

Financial Results
for the Year Ended December 31, 2022 — Consolidated
(Based on IFRS)

February 15, 2023

Company name	Sapporo Holdings Limited		
Security code	2501		
Listed on	Tokyo Stock Exchange (First Section); Sapporo Securities Exchange		
URL	https://www.sapporoholdings.jp/en/		
Representative	Masaki Oga, President and Representative Director		
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Scheduled dates:			
Annual general meeting of shareholders		March 30, 2023	
Filing of annual financial report		March 31, 2023	
Commencement of dividend payments		March 31, 2023	
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, 2022
(January 1 – December 31, 2022)

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

(1) Operating Results

(Percentage figures represent year-over-year changes)

	Revenue		Core operating profit		Operating profit		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2022	478,422	9.4	9,312	14.4	10,106	(54.1)	5,515	(55.1)
Year ended December 31, 2021	437,159	0.6	8,142	91.1	22,029	—	12,275	—
	Profit attributable to owners of parent		Total comprehensive income					
	million yen	%	million yen	%				
Year ended December 31, 2022	5,450	(55.8)	7,103	(58.5)				
Year ended December 31, 2021	12,331	—	17,127	—				

	Basic earnings per share	Diluted earnings per share	Ratio of profit to equity attributable to owners of parent	Ratio of profit before tax to total assets	Core operating profit margin
	yen	yen	%	%	%
Year ended December 31, 2022	69.96	69.95	3.3	1.8	1.9
Year ended December 31, 2021	158.30	155.82	7.9	3.5	1.9

Note: Equity method investment gains:

Year ended December 31, 2022: 108 million yen

Year ended December 31, 2021: 47 million yen

Profit (loss) before tax:

Year ended December 31, 2022: 11,367 million yen

Year ended December 31, 2021: 21,185 million yen

Operating profit margin:

Year ended December 31, 2022: 2.1%

Year ended December 31, 2021: 5.0%

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.

(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, 2022	639,118	167,201	166,310	26.0	2,134.98
Year ended December 31, 2021	594,551	163,327	162,570	27.3	2,086.96

(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, 2022	7,814	(46,137)	36,465	15,380
Year ended December 31, 2021	30,308	20,729	(53,080)	17,368

2. Dividends

Record date or period	Dividend per share					Total dividends paid (full year)	Payout ratio (consolidated)	Dividends to equity attributable to owners of parent (consolidated)
	End Q1	End Q2	End Q3	Year-end	Full year			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 31, 2021	—	0.00	—	42.00	42.00	3,277	26.5	2.1
Year ended December 31, 2022	—	0.00	—	42.00	42.00	3,277	60.0	2.0
Year ending December 31, 2023 (forecast)	—	0.00	—	45.00	45.00		63.7	

3. Forecast of Consolidated Earnings for the Year Ending December 31, 2023 (January 1 – December 31, 2023)

(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	%	yen
Year ending December 31, 2023	490,000	2.4	13,500	45.0	9,500	(6.0)	5,570	1.0	5,500	0.9	70.61

Note: Earnings forecasts for the six months ending June 30, 2023 are omitted because the company manages performance targets on a yearly basis.

4. Other

(1) Changes to scope of consolidation: Yes

New: Stone Brewing Co., LLC

(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, 2022: 78,794,298 shares

December 31, 2021: 78,794,298 shares

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

December 31, 2022: 896,678 shares

December 31, 2021: 896,510 shares

3) Average number of outstanding share during the period:

December 31, 2022: 77,897,725 shares

December 31, 2021: 77,898,067 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 fiscal year ending December 31, 2023” on page 10.

1. Analysis of Operating Results and Financial Condition

(1) Operating Results

Review of the fiscal year ended December 31, 2022

- The Sapporo Group had been affected by the spread of COVID-19 in Japan and overseas since the beginning of the year 2022. However, the lifting of restrictions on behavior led to year-on-year increases in Group on-trade beer sales and the sales of beer halls and other dining-out establishments. On the other hand, the outlook remains uncertain, with concerns over rising prices due to factors such as the situation in Ukraine, the rapid depreciation of the yen, and surging prices of raw materials will lead to consumers becoming more cautious with their spending.
- In this context, despite a decrease in revenue from the Food & Soft Drinks and Real Estate businesses, overall revenue increased year-on-year. This was thanks to an increased revenue from the Alcoholic Beverages business due to factors such as a recovery in restaurant demand and strong sales volumes in the United States.
- Overall core operating profits increased year-on-year, despite decreased profits from the Real Estate business. This was thanks to the contribution of the Restaurants business and the Food & Soft Drinks business to profit structure improvements.
- Operating profit decreased in reaction to the gain on sale of investment properties in the previous year, among other factors while core operating profit improved.

