Financial Results
for the Year Ended December 31, 2019 — Consolidated
(Based on IFRS)

February 13, 2020

Company name	**Sapporo Holdings Limited**
Security code	2501
Listed on	Tokyo Stock Exchange (First Section); Sapporo Securities Exchange
URL	https://www.sapporoholdings.jp/english/
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Scheduled dates:

Annual general meeting of shareholders	March 27, 2020
Filing of annual financial report	March 30, 2020
Commencement of dividend payments	March 30, 2020
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, 2019 (January 1 – December 31, 2019)

(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	%
Year ended December 31, 2019	491,896	(0.4)	12,208	5.3	11,588	9.0	3,820	(50.5)
Year ended December 31, 2018	493,908	_	11,588	_	10,629	_	7,721	_

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	Yen	Yen
Year ended December 31, 2019	4,356	(48.9)	15,915	_	55.92	52.74
Year ended December 31, 2018	8,521	_	(8,003)	_	109.40	104.46

	Ratio of profit to equity attributable to owners of parent	Ratio of profit before tax to total assets	Operating profit margin
	%	%	%
Year ended December 31, 2019	2.6	1.8	2.5
Year ended December 31, 2018	5.1	1.6	2.3

Note: Equity method investment gains

Year ended December 31, 2019: 18 million yen

Year ended December 31, 2018: 19 million yen

Note: The profit and loss of the North American soft drinks business has been classified under discontinued operations because all of the shares in Country Pure Foods, Inc. held by the Sapporo Group were transferred to BPCP CPF Holdings Inc. in 2019.(Year ended December 31, 2018 of the North American soft drinks business has been also classified under discontinued operations)

(2) Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	million yen	million yen	million yen	%	yen
Year ended December 31, 2019	638,722	174,524	174,071	27.3	2,234.65
Year ended December 31, 2018	639,692	164,735	161,501	25.2	2,073.54

(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, 2019	36,069	(24,930)	(5,984)	15,215
Year ended December 31, 2018	30,830	(18,727)	(14,521)	9,989

2. Dividends

	Dividend per share					Total dividends paid (full year)	Payout ratio (consol.)	Dividends to equity attributable to owners of parent (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, 2018	—	0.00	—	42.00	42.00	3,277	38.4	2.0
Year ended December 31, 2019	—	0.00	—	42.00	42.00	3,277	75.1	1.9
Year ending December 31, 2020 (forecast)	—	0.00	—	42.00	42.00		—	

3. Forecast of Consolidated Earnings for the Year Ending December 31, 2020 (January 1 – December 31, 2020)

(Percentage figures represent year-over-year changes)

	Revenue		Core operating profit		Operating profit		Profit		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	%
Year ending December 31, 2020	504,400	2.5	14,000	19.4	8,500	(30.4)	5,000	30.9	5,000	14.8	64.19

Note: Earnings forecasts for the six months ending June 30, 2020 are omitted because the company manages performance targets on a yearly basis.

Note: Core operating Profit is a proprietary profit indicator that measures the performance consistency of our business. Core operating profit is calculated as Revenue – Cost of sales – SG&A expenses.

4. Other

(1) Changes to scope of consolidation: Yes

*Changes affecting the status of significant subsidiaries (scope of consolidation)

Newly excluded: Sapporo International Inc.

(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):
December 31, 2019: 78,794,298 shares
December 31, 2018: 78,794,298 shares

2) Number of shares held in treasury at end of period:
December 31, 2019: 898,162 shares
December 31, 2018: 907,931 shares

3) Average number of outstanding share during the period:
December 31, 2019: 77,892,507 shares
December 31, 2018: 77,890,590 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, 2020" 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, 2019

Millions of yen, except percentages

	Revenue	Operating profit	Profit before tax	Profit attributable to owners of parent
	million yen	million yen	million yen	million yen
Year ended December 31, 2019	491,896	12,208	11,588	4,356
Year ended December 31, 2018	493,908	11,588	10,629	8,521
Change (%)	(0.4)	5.3	9.0	(48.9)

In 2019, the Japanese economy on the whole remained steady as companies increased their capital expenditure on the back of firm corporate earnings while individual employment and income improved steadily, despite a decline in domestic demand due to factors such as the consumption tax hike and natural disasters. Meanwhile, uncertainty in the global economy increased owing to heightened US-China trade frictions and rising geopolitical risks such as the worsening standoff between the US and Iran.

In the domestic alcoholic beverage industry, the cost-cutting mindset of consumers has shifted demand more prominently to lower priced products. The North American beer market appears to have contracted from the previous year’s level primarily due to the impact of the cold wave. Conditions in the Asian beer market vary widely depending on the country, but the Vietnam beer market continues to expand. In the domestic soft drinks industry, overall demand appears to have decreased year on year, primarily due to the impact of typhoons. Meanwhile, in the real estate industry, rent levels continued on a gradual upward trend on the back of sustained solid demand in the Greater Tokyo office leasing market.

In this environment, the Sapporo Group endeavored to accelerate growth under its Long-Term Management Vision ”SPEED 150” and the First Medium-Term Management Plan 2020 and achieve its financial targets for 2019, as it strives to be a company with highly unique brands in the fields of “Alcoholic Beverages”, “Food”, and “Soft Drinks” around the world.

The profit and loss of the North American soft drinks business has been classified under discontinued operations because all of the shares in Country Pure Foods, Inc. (the company managing the North American soft drinks business, which falls under Food & Soft Drinks) held by the Sapporo Group were transferred to BPCP CPF Holdings Inc. in 2019.

