong sales of such core RTD collaboration products as Otoko Ume Sour and Kireto Lemon Sour as well as Ai no Skal White Sour, which has seen its sales expand steadily since market introduction in 2017.

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 revenue for the wine category as a whole.

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

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

Overall, first-quarter revenues in the Japanese Alcoholic Beverages business came to ¥50.8 billion, down ¥0.0 billion, or 0% year on year. The segment posted an operating loss of ¥3.1 billion, compared with a loss of ¥2.3 billion a year earlier.

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

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

*3) Based on Intage SRI market research on combined blended *imo shochu* sales in the supermarket, convenience store, and direct sales channels from March 2016 to October 2017.

International Business

We estimate that total demand in the North American beer market in the first quarter of 2018 was below previous-year levels in both the United States and Canada. In Asian countries, demand is being affected by slower economic growth and there was an increasing movement to assess new taxes on a wider range of consumer goods.

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

Our Canadian subsidiary SLEEMAN BREWERIES continued to invest in the marketing of its core premium brands, which enabled it to increase its overall beer sales volume (excluding Sapporo brand beer) year on year. In the U.S. beer market, Sapporo USA's shipments of Sapporo brand beers declined year on year despite the subsidiary's continued efforts to expand its customer base among the general population as well as to Asian Americans. Since the acquisition of Anchor Brewing Company in September 2017, Sapporo USA has been working to strengthen sales synergies with the new group company, especially on the U.S. west coast. In the U.S. soft drinks market, Total revenue of County Pure Foods and Silver Springs Citrus fall amid an increasingly difficult management environment. Targeting earnings improvement for both companies, we are now promoting the management integration of these two U.S. subsidiaries.

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

Thanks to the efforts outlined above, the International Business increased its shipments of Sapporo brand products in overseas markets during the first quarter of 2018 by 2%.

As a result, the International Business posted revenues of ¥17.8 billion, down ¥0.6 billion, or 3%. The segment posted an operating loss of ¥0.4 billion, compared with a loss of ¥0.0 billion a year earlier.

Food & Soft Drinks

We estimate that overall demand for soft drinks in Japan increased 2% year on year in the first quarter of 2018. In this market environment, the Food & Soft Drinks business continued to strengthen its brand lineups and deliver customers with value unique to the Sapporo Group.

During the first quarter, the domestic soft drinks business launched Kumamoto Oishii Genmai-cha, a new tea made exclusively from tea leaves from Kumamoto Prefecture, and continued its efforts to expand the tea market by creating new demand. We simultaneously launched a special version of our Gyokuro-iri Ocha with a Kumamoto Castle Restoration Support Label that informs consumers that a portion of the product's sales will be donated to the effort to restore Kumamoto Castle, which was badly damaged by the series of earthquakes that struck the prefecture in 2016. We also introduced the JELEETS series of dessert drinks with authentic flavor made using a special two-layer jelly recipe (patent pending). These drinks are being marketed as refreshingly sweet drinks that will rejuvenate workers and contribute to more efficient completion of work tasks if consumed during the busy working day. Meanwhile, sales of our coffee products declined amid a downturn in Japan's canned coffee market. As a result, overall sales at our domestic soft drinks business fell below the level achieved in the first quarter of 2017.

The domestic food business introduced Jikkuri Kotokoto Gohobi Dining Reisei series targeted at the cold soup market, which has been expanding in recent years. Our shipments of lemon-based food products achieved 15% year-on-year sales growth in the first quarter, led by strong sales of our core Pokka Lemon 100 brand products. In the soy beans and chilled products category, we introduced a new brand SOYBIO Soymilk Yogurt as part of our ongoing effort to expand the customer base of our soymilk yogurts. During the period under review, we also began the production and sale of Almond Breeze, the world's leading brand of almond milk.

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

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

Overall, the Food & Soft Drinks segment's revenues came to ¥27.8 billion, down ¥2.5 billion or 8% year on year. The segment posted an operating loss of ¥1.0 billion, compared with a loss of ¥0.3 billion a year earlier.

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

Restaurants

Japan's restaurant industry continued to see year-on-year growth in revenue in the first quarter of 2018, while grappling with a severe operating environment characterized by labor shortages and the resulting increase in labor costs as well as the upward 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."