Summary in key figures

Millions of yen, except percentages

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent
Year ended December 31, 2022	478,422	9,312	10,106	5,450
Year ended December 31, 2021	437,159	8,142	22,029	12,331
Change (%)	9.4	14.4	(54.1)	(55.8)

*Core operating profit is the Sapporo Group's unique profit benchmark for measuring the performance of its regular business and is calculated by deducting cost of sales, and selling, general and administrative expenses, from revenue.

Results by segment are outlined below.

Alcoholic Beverages

- Revenue increased year-on-year thanks to factors such as the recovery of the on-trade market, price revisions, strong off-trade market sales in the United States, and the addition of Stone Brewing Co., LLC (hereinafter "Stone"), which became a consolidated subsidiary at the end of August through the acquisition of 100% of its equity, to the Group.
- Core operating profit and operating profit both increased year-on-year, despite increased variable costs due to factors such as increased raw material prices. This was thanks to the effects of increased revenue as well as the effects of profit structure improvements of the Restaurants business.

■ Revenue: ¥334.6 billion (up ¥45.0 billion, or 15.5% year on year)

■ Core operating profit: ¥7.7 billion (up ¥2.3 billion, or 42.1% year on year)

■ Operating profit: ¥8.9 billion (up ¥6.8 billion, or 315.0% year on year)

Details of Alcoholic Beverages (Japan and Overseas) and Restaurants in the Alcoholic Beverages business were as follows.

Japan

- During the fiscal year ended December 31, 2022, on-trade market demand had temporarily declined due to the subsequent waves of COVID-19. However, the impact on establishments that serve alcohol was milder than that of restrictions on the serving of alcohol during the previous year's declarations of state of emergency, etc. In addition, due in part to limited impact of price revisions on reducing demand, total domestic demand for beer and beer-type beverages was estimated to have been about 103% year-on-year.
- In this context, the Group's total domestic sales volumes of beer and beer-like beverages was 103% year-on-year thanks to an increase in sales volume of on-trade products. Sales of RTDs (*) remained strong, at 103% of the previous year's level.

Overseas

- COVID countermeasures promoted economic resumption and on-trade market demand was in recovery mode over the previous year, but in the North American beer and beer-type beverage category, overall demand both in the U.S. and Canada was estimated to decrease year-on-year.
- In this context, sales of overseas beer brands exceeded that of the previous year thanks to a recovery of the on-trade market in Canada. As for sales of Sapporo brand beer, sales volumes in the United States was 110% year-on-year, continuing the record highs from the previous year, thanks to the recovery of the on-trade market in the United States, the success of strengthening efforts in the off-trade market, and other factors.
- Further, the Group acquired 100% of Stone's equity at the end of August, making it a consolidated subsidiary. This was done for a number of purposes. One was to secure a manufacturing base for further growing the Sapporo brand beer, particularly in the United States. Another was to expand our Beer business by acquiring new brands.

Restaurants

- Demand remains unstable in the pub, restaurant, and izakaya industry due to the impact of COVID-19. However, our Restaurants business has shifted to a gradual recovery since the lifting of operating restrictions in April, though additional waves of COVID-19 and other factors do lead to demand fluctuations. The deficit narrowed significantly from the previous fiscal year due to the contribution of structural reforms, such as the reduction of unprofitable restaurants, that have been implemented in the Corona disaster.

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

Food & Soft Drinks

- Revenue decreased year-on-year due to factors such as the sell-off of the Cafe business, the liquidation of one suburban vending machine operator subsidiary, and decreased sales due to the reduction of vending machines.
- Core operating profit and operating profit both increased year-on-year, despite increased raw material costs. This was thanks to the contribution of improved profits due to profit structure improvements such as the sell-off of the Cafe business the implementation of price revisions.