Revenue

In 2019, the Sapporo Group posted consolidated revenue of ¥491.9 billion, down ¥2.0 billion or less than 1% year on year.

The Alcoholic Beverages business had somewhat mixed results. While strong sales were achieved by mainstay brand Sapporo Draft Beer Black Label and by Sapporo Chuhai 99.99 (Four Nines), a new RTD beverage in which the segment has invested aggressively, shipments of new genre fell below previous-year levels. As a result, segment revenue declined year on year. In the Food & Soft Drinks business, segment revenue rose following the consolidation of Yasuma Co., Ltd., despite a weak canned coffee market and a slump in demand due to inclement weather. The Real Estate Business achieved profit growth supported by increases in rental income from core properties.

Operating Profit

Operating profit at the Japanese Alcoholic Beverages business rose on the back of cost control, improved product mix and the impairment loss recorded in 2018 for U.S. subsidiary Anchor Brewing Company. On the other hand, operating profit declined at the Food & Soft Drinks business as domestic sales volume fell. The Real Estate business recorded positive growth thanks to contributions from gains on sale of real estate following a property portfolio review, in addition to the increases in rental income from core properties.

As a result, consolidated operating profit came to ¥12.2 billion, up ¥0.6 billion or 5% year on year.

Profit before tax

Profit before tax in 2019 came to ¥11.6 billion, up ¥1.0 billion or 9% year on year.

Profit Attributable to Owners of Parent

In 2019, profit attributable to owners of parent totaled ¥4.4 billion, down ¥4.2 billion or 49% year on year. Due to an increase in net loss from discontinued operations following the transfer of shares of Country Pure Foods, Inc.

(b) Results by Business Segment

Millions of yen, except percentages

	Revenue			Operating profit		
	Year ended December 31, 2018	Year ended December 31, 2019	Change (%)	Year ended December 31, 2018	Year ended December 31, 2019	Change (%)
Alcoholic Beverages	330,009	324,438	(1.7)	3,856	7,877	104.3
Food & Soft Drinks	133,384	136,876	2.6	1,910	(1,151)	—
Real Estate	24,483	24,690	0.8	12,047	12,714	5.5

Results by segment are outlined below. From 2019, in order to further strengthen management oversight of each business, the five reportable segments used up until now have been reorganized to three reportable segments.

To enable year-on-year comparisons, figures for the previous fiscal year have been adjusted to reflect the new reportable segments.

Alcoholic Beverages

(Japan & Asia)

We estimate that total domestic demand for beer and beer-type beverages was about 1% lower than the level in 2018.

In this operating environment, our Japanese Alcoholic Beverages business continued to work towards realizing our corporate vision—Seek to be No.1 by accumulating one-of-a-kind products—and achieving further growth by constantly providing unique, new value to customers.

In the beer category, based on our "beer revival declaration" business policy, sales of

Sapporo Draft Beer Black Label, Sapporo Lager Beer, and Sapporo Classic remained brisk, and sales volume increased 1% year on year.

On the other hand, total sales volume for beer and beer-type beverages decreased 3% year on year with lower sales in the new genre category due to increasingly intense competition.

In the RTD*1 category, revenue increased significantly year on year with consumers favorably receiving Sapporo Chuhai 99.99 (Four Nines) launched in August 2018, which has grown to the point where it is now on a par with core collaborative RTD products ranking alongside the likes of Otoko Ume Sour.

In the wine category, we stepped up marketing of our fine wines*2, including the imported wine Penfolds, Taittinger champagne, and domestic Grande Polaire wines. However, weak sales of our everyday wines*2 led to revenue being below that of the previous year.

Our spirits business achieved year-on-year revenue growth, driven by strong sales of products from major overseas brands including Dewar’s.

Our Japanese liquor business posted a year-on-year decline in revenue, despite solid sales of Kokuimo brand, Japan's best-selling*3 blended imo shochu.

In Asia, in the Vietnam market we continued our efforts to establish sales channels capable of generating profit growth.

(North America)

We estimate that total demand in the North American beer market declined year on year in both U.S. and Canada.

In this environment, our North American business worked to strengthen the mainstay brands, primarily premium beer brands, and enhance the portfolio for each brand.

In Canada, our subsidiary Sleeman Breweries continued to invest in the marketing of its core premium brands, but the drop in total demand resulted in a year-on-year decline in beer sales volume (excluding Sapporo brand beer).

In the U.S., Sapporo USA's sales volume of Sapporo brand beers grew year on year due to the company's sales promotion activities for Sapporo brands targeting the general population as well as Asian-Americans. Meanwhile, Anchor Brewing Company worked to bolster sales synergies with Sapporo USA amid the challenging business environment created by the continued decline in demand for craft beer in its home market in the San Francisco area.

(Restaurants)

Japan's restaurant industry continued to enjoy year-on-year growth in revenues, but the operating environment remained challenging, highlighted by rising hiring costs owing to labor shortages and increasing raw material procurement prices.

In this environment, based on the philosophy of "Enhancing the Joy of Living," Sapporo Lion worked to deliver safe and sound products to customers while also striving to create restaurants that “deliver 100% satisfaction to customers.”