The sole new store opening in Japan during the first quarter was the March opening in Fukuoka's Hakata district of the first Yebisu Bar outlet in Kyushu. The new outlet has won rave reviews from local customers and is doing quite well. We plan to continue expanding our presence throughout Japan by opening new outlets in regional cities as well as the Tokyo metropolitan area. We also continue to renovate existing outlets and change formats as needed. In April, we re-opened the completely renovated Ginza Lion outlet in Tokyo's Aoyama district and opened a new format Japanese restaurant Sobaemon in Tokyo's Osaki district. During the first quarter, we also closed one restaurant, keeping the total number of restaurants operating in Japan as of end-

March at 195.

Meanwhile, in Singapore we continue to promote the spread of Japan's beer hall culture. However, we closed one unprofitable store during the first quarter, reducing the total number of outlets in Singapore to 12 stores.

Overall, the Restaurants business' revenues in the first quarter of 2018 totaled ¥6.1 billion, down ¥0.2 billion or 4% year on year. The segment posted an operating loss of ¥0.5 billion.

Real Estate

Japan's real estate industry is expecting a sharp increase in supply of new office space becoming available in the Greater Tokyo office leasing market in 2018. Nonetheless, vacancy rates remain low as strong corporate earnings support demand for office space, and accordingly, rents continue to rise slightly.

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

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

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

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

As result of the efforts outlined above, Real Estate business revenues in the first quarter of 2018 totaled ¥6.0 billion, up ¥0.2 billion or 3%. Operating profit was ¥1.1 billion, up ¥0.1 billion or 13%.

(2) Consolidated Financial Condition

Consolidated assets as of March 31, 2018, totaled ¥630.3 billion, ¥34.5 billion less than at the end of the previous fiscal year (December 31, 2017). The decline is mainly attributable to a decrease in trade receivables, which more than offset an increase in other current assets.

Consolidated total liabilities totaled ¥470.6 billion, ¥18.5 billion less than on December 31, 2017, primarily owing to the decrease in other current liabilities, which helped to offset an increase in other financial liabilities (current).

Consolidated total equity totaled ¥159.7 billion, down ¥16.0 billion from the end of the previous fiscal year, primarily owing to the payment of year-end dividends despite the posting of a net loss attributable to owners of parent.

(3) Consolidated Earnings Forecast

The consolidated earnings forecast for the full fiscal year ending December 31, 2018, is unchanged from the forecast announced by Sapporo Holdings on February 15, 2018.

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(millions of yen)

	Transition date January 1, 2017	December 31, 2017	March 31, 2018
	Amount	Amount	Amount
Assets			
I Current assets			
1 Cash and cash equivalents	10,476	12,537	9,329
2 Trade and other receivables	96,574	98,325	73,568
3 Inventories	37,619	37,873	39,491
4 Other financial assets	9,967	9,107	8,389
5 Other current assets	7,386	6,914	10,127
subtotal	162,022	164,755	140,905
6 Assets held for sale	359	-	-
Total current assets	162,381	164,755	140,905
II Non-current assets			
1 Property, plant and equipment	151,602	151,334	149,053
2 Investment property	223,595	219,658	218,951
3 Goodwill	21,483	24,942	24,406
4 Intangible assets	10,305	13,339	12,764
5 Investments accounted for using equity method	372	391	395
6 Other financial assets	79,278	78,677	72,544
7 Other non-current assets	8,921	9,309	8,623
8 Deferred tax assets	2,176	2,326	2,624
Total non-current assets	497,733	499,976	489,359
Total assets	660,114	664,731	630,264

	Transition date January 1, 2017	December 31, 2017	March 31, 2018
	Amount	Amount	Amount
Liabilities and equity			
Liabilities			
I Current liabilities			
1 Trade and other payables	38,460	36,488	34,399
2 Bonds and borrowings	75,580	80,716	91,108
3 Lease liabilities	6,609	6,533	6,547
4 Income tax payable	1,570	5,207	586
5 Other financial liabilities	33,108	33,277	38,152
6 Other current liabilities	66,424	66,590	54,925
Total current liabilities	221,750	228,809	225,717
II Non-current liabilities			
1 Bonds and borrowings	165,235	153,184	139,981
2 Lease liabilities	24,623	24,295	24,364
3 Other financial liabilities	48,125	45,956	45,900
4 Net defined benefit liabilities	8,996	6,283	7,819
5 Other non-current liabilities	2,689	2,621	2,693
6 Deferred tax liabilities	26,455	27,872	24,081
Total non-current liabilities	276,122	260,212	244,838
Total liabilities	497,872	489,021	470,555
Equity			
1 Share capital	53,887	53,887	53,887
2 Capital surplus	40,706	40,825	40,825
3 Treasury shares	(1,796)	(1,807)	(1,809)
4 Retained earnings	36,315	44,491	36,012
5 Other components of equity	28,515	34,659	27,545
Total equity attributable to owners of parent	157,628	172,055	156,458
Non-controlling interests	4,613	3,655	3,250
Total equity	162,241	175,710	159,709
Total liabilities and equity	660,114	664,731	630,264