■ Revenue: ¥122.9 billion (down ¥2.5 billion, or 2.0% year on year)

■ Core operating profit: ¥1.8 billion (up ¥1.1 billion, or 148.2% year on year)

■ Operating profit: ¥2.3 billion (compared with a loss of ¥3.4 billion a year earlier)

- Although COVID continues to have an impact, the on-trade market and vending machine demand recovered thanks to the relaxation of restrictions, with total domestic beverage demand estimated to be around 102% that of the previous year.
- In this context, domestic beverage sales volume in Japan decreased due to the reduction of unprofitable vending machines, falling to 98% of the previous year while lemon beverages performed well thanks to consumers' heightened health consciousness, with record shipments of Kireto Lemon for the seventh consecutive year, etc.
- As for overseas, domestic revenue in Singapore increased to 103% year-on-year due to the loosening of the country's COVID-19 pandemic restrictions. And, exports out of Singapore have also remained strong, and revenue grew to 115% year-on-year.
- Furthermore, in April, we transferred all shares of Pokka Create Co. Ltd., which operates the Cafe de Crie coffee shop chain, to focus management resources on growth areas, particularly the growing lemon business. In November, we liquidated its suburban vending machine operator subsidiary, Public Vending Service, Ltd.

Real Estate

- Revenue decreased year-on-year due to a number of factors, such as the sale of Ebisu First Square in June of the previous fiscal year, as well as the impact of lower occupancy rates resulting from the replacement of office air-conditioning systems at Yebisu Garden Place, which began in the current fiscal year.
- Core operating profit decreased year-on-year due to the decrease in revenue.
- Operating profit decreased year-on-year in reaction to the gain on sale of Ebisu First Square in the previous fiscal year, among other factors.

■ Revenue: ¥20.7 billion (down ¥1.1 billion, or 5.2% year on year)

■ Core operating profit: ¥6.5 billion (down ¥1.8 billion, or 21.5% year on year)

■ Operating profit: ¥5.4 billion (down ¥23.8 billion, or 81.4% year on year)

- The office leasing market in the Greater Tokyo area has yet to see a recovery in occupancy rates and average rent levels since the beginning of the year.
- In this context, the Group's Real Estate business saw the office occupancy ratio of its large multi-purpose complex, Yebisu Garden Place, decline due to deteriorating market conditions, long-term repairs of its HVAC system, and other factors. On the other hand, visitors and sales have been steady since the opening of Center Plaza in November of the current fiscal year.

(2) Consolidated Financial Condition

As of the end of the fiscal year consolidated accounting period, the following were the change factors in the condition of assets, liabilities and equity.

(Millions of yen)

	2021	2022	Increase (decrease)
current assets	167,806	179,431	11,625
Non-current assets	426,745	459,687	32,942
Total assets	594,551	639,118	44,568
Current Liabilities	210,535	219,515	8,979
Non-current liabilities	220,688	252,402	31,714
Total liabilities	431,224	471,917	40,694
Total equity	163,327	167,201	3,874
Total liabilities and equity	594,551	639,118	44,568

Consolidated assets as of the end of the fiscal year were ¥639.1 billion, ¥44.6 billion more than at the end of the previous consolidated fiscal year, mainly due to increases in goodwill and property, plant and equipment from the acquisition of Stone, despite a decrease in assets held for sale with the sale of a consolidated subsidiary.

Consolidated total liabilities came to ¥471.9 billion, which was an increase of ¥40.7 billion as compared to the end of the previous fiscal year, mainly due to the increase in bonds and borrowings (current), and bonds and borrowings (non-current) resulting from syndicated loan borrowings, despite a decrease in income taxes payable and liabilities directly related to assets held for sale with the sale of a consolidated subsidiary.

Consolidated total equity stood at ¥167.2 billion, up ¥3.9 billion compared to the end of the previous fiscal year, due to an increase in other components of equity resulting from foreign exchange rate fluctuations, notwithstanding a decrease in retained earnings from the payment of year-end dividends.

(3) Consolidated Cash Flows

Cash and cash equivalents (collectively “cash”) totaled ¥15.4 billion as of December 31, 2022, ¥2.0 billion or 11% less than at the end of the previous fiscal year.

The status of each cash flow and their factors for the fiscal year were as follows.

(Millions of yen)

	2021	2022	Increase (decrease)
Cash flows from operating activities	30,308	7,814	(22,493)
Cash flows from investing activities	20,729	(46,137)	(66,867)
Free cash flow	51,037	(38,323)	(89,360)
Cash flows from financial activities	(53,080)	36,465	89,546
Effect of exchange rate change on cash and cash equivalents	777	(131)	(908)
Net increase (decrease) in cash and cash equivalents	(1,266)	(1,988)	(722)
Cash and cash equivalents at beginning of period	19,734	17,368	(2,366)
Cash and cash equivalents included in assets of disposal groups classified as holdings for sale	(1,100)	—	1,100
Cash and cash equivalents at end of period	17,368	15,380	(1,988)

(Cash flows from operating activities)

Operating activities provided net cash amounting to ¥7.8 billion (lower by ¥22.5 billion or 74% from the previous fiscal year). This was mainly due to an increase in depreciation and amortization of ¥21.2 billion and income before tax of ¥11.4 billion, which offset a corporate income tax payment of ¥10.0 billion, an increase in assets and liabilities related to retirement benefits of ¥5.7 billion, and an increase in inventories of ¥5.0 billion.