In Japan, despite the impact of store closures for remodeling and closing of unprofitable outlets, the restaurant business posted revenue growth in 2019 on the back of strong performance by existing restaurants and the newly consolidated HANEI INC,. We opened nine new stores including a Rumoi Marche restaurant in Ginza, Tokyo, the second Grande Polaire Bar in Umeda, Osaka, and one establishment in Shizuoka and two in Osaka of our core format Yebisu Bar. We renovated a total of four stores including the Shimbashi store, where we refurbished the first floor and reopened it as the Ginza Lion Shimbashi Training Center. Meanwhile, we closed 16 restaurants in 2019 due to the expiration of contracts, unprofitability, and other factors. As a result, we had 195 outlets open for business at the end of December 2019. Going forward, we will continue to aggressively expand our restaurant chains, opening new stores, remodeling existing stores, and changing formats when and where desirable.

In Singapore, we continued to promote the spread of beer hall culture.

As a result, revenue in the Alcoholic Beverages segment in 2019 came to ¥324.4 billion (down ¥5.6 billion, or 2% year on year), while the segment posted an operating profit of ¥7.9 billion (up ¥4.0 billion, or 104% year on year).

*1) RTD, or ready-to-drink beverages, are pre-mixed, low-alcohol 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 or more per bottle), while everyday wines are those priced at less than ¥1,500 per bottle.

*3) Based on lntage SRI market research on combined blended imo shochu sales in the supermarket, convenience store, and direct sales channels from April 2018 to December 2019.

Food & Soft Drinks

We estimate that overall demand for soft drinks in Japan in 2019 declined by 2% year on year.

In this market environment, POKKA SAPPORO implemented initiatives to enhance the unique value propositions of the Soft Drinks business and carried out active investments to lay the groundwork for future business expansion in the Food business.

In the domestic soft drinks business, product deployment leveraging the company’s strengths succeeded as lemon-based drinks performed strongly and new brand LEMON MADE was well received by customers. The Kagabo Hojicha series also performed strongly gaining customer appreciation and sales volume rose year on year. On the other hand, total sales volume of soft drinks fell year on year owing to the impacts of the decline in the canned coffee market as well as the inclement weather.

In the domestic food business, lemon-based food products met the health-related needs of customers and shipments increased 7% year on year driven by strong sales of our core products led by Pokka Lemon 100. Further, in April we began cultivation of lemons in Osakikamijima-cho in Hiroshima Prefecture aimed at revitalizing domestic lemon production in Japan. In summer, we held the national Lemon Sour Grand Prix 2019 as part of measures to expand lemon demand and contact points with customers. With regard to soup products, while we strengthened our production capacity with the start of operation of the Sendai plant, newly established this year, and enhanced our core products by introducing a lineup with unique features in the Jikkuri Kotokoto series, sales were lower year on year due to the impact of the mild winter. Soy beans and chilled products sales increased 13% year on year as a result of the strengthening of products suited to various scenarios such as the launch of our soymilk yogurt under the SOYBIO brand with an unsweetened type in large containers as well as in packs with straw attached, with the start of operation of the soymilk yogurt production line in March.

In February, Yasuma Co. Ltd. (a producer of spices and other food ingredients) joined the Sapporo Group, contributing to revenue.

The introduction of limited menu with seasonal and trendy dishes, etc. proved popular resulting in increased revenue year on year at the Café de Crié coffee shop chain.

In our overseas soft drinks business, the export business from Singapore is recovering and revenue in Singapore increased year on year.

Overall, revenue in the Food & Soft Drinks segment came to ¥136.9 billion (up ¥3.5 billion, or 3% year on year), while the segment posted an operating loss of ¥1.2 billion (compared with an operating profit of ¥1.9 billion).

Real Estate

While there were concerns in Japan's real estate industry about a sharp increase in supply of new office space negatively affecting conditions in the Greater Tokyo office leasing market, vacancy rates continued to remain low as strong corporate earnings supported demand for office space. As a result, rents remained on a moderate upward trend.

In this environment, our real estate leasing business maintained high occupancy rates at its properties in the Greater Tokyo area, including Yebisu Garden Place Tower, the business's core source of earnings. In addition, the high occupancy rates provided a solid platform enabling us to carry out assertive efforts to increase rents of existing tenants.

Meanwhile, we transformed one section of Glass Square at Yebisu Garden Place commercial complex (which is celebrating its 25th anniversary) into PORTAL POINT -Ebisu-, a complex centered on co-working spaces, which has created opportunities for people working there to interact with visitors to Yebisu Garden Place. We continued to enhance the asset value of the complex, a landmark in the Ebisu district of Tokyo, through constant efforts to provide tenants and visitors with enjoyable experiences in comfortable and pleasant surroundings by enhancing convenience and strengthening the property's brand appeal.

We refurbished the entire basement level 1 of the GINZA PLACE commercial complex and opened the Sapporo Draft Beer Black Label THE BAR, a year-round antenna shop, in July, creating a vibrant environment.

The real estate development business proceeded 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, and some floors were opened after renovation. Amid the changing environment surrounding the complex, we are contributing to the development of the area through new lifestyles and improved convenience.

We worked on development of new business, etc. while continuing to strategically review and revise our property portfolio from a long-term perspective so as to enhance the overall value of our Real Estate business.

As a result of the efforts outlined above, revenue in the Real Estate business came to ¥24.7 billion (up ¥0.2 billion, or 1% year on year), while operating profit came to ¥12.7 billion (up ¥0.7 billion, or 6% year on year).

(2) Consolidated Financial Condition

Consolidated assets as of December 31, 2019, totaled ¥638.7 billion, down ¥1.0 billion from the end of the previous fiscal year (December 31, 2018). The decline primarily reflects decreases in property, plant and equipment, intangible assets, and goodwill, which offset an increase in other financial assets (non-current).

Consolidated liabilities totaled ¥464.2 billion, down ¥10.8 billion from December 31, 2018, primarily owing to decreases in net defined benefit liability and bonds and borrowings (current), which offset an increase in other financial liabilities.