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

Consolidated Income statements (millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
	Amount	Amount
Revenue	114,564	111,342
Cost of sales	82,166	80,496
Gross profit	32,397	30,846
Selling, general and administrative expenses	35,630	35,882
Other operating income	231	307
Other operating expense	654	777
Operating profit (loss)	(3,655)	(5,505)
Financial income	189	201
Financial expense	781	752
Share of profit (loss) of investments accounted for using equity method	4	3
Profit (loss) before tax	(4,243)	(6,053)
Income tax expense	(855)	(1,604)
Profit (loss)	(3,389)	(4,449)
Profit attributable to		
Owners of parent	(3,372)	(4,286)
Non-controlling interests	(16)	(162)
Total	(3,389)	(4,449)
Basic earnings per share (JPY)	(43.29)	(55.03)
Diluted earnings per share(JPY)	-	(55.01)

Consolidated Statement of Comprehensive Income

	Three months ended March 31, 2017	Three months ended March 31, 2018
	Amount	Amount
Profit (loss)	(3,389)	(4,449)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(394)	(4,263)
Remeasurements of defined benefit plans	6	(1,083)
Total of items that will not be reclassified to profit or loss	(388)	(5,346)
Items that might be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(1,116)	(3,171)
Effective portion of gains and losses on fair value of cash flow hedges	86	88
Total of items that might be reclassified to profit or loss	(1,030)	(3,083)
Other comprehensive income, net of taxes	(1,418)	(8,429)
Comprehensive income	(4,807)	(12,877)
Comprehensive income attributable to		
Owners of parent	(4,614)	(12,472)
Non-controlling interests	(192)	(405)
Comprehensive income	(4,807)	(12,877)

(3) Consolidated Statements of Changes in Equity

(millions of yen)

	Equity attributable to owners of parent											
					Other components of equity					Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of gains and losses on fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2017	53,887	40,706	(1,796)	36,315	-	(317)	28,832	-	28,515	157,628	4,613	162,241
Profit (loss)				(3,372)					-	(3,372)	(16)	(3,389)
Other comprehensive income, net of taxes					(928)	74	(393)	6	(1,242)	(1,242)	(176)	(1,418)
Total comprehensive income	-	-	-	(3,372)	(928)	74	(393)	6	(1,242)	(4,614)	(192)	(4,807)
Purchase of treasury shares			(2)						-	(2)	-	(2)
Disposal of treasury shares		0	0						-	0	-	0
Dividends				(2,888)					-	(2,888)	-	(2,888)
Transfer from other components of equity to retained earnings				6				(6)	(6)	-	-	-
Total transactions with owners	-	0	(2)	(2,882)	-	-	-	(6)	(6)	(2,890)	-	(2,890)
Balance as of March 31, 2017	53,887	40,706	(1,798)	30,061	(928)	(243)	28,439	-	27,268	150,124	4,421	154,545

	Equity attributable to owners of parent											
					Other components of equity					Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of gains and losses on fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2018	53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	-	34,659	172,055	3,655	175,710
Profit (loss)				(4,286)					-	(4,286)	(162)	(4,449)
Other comprehensive income, net of taxes					(2,916)	76	(4,263)	(1,083)	(8,185)	(8,185)	(243)	(8,429)
Total comprehensive income	-	-	-	(4,286)	(2,916)	76	(4,263)	(1,083)	(8,185)	(12,472)	(405)	(12,877)
Purchase of treasury shares			(3)						-	(3)	-	(3)
Disposal of treasury shares									-	-	-	-
Dividends				(3,122)					-	(3,122)	-	(3,122)
Transfer from other components of equity to retained earnings				(1,071)			(12)	1,083	1,071	0	(0)	-
Total transactions with owners	-	-	(3)	(4,193)	-	-	(12)	1,083	1,071	(3,124)	(0)	(3,125)
Balance as of March 31, 2018	53,887	40,825	(1,809)	36,012	(1,778)	(115)	29,437	-	27,545	156,458	3,250	159,709