(Cash flows from investing activities)

Cash used in investing activities was ¥46.1 billion (compared to ¥20.7 billion provided in the previous fiscal year). Although there was an income of ¥1.9 billion on the sale of tangible fixed assets, this was due to outlays of ¥22.6 billion for the acquisition of subsidiary shares with the change in the scope of consolidation due to the acquisition of Stone, ¥12.7 billion for the acquisition of investment real estate, and ¥8.0 billion for the acquisition of tangible fixed assets.

(Cash flows from financing activities)

Cash provided by financial activities was ¥36.5 billion (compared to ¥53.1 billion used in the previous fiscal year). Although ¥16.6 billion was expended for the repayment of long term borrowings, proceeds from long-term borrowings of syndicated loans were ¥50.0 billion.

Cash Flow Indicators

	December 31,	
	2021	2022
Ratio of equity attributable to owners of parent to total assets (%)	27.3	26.0
Ratio of equity attributable to owners of parent to total assets based on market capitalization (%)	28.6	40.0
Cash flow to interest-bearing debt (years)	8.3	37.9
Interest coverage ratio (times)	20.1	4.5

Ratio of equity attributable to owners of parent to total assets: $\text{Equity attributable to owners of parent} / \text{Total assets}$

Ratio of equity attributable to owners of parent to total assets based on market capitalization: $\text{Market capitalization} / \text{Total assets}$

Cash flow to interest-bearing debt: $\text{Interest-bearing debt} / \text{Cash flow}$

Interest coverage ratio: $\text{Cash flow} / \text{Interest expense}$

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, 2023

- In 2023, under the theme of “Beyond150 - New Growth Through Business Structure Transformation -,” we will decisively implement structural reforms, aiming to realize our growth strategy in the first year of our "Medium-Term Management Plan (2023-2026)."
- The outlook is expected to remain uncertain, with concerns over rising prices due to factors such as the situation in Ukraine and surging prices of raw materials will lead to consumers becoming more cautious with their spending. However, demand for the Restaurants business and on-trade products tends to continue to recover moderately, as the COVID-19 influence may be limited amidst the growing prevalence of "Living with COVID-19" lifestyle both domestically and internationally.
- Under these circumstances, the Sapporo Group will strengthen its profitability by decisively implementing structural reforms and accelerating growth. We expect further raw material prices to rise in the Alcoholic Beverages and Food & Soft Drinks segments, but will secure profits through structural reforms, including cost reductions and a drastic shakeup of unprofitable businesses, in addition to price revisions. As for the Real Estate business, we will improve profitability and asset efficiency over a long-term time horizon by transforming from a business entity focused on rentals to one that comprehensively enhances asset value. In addition, the overseas business will expand sales of alcoholic beverages in North America and beverages overseas, making them growth drivers for the Sapporo Group. Through these efforts, we will strive to improve the profitability of the entire Group.
- Through the above efforts, we are forecasting an increase in both revenue and core operating profit versus 2022 levels.
- Although we forecast an increase in profit attributable to owners of parent, the operating profit is forecasted to decrease due to increased expenses to promote speedy structural reforms.

Overall outlook

	Millions of yen, except percentages			
	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent
2023 forecast	490,000	13,500	9,500	5,500
2022 results	478,422	9,312	10,106	5,450
Projected change (%)	2.4	45.0	(6.0)	0.9

Results by segment are outlined below.

Alcoholic Beverages

- Revenue will be boosted by an effect of newly consolidated Stone, recovery of the on-trade market, and price revisions.
- Core operating profit and operating profit both estimated to increase year-on-year due to the effect of increased revenue and an improved product mix, despite increased variable costs due to factors such as increased raw material prices.

