SAPPORO

Integrated Report 2018

SAPPORO HOLDINGS LIMITED

Management Philosophy

As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles.

Fundamental Management Policy

The Sapporo Group strives to maintain integrity in corporate conduct that reinforces stakeholder trust and aims to achieve continuous growth in corporate value.

SAPPORO









History

In 1876, the Sapporo Group marked its founding with the completion of the *Kaitakushi* Brewery in Sapporo, Hokkaido Prefecture. Throughout the over 140 years of history since its founding, the Sapporo Group has expanded its business domains to include not only Alcoholic Beverages but also Food & Soft Drinks, Restaurants, and Real Estate. Through these business domains, we have contributed to the evolution of enriching and rewarding lifestyles for our customers in a variety of settings.

★ COVER STORY

Becoming a Company with Highly Unique Brands

The Sapporo Group has inherited aspirations for the future alongside its stakeholders.
These aspirations have crystallized into the Sapporo Group brand.

Dialogues

The history of the Sapporo Group is one made of dialogues accumulated over time with its customers and other stakeholders. We have been deeply involved in people's lives, developing products and services to please our customers while providing a new eating and drinking scene that delivers joy and excitement.

Innovation & Quality

The Sapporo Group has acquired insight and understanding from dialogues with its customers and implemented them toward innovation and the pursuit of quality. Those aspirations have crystallized as our many brand assets, which we want to share with our stakeholders.

★ COVER STORY: **Becoming a Company with Highly Unique Brands**

Natural

The Sapporo Group is a food manufacturer deeply committed to its raw materials. As we benefit from the blessings of nature, we are working to ensure that these blessings can be inherited by future generations. Addressing and lowering the risks of climate change through the breeding of barley and hops is just one example of these efforts.

Community

We hold the connections to and relationships with regions and towns such as Ebisu, Sapporo, Ginza, and Nagoya in the highest regard; areas such as these house the contact points between us and our customers. The Sapporo Group takes a proactive role in urban development, working to create and cultivate a "luxurious time" and "luxurious space."

Human Resources

The key to refining our brands and strengthening bonds through our brand story is our human resources. Our diverse roster of human resources are working to go beyond the boundaries of alcoholic beverages, food & soft drinks, and real estate while helping provide creative, enriching, and rewarding lifestyles to the world.

Refining our brands

×

Strengthening bonds through our brand story

By refining our brands, the crystallization of our history, through the pursuit of innovation and quality, and by strengthening bonds through our brand story—built upon over 140 years of that same history—we aim to be a company with highly unique brands.

The Sapporo Group's Value Creation Story

Our value creation story aims to realize our Management Philosophy–"As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles." This value creation story is drawn from a brand story based on over 140 years of history that we want to share with our stakeholders.

While boldly pushing forward with a two-pronged approach that focuses on a business model for refining our brands, which have crystallized through our pursuit of innovation and quality, and our CSR activities, which strengthen bonds through our brand story, we will work to attain our 2026 Group Vision and create corporate value unique to the Company.

The Sapporo Group Long-Term Management Vision "SPEED150"

P.32

2026 Group Vision

The Sapporo Group will be a company with highly unique brands in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks" around the world.

Management Philosophy

As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles.

Value Created by the Sapporo Group

- Deliver new products and services by pursuing innovation and quality
- Pioneer new markets by refining tangible and intangible brand assets
- Contribute to revitalizing communication among customers by providing products and services
- Provide "fun," "joy," and "vitality for tomorrow" to all stakeholders through business expansion
- Promote ESG management to contribute to realizing a sustainable society

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The Sapporo Group's Value System

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The Sapporo Group's Growth Strategies

The Sapporo Group's Sustainability Management

Results / Results Indicators

Editorial Policy

Integrated Report 2018 serves to inform all stakeholders about the Sapporo Group's distinct value as a group with highly unique brands and expresses its direction and intentions toward the future—a future in which the Group plays an indispensable part for society. This integrated report is intended to facilitate understanding of the Group's economic and social value creation as accomplished through our management strategy and business and CSR activities, and to inform readers on the state and progress of our initiatives. Our editorial policy is to provide in a clear and straightforward manner information regarding the changes that will take place moving forward.