3.Notes on the Going-concern Assumption

Not applicable

4.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)

	Three months ended March 31, 2017 (January 1, 2017 – March 31, 2017)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	50,796	18,448	30,361	6,347	5,861
Inter-segment revenue	743	17	38	0	614
Total	51,539	18,466	30,400	6,347	6,475
Operating profit	(2,289)	(30)	(309)	(538)	972

	Three months ended March 31, 2017 (January 1, 2017 – March 31, 2017)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	2,750	114,564	-	114,564
Inter-segment revenue	4,405	5,817	(5,817)	-
Total	7,155	120,381	(5,817)	114,564
Operating profit	(129)	(2,324)	(1,332)	(3,655)

(millions of yen)

	Three months ended March 31, 2018 (January 1, 2018 – March 31, 2018)				
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate
Revenue					
To outside customers	50,784	17,837	27,815	6,113	6,021
Inter-segment revenue	669	116	27	1	663
Total	51,452	17,952	27,842	6,114	6,683
Operating profit	(3,056)	(443)	(1,003)	(543)	1,101

	Three months ended March 31, 2018 (January 1, 2018 – March 31, 2018)			
	Other *1	Total	Adjustment	Consolidated total
Revenue				
To outside customers	2,773	111,342	-	111,342
Inter-segment revenue	4,428	5,903	(5,903)	-
Total	7,201	117,245	(5,903)	111,342
Operating profit	(98)	(4,043)	(1,463)	(5,505)

(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 the first quarter of fiscal 2017 have been adjusted retroactively to reflect these changes.

Subsequent Events

(Issuance of convertible bonds with stock acquisition rights)

At a meeting of the Board of Directors held on April 11, 2018, the Company resolved to issue euro-yen convertible bonds with stock acquisition rights due 2021. The payment was completed on April 27, 2018. Details concerning the convertible bond issuance are as follows.

1. Name of the bond

   Sapporo Holdings Limited Euro-Yen Convertible Bonds with Stock Acquisition Rights due 2021 (hereinafter, "Bonds with Stock Acquisition Rights;" "the Bonds" when referring to the bonds only, and "the Stock Acquisition Rights" when referring to the stock acquisition rights only).

2. Issuance amount (amount paid for the Bonds)

   100.5% of the Bonds' par value (each Bond has a par value of ¥10 million)

3. Issue price (subscription price)

   103.0% of the Bonds' par value

4. Total issuance amount

   ¥20 billion plus total par value of the Bonds for Substitute Bonds with Stock Acquisition Rights (i.e., bonds with stock acquisition rights issued with appropriate certification as compensation in case of loss, theft or destruction of the Bonds with Stock Acquisition Rights, hereinafter the same shall apply).

5. Coupon interest rate

   The Bonds do not have a coupon interest rate

6. Closing date and issue date

   April 27, 2018 (London time, hereinafter the same unless indicated otherwise below)

7. Redemption method and maturity date

   The Bonds will be redeemed at 100% of their par value upon maturity on April 27, 2021 and in accordance with certain provisions set forth in the issuance documents.

8. Matters concerning the Stock Acquisition Rights

   (1) Type, content, and number of shares to be issued upon exercise of Stock Acquisition Rights

   The shares to be issued upon exercise of Stock Acquisition Rights shall be the Company's common stock (the number of shares constituting one unit = 100 shares), and the number of shares to be delivered by the Company upon exercise of the Stock

Acquisition Right shall be determined by dividing the total value of the Bonds' par value regarding the exercise request by the conversion price set forth in (3) below. However, fractions of less than one share resulting from the exercise of rights shall be rounded down without any cash adjustment.

(2) Total number of Stock Acquisition Rights issued

2,000 plus a number determined by dividing the par value of the Bonds regarding Substitute Bonds with Stock Acquisition Rights by ¥10 million

(3) Nature and value of the asset to be contributed upon exercise of the Stock Acquisition Rights

(a) The exercise of each Stock Acquisition Right shall be valued at the par value of the Bonds to which the Stock Acquisition Rights were attached.

(b) The conversion price will initially be ¥3,965.