■ Revenue: ¥347.0 billion (up ¥12.4 billion, or 3.7% year on year)

■ Core operating profit: ¥13.4 billion (up ¥5.7 billion, or 73.6% year on year)

■ Operating profit: ¥12.3 billion (up ¥3.5 billion, or 38.9% year on year)

Details of Alcoholic Beverages (Japan and Overseas) and Restaurants in the Alcoholic Beverages business were as follows.

Japan

- In the next fiscal year, we will focus more on strengthening beer and RTD in anticipation of the liquor tax revision in October 2023. Along with sales growth, efforts for RTD will be made by

improving productivity through the operation of RTD facilities at the Sendai Brewery. Continuing from the current fiscal year, soaring raw material prices will have a strong impact on our domestic alcoholic beverage performance, but we expect to offset this negative effect through price revisions and efforts to improve an product mix.

Overseas

• As for overseas alcoholic beverages, we create synergies with Stone as early as possible in the United States, which is a growth driver, and must strengthen our profitability by working toward sales growth of Sapporo brand beer and the establishment of production and logistics system. In Canada, we anticipate a significant impact from rising costs, but aim to recover profitability by strengthening the premium brand beers of Sleeman Breweries, and through cost structure reforms.

Restaurants

• The demand in the pub restaurant and izakaya industry will likely continue to be uncertain due to the COVID-19 pandemic, yet a moderate turnaround will continue. Given such circumstances, Restaurants business will further endeavor to improve profitability by shifting resources to key business categories such as YEBISU BAR and GINZA LION to build a robust management structure for a post-COVID world.

Food & Soft Drinks

• We estimate lower revenues due to a significant strategic reduction in SKUs, while forecasting sales growth in the lemon business and overseas beverages as well as further price revisions.
• Core operating profit and operating profit both estimated to increase year-on-year because of the contribution of structural reform effects such as price revisions and reductions in selling and disposal costs, despite increased raw material costs.

■ Revenue: ¥121.0 billion (down ¥1.9 billion, or 1.6% year on year)

■ Core operating profit: ¥2.4 billion (up ¥0.6 billion, or 34.0% year on year)

■ Operating profit: ¥2.3 billion (down ¥0.0 billion, or 0.2% year on year)

Details of domestic food & soft drinks and overseas beverages categorized in Food & Soft Drinks are as follows.

Food & Soft Drinks (Japan)

• We will accelerate our initiatives to concentrate resources on the growing lemon business in 2023. We expect further raw material prices to rise, but will strengthen our profitability by implementing structural reforms through cost reductions, productivity improvement due to a significant reduction in SKUs, and unprofitable businesses liquidation, in addition to price revisions.

Overseas Beverage

• Overseas beverages will be affected by soaring raw material prices, but we will address this by revising prices and taking other measures. We will aim to turn our overseas businesses into a growth driver for the Group by strengthening our sales and marketing structure in countries and regions with growth potential, such as Malaysia and the Middle East, starting from Singapore.

Real Estate

• Revenues are expected to increase due to the renovation and opening of the Center Plaza at Yebisu Garden Place in November of the current fiscal year as well as increased equity investments funds and other factors.

- We project that core operating profit will be lower due to the expenses related to the replacement of office air-conditioning systems at Yebisu Garden Place and repair costs incurred during the renovation of HOTEL CLUBBY operated in Sapporo.
- Operating profit will increase mainly due to the impact of the asset reclassification.

■ Revenue: ¥22.0 billion (up ¥1.3 billion, or 6.2% year on year)

■ Core operating profit: ¥5.9 billion (down ¥0.6 billion, or 9.3% year on year)

■ Operating profit: ¥6.3 billion (up ¥0.8 billion, or 15.3% year on year)

- We will build an asset turnover business model in the next fiscal year by enhancing the core property value in the Ebisu and Sapporo areas and building community, while strengthening competitiveness. We will work to transform from the revenue base focused on rentals to one that comprehensively enhances asset value over a long-term time horizon.

(5) Dividend Policy and Dividends for 2022 and 2023

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.

With regard to the level of dividends going forward, the Company will strive to raise the level of dividends in line with the increase in corporate value, based on a consolidated dividend payout ratio of 30% or more, with the current level as the minimum under the "Medium-Term Management Plan (2023-2026)," announced in November 2022. However, if profit attributable to owners of parent changes significantly due to extraordinary non-recurring factors, etc., the amount of dividends will be determined taking into account the impact of such fluctuations. Retained earnings will be used for operational and capital investments contributing to the future growth of the corporate value.

Given the above policy and taking into consideration the operating results and the financial condition for the current term, the Company will pay a dividend of ¥42 per share for 2022. 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 ¥45 in 2023, an increase of ¥3 per share over the current fiscal year to further return profits to our shareholders.