Consolidated equity totaled ¥174.5 billion, up ¥9.8 billion from December 31, 2018. This change in total equity primarily reflects increases in profit attributable to owners of parent and other components of equity, which offset a decrease in non-controlling interests.

(3) Consolidated Cash Flows

Cash and cash equivalents (collectively “cash”) totaled ¥15.2 billion as of December 31, 2019, ¥5.2 billion or 52% more than a year earlier.

Following is an explanation of consolidated cash flows by category in 2019 and the factors that affected cash flows in each category.

(Cash flows from operating activities)

Operating activities in 2019 provided net cash of ¥36.1 billion, ¥5.2 billion or 17% more than in 2018. The main cash inflows were ¥28.2 billion from depreciation and amortization and a ¥4.9 billion loss on sale of discontinued operations.

(Cash flows from investing activities)

Investing activities in 2019 used net cash of ¥24.9 billion, ¥6.2 billion or 33% more than in 2018. The major investment outflows were ¥15.0 billion for purchase of property, plant and equipment and ¥13.2 billion for purchases of investment properties. The major inflow from investing activities was ¥8.6 billion yen from the sale of trust beneficiary rights (investment property).

(*Cash flows from financing activities)*

Financing activities in 2019 used net cash of ¥6.0 billion, ¥8.5 billion or 59% less than in 2018. The main outflows were ¥21.5 billion for repayment of long-term bank loans, ¥10.0 billion for redemption of bonds, ¥7.0 billion for repayment of lease liabilities, and a ¥6.5 billion decline in commercial papers. The main inflow came from ¥21.4 billion in proceeds from long-term bank loans and the issuance of bonds totaling ¥20.0 billion.

Cash Flow Indicators

	As of December 31,	
	2018	2019
Ratio of equity attributable to owners of parent to total assets (%)	25.2	27.3
Ratio of equity attributable to owners of parent to total assets based on market capitalization (%)	27.9	31.5
Cash flow to interest-bearing debt (years)	9.4	8.0
Interest coverage ratio (%)	14.0	17.2

Ratio of equity attributable to owners of the parent company to total assets 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. Market capitalization is calculated based on the number of shares issued and outstanding, excluding treasury stock.
2. “Cash flow” is operating cash flow.
3. 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, 2020

(a) Overall outlook

Millions of yen, except percentages

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent
2020 forecast	504,400	14,000	8,500	5,000
2019 results	491,896	11,724	12,208	4,356
Projected change (%)	2.5	19.4	(30.4)	14.8

2020 is the first year of the “Sapporo Group Management Plan 2024” under the Sapporo Group Long-Term Management Vision “Speed 150”. Throughout the year, we will continue our efforts to supply distinctive products and services worldwide in our three core business areas – “alcoholic beverages”, “food”, and “soft drinks” – and to expand contact points with customers as we strive to achieve robust growth in line with the goals of our long-term vision and group management plan.

From next year, we will use core operating profit* as a proprietary profit indicator that measures the performance consistency of our business. Further, the logistics businesses which until now were listed under “other business”, will be classified under “Alcoholic Beverages”. To enable year-over-year comparisons in this document, figures for the previous year have been adjusted to reflect the new segmentation.

Our consolidated forecasts and outlook for 2020 are as follows.

*Core operating profit is calculated by deducting cost of sales, and selling, general and administrative expenses from revenue.

Revenue

In the Alcoholic Beverages segment, along with strengthening our beer business, we will work on rebuilding the new-genre category and further expansion of the RTD business as we aim to increase the total sale volume of the business as a whole. In Vietnam, in addition to focusing on nurturing the Sapporo brand locally, we will aim to expand exports to neighboring countries. In North America, we aim to expand revenue by growing Canada's SLEEMAN BREWERIES and by generating sales synergies for Sapporo USA and Anchor Brewing in the United States.

In the Food & Soft Drinks segment, we will continue to provide customers in Japan with new value propositions that reflect our superiority in lemon-based foods and soup products as well as in soy milk-based yogurt products. Overseas, we will continue to strengthen the POKKA brand in the core Singapore market and surrounding countries.

Overall, we forecast 2020 consolidated revenue will reach ¥504.4 billion, an increase of ¥12.5 billion or 3% over 2019.

Core Operating Profit

We expect the Alcoholic Beverages segment to achieve profit growth on the back of increased sales volume through continued strengthening of core brands and by reducing fixed costs.

The Food & Soft Drinks segment is also expected to achieve profit growth driven through strengthening of lemon-based foods and soup products and expansion of the soymilk-based yogurt products business.

In the Real Estate segment, we expect profit growth driven by steady revenue contributions from Yebisu Garden Place, GINZA PLACE, and other properties.

Overall, we forecast 2020 consolidated core operating profit will reach ¥14.0 billion, an increase of ¥2.3 billion or 19% over 2019.

Operating Profit

We forecast consolidated operating profit to be ¥8.5 billion (down ¥3.7 billion year on year, or 30%).

Profit Attributable to Owners of Parent

We project profit attributable to owners of a parent will total ¥5.0 billion in 2020, an increase of ¥0.6 billion or 15% over 2019.

The 2020 outlook for each segment is presented below.