(c) Conversion price adjustments

Subsequent to the issue of the Bonds with Stock Acquisition Rights, if the Company issues shares of its common stock at a price less than its market price or disposes of shares held by the Company as treasury stock, the conversion price will be adjusted according to the below formula, in which the "Number of shares already issued" refers to the total number of outstanding shares of the Company's common stock (excluding treasury stock held the Company).

$$\text{Conversion price after adjustment} = \text{Conversion price prior to adjustment} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of issued or disposed shares} \times \text{Price paid per share}}{\text{Market capitalization}}}{\text{Number of shares already issued} + \text{Number of issued or disposed shares}}$$

In addition, the conversion price shall be adjusted appropriately to reflect changes caused by the splitting or consolidation of the Company's common stock, the issuance of stock acquisition rights (including via the issuance of bonds with stock acquisition rights) that can request the delivery of the Company's common stock at a price below its market price or any other justifiable reason.

(4) Stock Acquisition Rights can be exercised from May 11, 2018 to April 13, 2021 (local time for the location where exercise request is received), in accordance with certain provisions set forth in the issuance documents.

(5) Other conditions for exercising Stock Acquisition Rights: The Stock Acquisition Rights cannot be partially exercised.

(6) Capital and capital reserves to be increased when common shares are issued upon

exercise of stock acquisition rights

The increase in capital realized through the issuance of common shares upon the exercise of the Stock Acquisition Rights shall be the amount obtained by multiplying by 0.5 the upper limit on the increase in capital etc. set forth in the Article 17 of the Rules of Corporate Accounting. The increase in the capital reserve shall be the amount obtained by subtracting the increase in capital from the upper limit on the increase in capital, etc.

(7) The issuance of stock acquisition rights by a successor company etc. resulting from organizational restructurings etc. is subject to certain provisions set forth in the issuance documents

9. The bonds are issued without collateral or guarantees.

10. Use of proceeds from bond issuance

The Company plans to use funds raised by the issuance of the Bonds with Stock Acquisition Rights are as follows:

(1) About ¥12 billion will be used within May 2018 for the repayment commercial paper taken on as part of the acquisition of Anchor Brewing Company.

(2) About ¥8 billion will be used within May 2018 for the repayment of other outstanding commercial paper as the Company seeks to strengthen its financial base.