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.

3. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2021	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	17,368	15,380
Trade and other receivables	91,530	96,593
Inventories	39,178	47,525
Other financial assets	3,985	8,454
Other current assets	5,627	11,479
Subtotal	<u>157,687</u>	<u>179,431</u>
Assets held for sale	10,119	—
Total current assets	<u>167,806</u>	<u>179,431</u>
Non-current assets		
Property, plant and equipment	120,624	129,102
Investment property	203,224	209,628
Goodwill	19,176	33,783
Intangible assets	7,893	9,328
Investments accounted for using equity method	1,345	1,370
Other financial assets	65,650	68,616
Retirement benefit Asset	—	1,353
Other non-current assets	4,682	3,938
Deferred tax assets	4,151	2,569
Total non-current assets	<u>426,745</u>	<u>459,687</u>
Total assets	<u><u>594,551</u></u>	<u><u>639,118</u></u>

(Millions of yen)

	December 31, 2021	December 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	33,228	35,730
Bonds and borrowings	61,163	86,524
Lease liabilities	4,712	3,825
Income taxes payable	5,577	890
Other financial liabilities	37,575	32,999
Provisions	7,704	7,485
Other current liabilities	54,458	52,060
Subtotal	204,418	219,515
Liabilities directly associated with assets held for sale	6,118	—
Total current liabilities	210,535	219,515
Non-current liabilities		
Bonds and borrowings	136,936	155,369
Lease liabilities	17,257	17,478
Other financial liabilities	44,376	51,859
Retirement benefit liability	318	3,471
Provisions	2,078	1,941
Other non-current liabilities	139	278
Deferred tax liabilities	19,585	22,007
Total non-current liabilities	220,688	252,402
Total liabilities	431,224	471,917
Equity		
Share capital	53,887	53,887
Capital surplus	40,596	40,645
Treasury shares	(1,785)	1,785
Retained earnings	44,791	43,392
Other components of equity	25,080	30,171
Total equity attributable to owners of parent	162,570	166,310
Non-controlling interests	757	891
Total equity	163,327	167,201
Total liabilities and equity	594,551	639,118

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

Consolidated Statement of Profit or Loss

(Millions of yen)

	Year ended December 31, 2021	Year ended December 31, 2022
Revenue	437,159	478,422
Cost of sales	303,380	339,180
Gross profit	133,779	139,243
Selling, general and administrative expenses	125,637	129,931
Other operating income	28,450	3,992
Other operating expenses	14,564	3,198
Operating profit (loss)	22,029	10,106
Finance income	1,606	3,044
Finance costs	2,496	1,891
Share of profit of investments accounted for using equity method	47	108
Profit (loss) before tax	21,185	11,367
Income tax expense	8,910	5,852
Profit (loss)	12,275	5,515
Profit attributable to		
Owners of parent	12,331	5,450
Non-controlling interests	(56)	65
Profit (loss)	12,275	5,515
Basic earnings (loss) per share	158.30	69.96
Diluted earnings (loss) per share	155.82	69.95

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended December 31, 2021	Year ended December 31, 2022
Profit (loss)	12,275	5,515
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(980)	2,539
Remeasurements of defined benefit plans	2,164	(3,977)
Total of items that will not be reclassified to profit or loss	1,185	(1,439)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	3,643	3,002
Effective portion of cash flow hedges	24	25
Total of items that may be reclassified to profit or loss	3,667	3,027
Total other comprehensive income, net of tax	4,852	1,588
Comprehensive income	17,127	7,103
Comprehensive income attributable to		
Owners of parent	17,128	6,969
Non-controlling interests	(1)	135
Comprehensive income	17,127	7,103

(4) 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 cash flow hedges
Balance as of January 1, 2021	53,887	40,853	(1,787)	33,459	(1,806)	(40)
Profit (loss)				12,331		
Other comprehensive income					3,588	24
Comprehensive income	-	-	-	12,331	3,588	24
Purchase of treasury shares			(5)			
Disposal of treasury shares		0	8			
Dividends				(3,277)		
Changes in ownership interest in subsidiaries		(50)				
Share-based remuneration transactions		(24)				
Transfer from other components of equity to retained earnings				2,096		
Other		(182)		182		
Total transactions with owners	-	(257)	3	(998)	-	-
Balance as of December 31, 2021	53,887	40,596	(1,785)	44,791	1,782	(15)