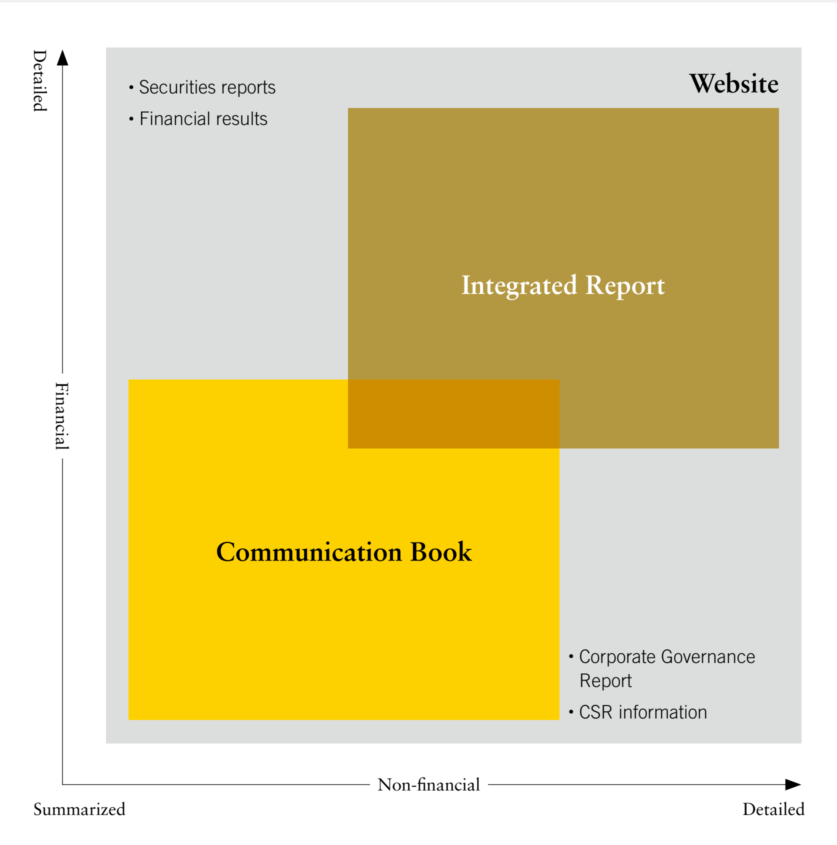
In doing so, we hope that all stakeholders, including shareholders and other investors, will grasp the Sapporo Group's vision toward sustainable growth.

June 2019

Note: The Sapporo Group has reclassified its business segments, starting from fiscal 2019. This change has been reflected in all sections of this integrated report excluding the "Management's Discussion and Analysis" section on pages 74–77.

Information Framework

For more information regarding financial and non-financial matters, please visit the Company website.



Forward-Looking Statements
Statements in this integrated report with respect to the Company's forecasts, performance or otherwise, are based on the Company's judgments in light of the latest information available as of the publication of this report and contain potential risks and contingencies. For that reason, please be aware that due to various changing factors, actual results may vary from the forecasts published in this report.

Period Covered
This report covers the fiscal year ended December 2018 (Jan. 1, 2018–Dec. 31, 2018). However, it may refer to events before or after this period as necessary.

Organizations Covered
Sapporo Holdings, Ltd. and Group companies

Referenced Guidelines
- International Integrated Reporting Council (IIRC), *The International <IR> Framework*
- Ministry of Economy, Trade and Industry, *Guidance for Collaborative Value Creation*
- GRI (Global Reporting Initiative) *Sustainability Reporting Standards* (International guidelines on corporate sustainability reporting)
- International Organization for Standardization ISO 26000 (Guidance on social responsibility)
- Ministry of the Environment *Environmental Reporting Guidelines 2018*

Supported Initiatives
- UN Global Compact

Sapporo Holdings has signed the United Nations Global Compact.