(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 first three months of FY2017 (March 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	9,429	(119)	–	9,310		Cash and cash equivalents
Notes and accounts receivable - trade	68,489	(62)	(159)	68,268	①	Trade and other receivables
Merchandise and finished products	27,573	(27,573)	–	–		
Raw materials and supplies	13,156	(13,156)	–	–		
	–	40,985	(837)	40,149	①	Inventories
	–	6,846	329	7,175	⑥	Other financial assets
Other	19,575	(11,110)	(138)	8,326		Other current assets
Allowance for doubtful receivables	(62)	62	–	–		
	138,159	(4,126)	(805)	133,228		Subtotal
	–	359	–	359		Assets held for sale
Total current assets	138,159	(3,767)	(805)	133,587		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	342,419	(222,558)	28,964	148,825	③④	Property, plant and equipment
Intangible assets						
Goodwill	26,286	–	(4,983)	21,303	⑤	Goodwill
Other	10,292	(395)	174	10,071		Intangible assets
	–	222,595	–	222,595		Investment property
Investments and other assets						
Investment securities	59,093	(59,093)	–	–		
	–	376	–	376		Investments accounted for using equity method
	–	64,202	10,308	74,510	⑥	Other financial assets
Long-term loans receivable	460	(460)	–	–		
Other	15,305	(7,327)	404	8,382		Other non-current assets
	–	(2,771)	5,207	2,436	②	Deferred tax assets
Allowance for doubtful receivables	(1,216)	1,216	–	–		
Total fixed assets	452,638	(4,215)	40,075	488,498		Total non-current assets
Total assets	590,797	(7,982)	39,270	622,085		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	35,803	―	(43)	35,760		Trade and other payables
Short-term bank loans	27,991	(27,991)	―	―		
Commercial paper	41,000	(41,000)	―	―		
Current portion of bonds	10,072	(10,072)	―	―		
	―	79,062	(16)	79,046	⑥	Bonds and borrowings
	―	2,906	3,790	6,696	④	Lease obligations
Income taxes payable	1,090	―	(3)	1,087		Income tax payables
	―	33,747	11	33,759	⑤	Other financial liabilities
Accrued bonuses	4,826	(4,826)	―	―		
Liquor taxes payable	18,157	(18,157)	―	―		
Deposits received	8,872	(8,872)	―	―		
Other	49,978	(4,892)	5,882	50,969	⑦	Other current liabilities
Total current liabilities	197,789	(94)	9,622	207,317		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	40,129	(40,129)	―	―		
Long-term bank loans	114,158	(114,158)	―	―		
	―	154,287	247	154,533	⑥	Bonds and borrowings
	―	44,582	499	45,082	⑥	Other financial liabilities
Net defined benefit liability	8,655	―	189	8,844		Net defined benefit liability
	―	6,651	17,329	23,980	④	Lease obligations
Dealers' deposits for guarantees	30,907	(30,907)	―	―		
Other	39,541	(38,752)	1,925	2,714		Other non-current liabilities
	―	10,537	14,533	25,070	②	Deferred tax liabilities
Total long-term liabilities	233,389	(7,888)	34,722	260,223		Total non-current liabilities
Total liabilities	431,179	(7,982)	44,344	467,540		Total liabilities
Net assets						Equity
Common stock	53,887	―	―	53,887		Share capital
Capital surplus	46,090	―	(5,383)	40,706	⑤	Capital surplus
Treasury stock, at cost	(1,798)	―	―	(1,798)		Treasury shares
Retained earnings	36,737	―	(6,676)	30,061	⑨	Retained earnings
Accumulated other comprehensive income	19,159	―	8,109	27,268	⑧	Other components of equity
				150,124		Total equity attributable to owners of parent
Non-controlling interests	5,544	―	(1,124)	4,421		Non-controlling interests
Total net assets	159,619	―	(5,074)	154,545		Total equity
Total liabilities and net assets	590,797	(7,982)	39,270	622,085		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)	Three months ended March 31, 2017	Year ended December 31,2017
Trade and other receivables and Inventories (see 1)	(418)	(330)	(510)
Property, plant and equipment (see 3)	(1,610)	(2,043)	(4,851)
Lease obligations (see 4)	252	243	217
Goodwill (see 5)	－	956	3,904
Other financial assets、Other financial liabilities (see 6)	263	258	275
Other current liabilities (see 7)	(2,739)	(4,093)	(2,643)
Other components of equity (see 8)	(1,382)	(1,600)	(1,739)
Other	16	(68)	(185)
Total adjustments to retained earnings	(5,617)	(6,676)	(5,532)

Reconciliations of profit or loss and comprehensive income for the first three months of FY2017
(January 1, 2017 - March 31, 2017)

(millions of yen)

Accounts under JGAAP	JGAAP	Presentation reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	117,788	—	(3,225)	114,564	①	Revenue
Cost of sales	77,262	—	4,905	82,166	①②④	Cost of sales
Gross profit	40,527	—	(8,129	32,397		Gross profit
Selling, general and administrative expenses	41,980	—	(6,350)	35,630	①②③④	Selling, general and administrative expenses
	—	230	1	231		Other operating income
	—	660	(6)	654		Other operating expenses
Operating loss	(1,453)	(431)	(1,771)	(3,655)		Operating loss
Non-operating income	417	(417)	—	—		
Non-operating expenses	910	(910)	—	—		
Extraordinary gains	5	(5)	—	—		
Extraordinary losses	426	(426)	—	—		
	—	188	1	189		Finance income
	—	676	105	781		Finance costs
	—	4	(0)	4		Share of profit of investments accounted for using equity methods
Loss before income taxes	(2,368)	—	(1,875)	(4,243)		Loss before tax
Income taxes	(87)	—	(768)	(855)	⑤	Income tax expense
Loss	(2,281)	—	(1,108)	(3,389)		Loss
Other comprehensive income						Other comprehensive income
Unrealized holding gain on securities	(394)	—	1	(394)	⑤	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(87)	—	93	6	④	Remeasurements of defined benefit plans
Foreign currency translation adjustments	(1,112)	—	(4)	(1,116)		Exchange differences on translation of foreign operations
Deferred hedge gains (losses)	2	—	84	86		Effective portion of gains and losses on fair value of cash flow hedges
Comprehensive income	(3,872)	—	(935)	(4,807)		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)	145,992	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		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)	11,537		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.”

Reconciliations of cash flows for the fiscal year ended December 31, 2017 (January 1, 2017 - December 31, 2017)

There are no material differences between the statements of cash flows based on JGAAP and those based on IFRS.