(b) Outlook by Business Segment

Millions of yen, except percentages

	Revenue			Core operating profit			Operating profit		
	2019	2020 forecast	Change (%)	2019	2020 forecast	Change (%)	2019	2020 forecast	Change (%)
Alcoholic Beverages	330,178	336,700	2.0	8,520	9,200	8.0	7,694	7,800	1.4
Food & Soft Drinks	136,876	142,300	4.0	(470)	400	—	(1,151)	100	—
Real Estate	24,690	25,300	2.5	10,737	11,100	3.4	12,714	12,300	(3.3)

Alcoholic Beverages

(Japan & Asia)

Our new vision is “Be the first to offer someone the best, Create stronger consumer connections by enhancing the Sapporo experience. Focus on TWO positions: premium& reasonable values. Have global vision & reach while respecting local perspective.” Along with continuously honing the quality of our premium value offerings that only we can provide, we will expand and enhance our provision of products and services that are unique to us while also being reasonable priced, offering high quality products for less.

In the beer business, we will ensure improved brand presence led by “Sapporo Draft Beer Black Label” and “Yebisu” brands by placing priority on continuing the strengthening of beer products leveraging our strength of owning diverse beer brands. Moreover, in the new-genre market, we will firmly pursue “flavor value” with a two-pillar strategy pairing the new “Sapporo Gold Star” (launched in February) with “Sapporo Mugi to Hop”.

In the RTD business, we will further strengthen our core brand Sapporo Chuhai 99.99 (Four Nines) toward securing a position for the product as an alcoholic beverage consumed during meals and will accelerate its growth together with unique products created through collaborations such as Otoko Ume Sour.

In the wine category, we will continue strengthening our lineup of fine wines while seeking to expand sales and enhance the brand images of our wine offerings. Simultaneously, we aim to expand awareness of our offerings and build the user base of the everyday wine category.

In the spirits business (Western spirits, Japanese liquor), we will continue to focus our marketing efforts on such world-famous brands as Bacardi, the world's best-selling rum in both sales and volume, as well as Bombay Sapphire and Dewar's and our thriving blended imo shochu Kokuimo by disseminating information that arouses consumer interest.

(North America)

In the United States, while there are uncertainties regarding the government's trade policies, consumption bolstered by the easing of the financial environment and favorable employment trends is expected to propel economic growth. In Canada, favorable employment and export trends are expected to contribute to higher economic growth. However, we expect overall demand in the North American beer market to be generally flat owing to the widening diversity in consumers' alcoholic beverage preferences.

Given this business environment, the North American alcoholic beverages business will work to build its own position in the market by ensuring the spread of premium brands led by "Sapporo Premium Beer" and implementing strategies that take into account the characteristics of the respective areas.

In the Canadian market, SLEEMAN BREWERIES will build an optimal product portfolio by strengthening strategic brands and move more strongly into the RTD space while continuing to concentrate management resources on premium brands.

In the U.S. market, Sapporo USA and Anchor Brewing will maximize the synergies in their manufacturing and distribution operations and improve the earnings structure along with strengthening sales of Sapporo Premium Beer and Anchor brands.

SLEEMAN BREWERIES, Sapporo USA, and Anchor Brewing will be converted to subsidiaries of Sapporo Breweries on April 1, 2020 to enable a consistent brand strategy within and outside Japan and to promote optimal global supply chain management.

(Restaurants)

Japan's restaurant industry is expected to continue to face a difficult operating environment, with manpower shortages still pushing up hiring costs, food material procurement prices continuing to rise, and competition intensifying as cross-industry competition from retailers and other non-traditional players increases.

In this environment, Sapporo Lion 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, the subsidiary's premises are taking extra care to ensure the provision of safe and sound food and service to their customers.

New store openings will be aimed at territorial expansion primarily with our two core formats, Ginza Lion and Yebisu Bar, while we focus also on development of new formats and new businesses. We also will continue to renovate existing outlets and, as needed, shift them to new formats in order to sustain and enhance their earnings power along with implementing fundamental cost reforms of existing businesses.

Food & Soft Drinks

In line with the vision of “continually creating delicious products that enrich and brighten people’s everyday lives,” the domestic Food & Soft Drinks business will expand the food domain further through selection and concentration of management resources and propose new values by providing products that delight customers while reflecting the superiority of our products.

The domestic soft drinks business will nurture LEMON MADE while refining the Kireto Lemon brand, and carve out a unique market position with deployment of products that are original to POKKA SAPPORO.

In the domestic food business, the start of a new plant enabled us to flexible respond to the market for soup products. In addition to revitalization of our mainstay Jikkuri Kotokoto brand, we will promote steady market penetration of cup-based instant soups by introducing new products that reflect the times. In the lemon-based foods category, we will engage in activities to support further expansion of demand for Pokka Lemon 100 and lemon vinegar products, including suggestions on usage of lemon and disseminating information regarding its health benefits. In the soy beans and chilled products business, we will improve the presence of soymilk yogurt and expand contact points with customers to accelerate the growth in the foods domain. In the commercial-use channel, we will leverage the Sapporo Group synergies to expand sales in all product categories, from lemon-based products to powdered teas and soups.

At the domestic restaurants business, the Café de Crié chain will continue to conduct fine-tuned marketing to stimulate business at its existing outlets and will enhance the Crié brand value by accelerating chain expansion.

The overseas soft drinks business plans to expand sales and increase efficiency while maintaining its dominance of the tea drinks and juice beverages segments in the core Singapore market. We also plan to raise our presence in the markets in each area where we have operations by providing products that meet the needs of local customers.

Real Estate

Japan’s real estate industry expects a new large-scale supply in the Greater Tokyo office leasing market, but it is unlikely to cause any major disruption to the supply-demand balance in the short term given the robust demand from businesses. However, amid lingering uncertainties over world affairs and the direction of the economy post-Tokyo Olympic and Paralympic Games, we remain aware of the possibility of a change in market conditions such as a rise in vacancy rates and decline in rent levels due to economic slowdown and intensifying competition.