- SDGs (Sustainable Development Goals)
- TCFD (The FSB Task Force on Climate-related Financial Disclosures)

Message from the President

Masaki Oga
President and
Representative Director

We envision ourselves as
"a company with highly unique brands."
To this end, we will create value unique to
the Sapporo Group on a global basis in
the business fields of "Alcoholic Beverages,"
"Food," and "Soft Drinks."
In doing so, we will create sustainable growth
and realize a sustainable society.

A "Year of Change" with Clear Intentions

To welcome 150 years since our founding in 2026, we established a series of goals in our Long-Term Management Vision "SPEED150." To achieve these goals, we created a road map separated into checkpoints. Fiscal 2017 marked the first year of the First Medium-Term Management Plan 2020, and the first checkpoint of this road map. Fiscal 2018, meanwhile, marked the end of the first half of the plan, but with preparations for the second half came the unfortunate realization that we were behind in our progress. Therefore, we have positioned fiscal 2019 as "the Year of Change," and have embarked on a reformation of our business framework.

The idea behind the "Year of Change" is that it is a period to ascertain what businesses we need to focus on, while taking into account the issues that linger from fiscal 2017–fiscal 2018. Looking at consumption related to alcoholic beverages and soft drinks, we have learned that current marketing and sales methods cannot hold up in light of changing customer tastes and styles of drinking, the shift in sales channels away from vending machines, changing and strengthening regulations, and other factors.

Accordingly, we will strengthen our efforts in areas where we see favorable results or sense a positive response, stay focused on our transition toward a more gainful period, despite the current shortfall, and remain mindful that we will see improvements as long as we continue with these efforts. However, we will not continue with businesses that show no signs of improvement. Therefore, we will draw a line, making the firm distinction between businesses where we will focus our efforts and those from which we will pull away. At the same time, we are conscious of the importance of timing for making this line clear, both inside and outside the Company, and will present concrete results of these structural reforms by fiscal 2020.

Message from the President

A Vision for Promoting Global Expansion and Our Future Business Structure

We have also reviewed our approach to business to better demonstrate our intentions. Over the past 10 years, we have expanded and accelerated our efforts in the "Food" field, initiated by our acquisition of POKKA CORPORATION. We have also ramped up our promotion of global expansion in the last decade, centered in North America and Southeast Asia. Now, overseas business accounts for over 20% of consolidated revenue, and overseas employees represent over one-fifth of the Group's human resources. As a result, there is no longer any need to classify overseas business as a separate category. Moreover, the ratio of overseas beer sales volume to domestic beer sales volume doubled over a period of roughly 10 years. This, coupled with the gradual shift of business in Vietnam—previously a cause for concern—to profitability, means that the timing is right to significantly revise the vision for our businesses, of which overseas business is a part.

In the Alcoholic Beverages segment, control of the export business of Sapporo International Inc. was transferred to Sapporo Breweries Limited, effective January 1, 2018. Similarly, control of the Vietnam business was transferred to Sapporo Breweries Limited effective January, 1, 2019. These transfers are part of efforts to switch to an integrated system for each business unit, with a burden of responsibility built into its framework—covering everything from procurement to manufacturing, logistics, sales, brand management, and governance—and to incorporate domestic and overseas business. Under a system with clear business leaders, responsibilities, and authority, we are promoting the Group's growth strategy through three business segments: Alcoholic Beverages, Food & Soft Drinks, and Real Estate.

"Under a system with clear business leaders, responsibilities, and authority, we are promoting the Group's growth strategy through three business segments: Alcoholic Beverages, Food & Soft Drinks, and Real Estate."