	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, 2021	25,215	-	23,370	149,781	(231)	149,551
Profit (loss)			-	12,331	(56)	12,275
Other comprehensive income	(980)	2,164	4,797	4,797	55	4,852
Comprehensive income	(980)	2,164	4,797	17,128	(1)	17,217
Purchase of treasury shares			-	(5)	-	(5)
Disposal of treasury shares			-	8	-	8
Dividends			-	(3,277)	(1)	(3,278)
Changes in ownership interest in subsidiaries			-	(50)	-	(50)
Share-based remuneration transactions			-	(24)	-	(24)
Transfer from other components of equity to retained earnings	(922)	(2,164)	(3,086)	(990)	990	-
Other			-	-	-	-
Total transactions with owners	(922)	(2,164)	(3,086)	(4,339)	989	(3,350)
Balance as of December 31, 2021	23,313	-	25,080	162,570	757	163,327

(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 cash flow hedges
Balance as of January 1, 2022	53,887	40,596	(1,785)	44,791	1,782	(15)
Profit (loss)				5,450		
Other comprehensive income					2,932	25
Comprehensive income	-	-	-	5,450	2,932	25
Purchase of treasury shares			(4)			
Disposal of treasury shares		0	3			
Dividends				(3,277)		
Share-based remuneration transactions		49				
Transfer from other components of equity to retained earnings				(3,572)		
Total transactions with owners	-	49	(0)	(6,849)	-	-
Balance as of December 31, 2022	53,887	40,645	(1,785)	43,392	4,714	10

	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, 2022	23,313	-	25,080	162,570	757	163,327
Profit (loss)			-	5,450	65	5,515
Other comprehensive income	2,539	(3,977)	1,519	1,519	69	1,588
Comprehensive income	2,539	(3,977)	1,519	6,969	135	7,103
Purchase of treasury shares			-	(4)	-	(4)
Disposal of treasury shares			-	3	-	3
Dividends			-	(3,277)	(1)	(3,278)
Share-based remuneration transactions			-	49	-	49
Transfer from other components of equity to retained earnings	(406)	3,977	3,572	-	-	-
Total transactions with owners	(406)	3,977	3,572	(3,228)	(1)	(3,229)
Balance as of December 31, 2022	25,446	-	30,171	166,310	891	167,201

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended December 31, 2021	Year ended December 31, 2022
Cash flows from operating activities		
Profit (loss) before tax	21,185	11,367
Depreciation and amortization	22,660	21,234
Impairment losses	7,533	1,326
Interest and dividend income	(844)	(1,056)
Interest expenses	1,634	1,886
Share of loss (profit) of investments accounted for using equity method	(47)	(108)
Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets	(21,732)	(749)
Decrease (increase) in trade and other receivables	(6,487)	(2,862)
Decrease (increase) in inventories	(1,835)	(5,013)
Increase (decrease) in trade and other payables	1,128	295
Increase (decrease) in accrued alcohol tax	2,139	(2,434)
Increase (decrease) in Retirement benefit Asset and liability	(313)	(5,736)
Other	5,858	282
Subtotal	30,878	18,431
Interest and dividends received	840	1,066
Interest paid	(1,508)	(1,725)
Income taxes paid	98	(9,958)
Net cash provided by (used in) operating activities	30,308	7,814
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,982)	(8,040)
Proceeds from sale of property, plant and equipment	1,448	1,928
Purchase of investment property	(8,082)	(12,706)
Proceeds from sale of investment property	40,418	—
Purchase of intangible assets	(1,210)	(1,580)
Purchase of investment securities	(2,358)	(4,187)
Proceeds from sale of investment securities	3,330	1,140
Payments for acquisition of subsidiaries due to change in scope of consolidation	(2,737)	(22,558)
Payments for investments in capital	(1,300)	—
Purchase of shares of subsidiaries and associates	(900)	—
Payments for loans receivable	(59)	(48)
Collection of loans receivable	131	130
Other	4,030	(216)
Net cash provided by (used in) investing activities	20,729	(46,137)

(Millions of yen)