In this environment, our Real Estate business will continue 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 the complex to cater to diversifying lifestyles and changing work styles and offer new functions and added-values to continue to maintain and improve earnings and raise the entire neighborhood's brand value.

Further, along with Sapporo City's urban redevelopment program focused on the area on the east side of the Sosei River and changes in the surrounding environment, we will continue with our efforts to offer new lifestyles and develop an attractive urban space with the Sapporo Factory commercial complex as the flagship property of the area.

To enhance the overall value of our Real Estate business we will continue to promote urban development in Ebisu and Sapporo through measures such as strategic review and revision of our property portfolio and work on securing profits in new business fields.

(NOTE) The outlook for 2020 presented above contains forward-looking statements that are based on information available when the materials were prepared and are subject to risks and uncertainties. Actual performance may differ materially from the future outlook described for various reasons.

(5) Dividend Policy and Dividends for 2019 and 2020

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.

Pursuant to the Sapporo Group Long-Term Management Vision "SPEED 150", which was announced in November 2016, the Company is implementing the First Medium-Term Management Plan 2020, which was launched in 2017 and 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 factors, the impact may be taken into consideration when deciding the dividend.

Given the above policy and taking into consideration the operating results for the current term and the management environment etc. going forward, the Company plans to pay a dividend of ¥42 per share for 2019. 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 profits 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 ¥42 in 2020.

2. Basic Approach to Selecting Accounting Standards

The Sapporo Group has voluntarily applied the International Financial Reporting Standards (IFRS) to its consolidated accounts from the first quarter of 2018. This change in accounting standard is aimed at facilitating international comparisons of Group financial information in the capital markets.

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(millions of yen)

	December 31, 2018	December 31, 2019
	Amount	Amount
Assets		
I Current assets		
1 Cash and cash equivalents	9,989	15,215
2 Trade and other receivables	93,340	92,529
3 Inventories	37,109	36,528
4 Other financial assets	4,790	5,403
5 Other current assets	8,316	6,090
Total current assets	153,544	155,765
II Non-current assets		
1 Property, plant and equipment	152,676	147,014
2 Investment property	215,522	219,589
3 Goodwill	21,229	18,358
4 Intangible assets	12,056	8,844
5 Investments accounted for using equity method	410	428
6 Other financial assets	70,205	78,728
7 Other non-current assets	8,526	7,445
8 Deferred tax assets	5,523	2,551
Total non-current assets	486,148	482,957
Total assets	639,692	638,722

	December 31, 2018	December 31, 2019
	Amount	Amount
Liabilities and equity		
Liabilities		
I Current liabilities		
1 Trade and other payables	35,292	34,475
2 Bonds and borrowings	73,863	72,121
3 Lease liabilities	6,743	6,538
4 Income tax payable	1,527	2,414
5 Other financial liabilities	33,905	33,021
6 Other current liabilities	63,260	61,903
Total current liabilities	214,591	210,472
II Non-current liabilities		
1 Bonds and borrowings	154,483	155,220
2 Lease liabilities	24,495	23,921
3 Other financial liabilities	45,733	46,624
4 Retirement benefit liability	11,715	5,007
5 Other non-current liabilities	2,991	2,828
6 Deferred tax liabilities	20,950	20,125
Total non-current liabilities	260,367	253,725
Total liabilities	474,957	464,197
Equity		
1 Share capital	53,887	53,887
2 Capital surplus	40,998	40,958
3 Treasury shares	(1,822)	(1,792)
4 Retained earnings	46,065	51,521
5 Other components of equity	22,373	29,497
Total equity attributable to owners of parent	161,501	174,071
Non-controlling interests	3,234	454
Total equity	164,735	174,524
Total liabilities and equity	639,692	638,722

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

Consolidated Statement of Profit or Loss (millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
	Amount	Amount
Continuing operations		
Revenue	493,908	491,896
Cost of sales	335,631	336,682
Gross profit	158,277	155,213
Selling, general and administrative expenses	143,118	143,490
Other operating income	3,009	3,528
Other operating expenses	6,580	3,044
Operating profit	11,588	12,208
Finance income	1,139	1,227
Finance costs	2,117	1,864
Share of profit of investments accounted for using equity method	19	18
Profit before tax	10,629	11,588
Income tax expense	2,023	4,259
Profit from continuing operations	8,606	7,329
Discontinued operations		
Loss from discontinued operations	(886)	(3,509)
Profit	7,721	3,820
Profit attributable to		
Owners of parent	8,521	4,356
Non-controlling interests	(801)	(536)
Profit	7,721	3,820

Basic earnings (loss) per share		
Continuing operations	114.55	99.39
Discontinued operations	(5.15)	(43.46)
Basic earnings per share	109.40	55.92
Diluted earnings (loss) per share		
Continuing operations	109.37	93.55
Discontinued operations	(4.91)	(40.81)
Diluted earnings per share	104.46	52.74

Consolidated Statement of Comprehensive Income

	Year ended December 31, 2018	Year ended December 31, 2019
	Amount	Amount
Profit	7,721	3,820
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(9,201)	6,411
Remeasurements of defined benefit plans	(3,688)	4,595
Total of items that will not be reclassified to profit or loss	(12,890)	11,006
Items that may be reclassified to profit		
Exchange differences on translation of foreign operations	(2,765)	885
Effective portion of net change in fair value of cash flow hedges	(69)	204
Total of items that may be reclassified to profit or loss	(2,834)	1,090
Other comprehensive income, net of tax	(15,724)	12,095
Comprehensive income	(8,003)	15,915
Comprehensive income attributable to		
Owners of parent	(6,987)	16,104
Non-controlling interests	(1,016)	(188)
Comprehensive income	(8,003)	15,915