A Vision for a Holding Company That Supports Its Operating Companies

As part of the vision of Sapporo Holdings as a holding company, a move has been made to reassemble the entire Group into one centered in business driven by its operating companies, but this move raises some questions. Since becoming a holding company in 2003, we have seen definite results, such as success with cost-cutting reforms, by consolidating common operations across Group companies. On the other hand, the transition to a holding company has raised some issues. One issue brought to light is that the increase in the number of employees affiliated with the holding company has resulted in its performing functions that are fundamentally business-related. My basic opinion is that a holding company is responsible for filing financial reports, organizing general meetings of shareholders, and upgrading and strengthening corporate governance while supporting its operating companies. In that light, we will increase functionality further by leaving Companywide, cross-sectional functions related to IT, legal matters, and Group risk management to the holding company. However, we will also clarify the relationships and positioning between the holding company and the operating companies. With these strategies in hand, we will build a holding structure best suited to current times.

Approaches to M&A, a Contributor to Increased Corporate Value

In fiscal 2018, we recorded an impairment loss on Anchor Brewing Company, with the main cause being our deviation from the original business plan established when acquiring the company. Upon reflection, we realize that there are steps that should have been taken. Before making an acquisition, we must not only be extremely diligent in conducting pre-project surveys, determining investment expenditures, monitoring to keep aware of capital costs post-investment, and formulating a post-acquisition business plan, we must also thoroughly ascertain whether we can cultivate the brand of a prospective acquisition. To that end, we will be more exact when executing post-merger integration (PMI), and will also re-examine and reconstruct our global governance structure.

Future decisions related to M&A will be subject to a thorough evaluation process judged comprehensively, based on areas where we have developed businesses and already-successful brands. I would like to utilize the lessons learned from the acquisition of Canada-based Sleeman Breweries in North America, one of the Company's pivot points, and if there is a company with which we can collaborate after considering factors such as manufacturing, distribution, sales, and brand management, and then weighing the mutual benefits of such an action, I want to do so. Furthermore, to expand the "Food" field further, we will focus on building a greater affinity and tighter relationships with existing businesses and technologies going forward. As for domestic food products, I believe that there are still untapped regions that show promise. We are also investigating regions that might aid POKKA SAPPORO Food & Beverage in its role as a food and beverage company and establish synergies with possible M&A candidates.

Creating New Value and Exhibiting Group Synergies

It is important that new value creation is carried out at each operating company as part of a thorough pursuit of "fundamental value." Taking beer as an example, up until now, we have strived to provide a diverse set of products, packaging, and price points, while differentiating our products from competitors. However, no matter how you look at it, these are measures to increase the number of consumers who enjoy our beer. Amid changing consumer tastes, we need to concentrate on producing the most delicious glass of beer possible as we move forward. One of the strengths of the Sapporo Group are spaces like its beer halls, where consumers can experience our brands and we can feel their reactions up close.

"One of the strengths of the Sapporo Group are spaces where consumers can experience our brands and we can feel their reactions up close."

Message from the President

Taking the knowledge we can glean from such spaces, I believe that there are still original and creative discoveries to be made, and we are committed to a thorough search for new kinds of "deliciousness" that we can provide to our customers. This idea is taking hold with POKKA SAPPORO Food & Beverage and involves lemons. Beyond expanding our product lineup, we have developed a variety of products and services centered on the value of lemons. We are also providing added value bolstered by our R&D department while further deepening existing value. In doing so, we are producing new value unique to the Sapporo Group.

On the one hand, each operating company produces new value by pursuing "fundamental value" in beer and lemons. On the other hand, we can also produce Group synergies by developing products and services, improving logistics, and facilitating exchanges among human resources. For instance, by furthering exchanges between human resources at Sapporo Breweries and POKKA SAPPORO Food & Beverage, we make it possible for personnel with a variety of backgrounds to see, think, and conceive of things from a variety of angles. Conditions require we move away from our current model, where specialization within a single business is the goal. Rather, as a food manufacturer, we need to embrace a multifaceted approach to business, and incorporate various viewpoints and perspectives. We will use these different perspectives to introduce a system that will increase personnel mobility in pursuit of effective synergies.