	Year ended December 31, 2021	Year ended December 31, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(852)	9,625
Net increase (decrease) in commercial papers	—	10,000
Proceeds from long-term borrowings	6,500	50,000
Repayments of long-term borrowings	(19,331)	(16,563)
Redemption of bonds	(30,008)	(10,026)
Dividends paid	(3,276)	(3,277)
Repayments of lease liabilities	(6,115)	(4,685)
Purchase of treasury shares	(5)	(4)
Other	8	1,395
Net cash provided by (used in) financing activities	(53,080)	36,465
Effect of exchange rate changes on cash and cash equivalents	777	(131)
Net increase (decrease) in cash and cash equivalents	(1,266)	(1,988)
Cash and cash equivalents at beginning of period	19,734	17,368
Cash and cash equivalents included in assets of disposal groups classified as holdings for sale	(1,100)	—
Cash and cash equivalents at end of period	17,368	15,380

(6) Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Reporting entity)

Sapporo Holdings Limited (the "Company") is a stock company located in Japan. Both its registered head office and principal business address are located in Shibuya-ku, Tokyo. The Company's consolidated financial statements, with a year-end date of December 31, 2022, consist of the Company and its subsidiaries (collectively the "Group"), as well as the Company's interest in its affiliates. The Group's business and key activities are described in (Segment Information).

(Basis of Creation)

(a) Compliance with IFRS

The Group's consolidated financial statements are prepared in accordance with IFRS (International Financial Reporting Standards). The Company has applied the provisions of Article 93 of the Regulation since meeting the requirements of "Specified Company Complying with Designated International Accounting Standards" as stipulated in Article 1-2 of the Regulation on Consolidated Financial Statements.

(b) Basis of measurement

The Group's consolidated financial statements are prepared on the basis of acquisition cost, except for financial instruments measured at fair value.

(c) Presentation currency

The Group's consolidated financial statements are presented in Japanese yen, the functional currency of the Company, rounded to the nearest million yen.

(d) Change in presentation method

(Consolidated statement of cash flows)

Increase or decrease in retirement benefit asset or liability, which was included in Other under Cash flows from operating activities in the fiscal year ended December 31, 2021, is stated separately in the fiscal year ended December 31, 2022, due to its increased materiality. Reclassifications have been made to the consolidated statement of cash flows for the fiscal year ended December 31, 2021, to reflect this change in presentation.

As a result, the ¥5,544 million Other under Cash flows from operating activities of Consolidated statement of cash flows in the fiscal year ended December 31, 2021, is reclassified as the ¥(313) million Increase or decrease in retirement benefit asset or liability and the ¥5,858 million Other.

(Significant accounting principles)

The significant accounting policies applied in the Sapporo Group's consolidated financial statements are the same as those applied in the previous consolidated fiscal year.

(Significant accounting estimates and judgments involving estimates)

In preparing consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues, and expenses. Actual results may differ materially from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the accounting period in which the estimate is revised and in future accounting periods thereafter.

Significant accounting estimates and judgments involving estimates in the consolidated financial statements are the same as those used in the consolidated financial statements for the previous fiscal

year. However, with the spread of "Living with COVID-19" lifestyle both domestically and internationally, we assume that the future impact of infections will be limited. Accounting estimates, including impairment testing of non-financial assets and recoverability of deferred tax assets, are prepared to reflect the COVID-19 re-spreading impact on business activities and performance deemed reasonable today. Specifically, we factor in that the market environment will begin to recover as "Living with COVID-19" lifestyle becomes more prevalent, thus supposing a gradual recovery in demand for Restaurants business and on-trade products. Another future epidemic, for example, could have a significant impact on the consolidated financial statements in the following fiscal year or later

(Segment Information)

(a) 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.

(b) Revenue, profit (or loss)

(Millions of yen)

	Years ended December 31, 2021 (January 1, 2021 – December 31, 2021)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	289,678	125,453	21,863	166	437,159	—	437,159
Inter-segment revenue	13,009	950	2,406	0	16,365	(16,365)	—
Total	302,687	126,403	24,269	166	453,525	(16,365)	437,159
Operating profit (loss)	2,146	(3,386)	29,254	34	28,048	(6,020)	22,029

(Millions of yen)

	Years ended December 31, 2022 (January 1, 2022 – December 31, 2022)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	334,644	122,914	20,724	140	478,422	—	478,422
Inter-segment revenue	12,571	912	2,332	—	15,815	(15,815)	—
Total	347,215	123,826	23,057	140	494,237	(15,815)	478,422
Operating profit (loss)	8,908	2,270	5,442	18	16,638	(6,531)	10,106

"Other" comprises businesses, such as health food business, etc., that are not included in reportable segments. Adjustment included General corporate and intercompany eliminations. General corporation are general administrative expenses that do not belong to the reporting segment.

(Subsequent Events)

None