(3) Consolidated Statement of Changes in Equity

(millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of net change in fair value of cash flow hedges
Balance as of January 1, 2018	53,887	40,825	(1,807)	44,491	1,137	(191)
Profit				8,521		
Other comprehensive income					(2,622)	2
Total comprehensive income	-	-	-	8,521	(2,622)	2
Purchase of treasury shares			(20)			
Disposal of treasury shares		0	5			
Issuance of convertible bonds with share acquisition rights		182				
Dividends				(3,122)		
Share-based payment transactions		(9)				
Transfer to retained earnings				(3,826)		
Total transactions with owners	-	173	(15)	(6,947)	-	-
Balance as of December 31, 2018	53,887	40,998	(1,822)	46,065	(1,485)	(188)

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	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	33,712	-	34,659	172,055	3,655	175,710
Profit			-	8,521	(801)	7,721
Other comprehensive income, net of taxes	(9,200)	(3,688)	(15,508)	(15,508)	(215)	(15,724)
Total comprehensive income	(9,200)	(3,688)	(15,508)	(6,987)	(1,016)	(8,003)
Purchase of treasury shares			-	(20)	-	(20)
Disposal of treasury shares			-	6	-	6
Issuance of convertible bonds with share acquisition rights			-	182	-	182
Dividends			-	(3,122)	(8)	(3,130)
Share-based payment transactions			-	(9)	-	(9)
Transfer to retained earnings	(466)	3,688	3,222	(603)	603	-
Total transactions with owners	(466)	3,688	3,222	(3,566)	595	(2,972)
Balance as of December 31, 2018	24,046	-	22,373	161,501	3,234	164,735

(millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of neti change in fair value of cash flow hedges
Balance as of January 1, 2019	53,887	40,998	(1,822)	46,065	(1,485)	(188)
Profit				4,356		
Other comprehensive income					622	120
Total comprehensive income	-	-	-	4,356	622	120
Purchase of treasury shares			(9)			
Disposal of treasury shares		0	39			
Dividends				(3,277)		
Disposal of subsidiaries				(245)		
Share-based payment transactions		(41)				
Transfer to retained earnings				4,623		
Total transactions with owners	-	(41)	30	1,100	-	-
Balance as of December 31, 2019	53,887	40,958	(1,792)	51,521	(863)	(68)

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	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, 2019	24,046	-	22,373	161,501	3,234	164,735
Profit				4,356	(536)	3,820
Other comprehensive income	6,411	4,595	11,748	11,748	348	12,095
Total comprehensive income	6,411	4,595	11,748	16,104	(188)	15,915
Purchase of treasury shares			-	(9)	-	(9)
Disposal of treasury shares			-	39	-	39
Dividends			-	(3,277)	(12)	(3,289)
Disposal of subsidiaries			-	(245)	(2,580)	(2,826)
Share-based payment transactions			-	(41)	-	(41)
Transfer to retained earnings	(28)	(4,595)	(4,623)	-	-	-
Total transactions with owners	(28)	(4,595)	(4,623)	(3,534)	(2,592)	(6,126)
Balance as of December 31, 2019	30,428	-	29,497	174,071	454	174,524

(4) Consolidated Statement of Cash Flows

(millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
	Amount	Amount
I Cash flows from operating activities		
1 Profit before taxes	10,629	11,588
2 Loss before tax from discontinued operations	(1,137)	(5,102)
3 Depreciation and amortization	28,512	28,242
4 Impairment losses	5,430	1,342
5 Loss on sale of discontinued operations	-	4,886
6 Interest and dividend income	(1,123)	(1,185)
7 Interest expenses	2,368	2,248
8 Share of loss (profit) of investments accounted for using equity method	(19)	(18)
9 Loss(gain) on sale and retirement of property, plant and equipment, and intangible assets	(659)	(1,599)
10 (Increase) decrease in trade and other receivables	4,209	849
11 (Increase) decrease in inventories	70	(210)
12 Increase (decrease) in trade and other payables	(830)	(754)
13 Increase (decrease) in accured alcohol tax	(1,950)	(1,414)
14 Other	(2,968)	274
Sub total	42,533	39,149
15 Interest and dividends received	1,150	1,188
16 Interest paid	(2,197)	(2,101)
17 Income taxes paid	(10,657)	(2,167)
Net cash provided by (used in) operating activities	30,830	36,069
II Cash flows from investing activities		
1 Purchases of property, plant and equipment	(13,581)	(14,995)
2 Proceeds from sales of property, plant and equipment	1,729	387
3 Purchase of investment property	(4,712)	(13,211)
4 Purchases of intangible assets	(2,220)	(2,917)
5 Purchases of investment securities	(6,345)	(1,710)
6 Proceeds from sale of investment securities	1,455	1,045
7 Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(1,633)
8 Payments for sales of subsidiaries' shares resulting in change in scope of consolidation	-	(491)
9 Proceeds from sale of discontinued operations	-	1,798
10 Purchase of trust beneficiary right (investment property)	(2,523)	-
11 Proceeds from sale of trust beneficiary right (investment property)	7,239	8,586
12 Payments for loans receivable	(139)	(182)
13 Collection of loans receivable	4,081	129
14 Other	(3,712)	(1,735)
Net cash provided by (used in) investing activities	(18,727)	(24,930)
III Cash flows from financing activities		
1 Net increase (decrease) in short-term borrowings	(264)	920
2 Net increase (decrease) in commercial papers	(3,500)	(6,500)
3 Proceeds from long-term borrowings	12,000	21,370
4 Repayment of long-term borrowings	(22,524)	(21,486)
5 Proceeds from issuance of bonds	20,021	20,000
6 Redemption of bonds	(10,068)	(10,013)
7 Dividends paid	(3,133)	(3,290)
8 Repayment of lease liabilities	(7,038)	(7,016)
9 Payments for purchase of treasury shares	(20)	(9)
10 Other	6	39
Net cash provided by (used in) financing activities	(14,521)	(5,984)
IV Effect of exchange rate changes on cash and cash equivalents	(130)	71
V Net increase (decrease) in cash and cash equivalents	(2,548)	5,226
VI Cash and cash equivalents at beginning of period	12,537	9,989
VII Cash and cash equivalents at end of period	9,989	15,215