ESG Management for Sustainable Growth

To continue meeting the demand of society as a company and promote sustainable growth, we have identified our CSR priority issues and determined 4 Key Promises to our stakeholders: "Contributing to Creative, Enriching and Rewarding Lifestyles Through Alcoholic Beverages, Food, and Soft Drinks," "Promoting Coexistence with Society," "Promoting Environmental Conservation," and "Cultivating Highly Unique Employees." We have worked to meet medium- to long-term targets aimed at resolving these issues. These efforts contribute to

> ***"Conditions require we move away from our current model, where specialization within a single business is the goal. Rather, as a food manufacturer, we need to embrace a multifaceted approach to business, and incorporate various viewpoints and perspectives."***

our meeting the United Nations Sustainable Development Goals (SDGs). In addition, I believe we should leverage these efforts as a means to build brand strength and earn trust that will provide the source for growth going forward.

To provide products and services with safe and assured quality, the Sapporo Group employs the Collaborative Contract Farming System, a one-of-a-kind proprietary system to procure raw materials. Under this system, we can actively maintain communication with growers as we cultivate materials for our products. Although the effects of climate change and natural disasters can put at risk the quality and volume of the raw materials grown, this straightforward system serves as one measure to promote sustainable production activities. As measures to promote the effective use of water resources for business activities and to combat global warming, we have set goals to reduce water consumption by 6% and CO_2 emissions per unit by 12% compared with 2013 levels, by the year 2030. We are conducting in-house investigations toward formulating possible goals that suit the future beyond 2030. At the same time, we are applying our unique perspective as we proceed with our efforts to tackle the "E," or "Environmental," in "ESG."

As for the "S," or "Social," we have established 56 partnership agreements with municipalities and universities across Japan in order to promote cooperative regional revitalization, cultivate the next generation of people, and prevent natural disasters. These efforts, closely rooted to local areas, are the very same corporate activities that we have been performing since the Meiji Period. This is also true for the corporate activities of the Real Estate business segment. We have deep roots in three locations—Sapporo, Ebisu, and Ginza—each tied to our Group's origins and closely related to our brands. As we maintain ties with these communities, we are also promoting rich urban development therein. In all regions where we have connections, which include manufacturing and raw material supply centers, we will also continue to keep our ties to their local communities close to heart, and contribute to them in ways unique to the Company.

Similarly, the livelihoods of our human resources form the basis for management. The Group promotes en masse health management with actions such as the formulation of the Sapporo Group Health Declaration. Valuing the health of each individual employee in turn serves to increase the sustainability of our business activities, which leads to Group growth. In addition, our efforts to recognize and utilize diversity have been lauded by outside organizations. Moving forward, we will continue to value efforts to help human resources prosper as members of society.

The "G," or "Governance," in "ESG" is one of the fundamental mechanisms for improving corporate value. As a listed entity, the Group formulated its Basic Policy on Corporate Governance—based on the purport and spirit of the Corporate Governance Code—as a means to the clarify the Group stance and operational policy toward corporate governance. Our basic philosophy is to regard strengthening and enhancing corporate governance as one of our top management priorities. With that in mind, we are working to clarify supervisory, business execution, and auditing functions throughout the Group under the holding company framework.

"By further promoting ESG management going forward, we aim to achieve sustainable growth and a sustainable society."

As part of our search to find an ideal approach to business, which includes overseas business, we utilize the opinions, suggestions, and advice from outside directors—who comprise one-third of our Board of Directors—based on the unique viewpoints and perspectives that inside directors may not possess. Furthermore, in fiscal 2016 we moved ahead of other companies in the industry by appointing a woman as an inside officer. In fiscal 2018, we moved further ahead when we appointed a non-Japanese person as an outside director. In these ways, the Board of Directors is supporting the diversity and globalization efforts that are rising within the Group.