(5)Notes on the Going-concern Assumption

Not applicable

(6)Segment Information

1. Overview of reportable segments

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

Under the Company, which is a pure holding company, Group companies carry out business activities and formulate strategies for the products and services they offer and for the sales markets they cover.

The Group's businesses are segmented mainly based on the products, services and sales markets of Group companies and their affiliate companies. The Company's three reportable segments are Alcoholic Beverages, Food & Soft Drinks, and Real Estate.

The Alcoholic Beverages segment produces and sells alcoholic beverages and operates restaurants of various styles.

The Food & Soft Drinks segment produces and sells foods and soft drinks.

The Real Estate segment's activities include leasing and development of real estate.

Changes to Reportable Segments

Based on the revised management structure launched in January 2017 and in line with The First Medium-Term Management Plan of the Long-Term Management Vision SPEED150 announced in November 2016, the Company has determined to strategically reallocate managerial resources to promote continuous group growth, and to implement structural reforms and promote segment management in an effort to strengthen platform functions.

In the Company's efforts to maintain steady growth by growing and strengthening its brands, the five previous business segments have recently been reorganized into three new segments to better develop international operations as a core business by enhancing Company management. From the first quarter of 2019, the five previous business segments of Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants, and Real Estate have been reorganized into the three new segments of Alcoholic Beverages, Food & Soft Drinks, and Real Estate.

In conjunction with these changes, the former International segment was split and incorporated into the Alcoholic Beverages and Food & Soft Drinks segments, respectively. In addition, the former Restaurants segment has been incorporated into the Alcoholic Beverages segment, and the food business which was part of the former Other segment has been incorporated into the Food & Soft Drinks segment.

Segment information for year ended of 2018 has been prepared based on the new reportable segments following the changes.

The profit and loss of the North American soft drinks business has been classified under discontinued operations because all of the shares in Country Pure Foods, Inc. (the company managing the North American soft drinks business, which falls under Food & Soft Drinks) held by the Sapporo Group were transferred to BPCP CPF Holdings Inc. in 2019.

Consequently, the profit and loss of the North American Soft Drinks business are classified under discontinued operations and is therefore not included in segment information.

2. Revenue, profit (or loss)

(millions of yen)

	Year ended December 31, 2018 (January 1, 2018 – December 31, 2018)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	330,009	133,384	24,483	6,033	493,908	-	493,908
Inter-segment revenue	408	275	2,824	21,585	25,093	(25,093)	-
Total	330,417	133,659	27,307	27,618	519,001	(25,093)	493,908
Operating profit (loss)	3,856	1,910	12,047	177	17,990	(6,401)	11,588

(millions of yen)

	Year ended December 31, 2019 (January 1, 2019 – December 31, 2019)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	324,438	136,876	24,690	5,892	491,896	-	491,896
Inter-segment revenue	579	295	2,704	22,203	25,780	(25,780)	-
Total	325,017	137,171	27,393	28,095	517,676	(25,780)	491,896
Operating profit (loss)	7,877	(1,151)	12,714	(169)	19,272	(7,065)	12,208

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

(Subsequent events)

Early Retirement Incentive Program

At a Board of Directors meeting held on February 13, 2020, the Company resolved to implement an early retirement incentive program for employees of Sapporo Breweries Ltd., which manages Sapporo Group’s Alcoholic Beverages business.

(Reason for implementation of early retirement incentive program)

In order to achieve the aims of the Group Management Plan 2024, the Sapporo Group is pursuing personnel placement optimization in accordance with the basic policies of the plan (making the beer business resilient, shifting to growth fields such as the food products field, accelerating global expansion, etc.). At this significant turning point, the Sapporo Group will offer an early retirement incentive plan by enhancing the existing second career support measures to offer options to employees who intend to find a new career outside the company.

(Overview of the early retirement incentive program)

1. Target: Employees who are 45 years of age or older and who have worked at Sapporo Breweries Ltd. for 10 years or more (some positions are excluded from the program).
2. Upper limit on the number of applicants: No limit is set.
3. Application period:
   (1) First round: April 1, 2020 to June 10, 2020
   (2) Second round: October 1, 2020 to December 10, 2020
4. Effective date of retirement:
   (1) First round: November 20, 2020
   (2) Second round: May 20, 2021
5. Details of support provided

A second career assistance grant will be added on to the ordinary retirement allowance of those who apply for the program and they will also be entitled to reemployment support services.

(Impact on earnings)

As the application period has not yet commenced, any losses stemming from the second career support fund, etc. are yet to be determined.