By further promoting ESG management going forward, we aim to achieve sustainable growth and a sustainable society.

To Our Stakeholders

Though I stated this earlier, I will do so again: fiscal 2019 is our "Year of Change." As we clarify our vision for our operating companies and our holding company, my role as president is to promote action and change, connect these to concrete results and outcomes, and present them to shareholders, investors, and all other stakeholders. I am confident that, as we embark on the road toward completing our organizational reforms and meeting the goals of our business plan for fiscal 2019, new prospects for the next Medium-Term Management Plan will make themselves known along the way. We have our sights locked on revenue growth as a Group. By bringing our businesses back to profitability, we will show that we are standing at the door to our next stage of progress.

I would like to ask all our stakeholders for their continued support and to look forward in anticipation of the significant and sustainable growth we will achieve as we walk through this door.

June 2019

Masaki Oga

Masaki Oga
President and Representative Director

1876
Established the *Kaitakushi* Brewery in Sapporo, Hokkaido

1877
Launched *Sapporo Lager Beer*, the first product

1956
Revival of *Sapporo Beer*

1964
Company name changed to SAPPORO BREWERIES LIMITED

1974
Entered the wine business

1887
Established Japan Beer Brewery Company in Ginza, Tokyo

1890
Launched *Yebisu Beer*

1979
Changed Company name to SAPPORO LION LIMITED

Space to experience Sapporo brand—Entered the Restaurants business

1899
Opened *YEBISU BEER HALL*, Japan's first beer hall in Ginza, Tokyo

1934
Opened the *Beer Hall Lion Ginza 7-chome*, now the oldest existing beer hall in Japan

1964
Began exporting beer to the United States

1984
Established SAPPORO U.S.A., INC.

Entered the Soft Drinks business—Utilization of Carbon dioxide from brewing process

1909
Started manufacture and sale of *Citron*

1957
Established Kokusai Inryo Co., Ltd., which later became Sapporo Beverage Co., Ltd.

Established Nikka Lemon Co., Ltd., which later became POKKA CORPORATION

1977
Established POKKA CORPORATION (SINGAPORE) PTE. LTD.

Our History

With a history stretching back more than 140 years to the founding of the *Kaitakushi* Brewery in Sapporo, Hokkaido Prefecture, in 1876, the Sapporo Group continues to grow. As we write the next page in our history, we will continue to be a corporate group that contributes to society.

Entered the Real Estate business by reviving former brewery sites

1988
Established Seiwa Real Estate Co., Ltd. (now SAPPORO REAL ESTATE CO., LTD.)

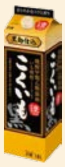
The Sapporo Group Brand Story from Then to Now

1890–	1896–	1914–	1949–	1957–	1963–	1976–
Yebisu Beer	*Anchor*	*Ribbon*	*Ginza Lion*	*POKKA Lemon*	*Shinsyu-ichi Miso Miko-chan*	*BLUE SEAL*

Alcoholic Beverages

2003
Started operation under a holding company framework with SAPPORO HOLDINGS LIMITED as a pure holding company

2006
Entered the *shochu* business



2017
40th anniversary of the launch of *Sapporo Draft Beer Black Label*

2009
Opened the first *YEBISU BAR* jointly developed with SAPPORO BREWERIES in the Ginza Corridor district

2019
120th anniversary of SAPPORO LION

2010
Made SAPPORO VIETNAM LTD. into a consolidated subsidiary and expanded business in Southeast Asia

2017
Made U.S.-based ANCHOR BREWING COMPANY, LLC a consolidated subsidiary

2006
Made SLEEMAN BREWERIES LTD. into a consolidated subsidiary and focused on strengthening the *SLEEMAN* brand

Food & Soft Drinks

2012
Entered the U.S. soft drinks business and acquired 51% of the shares of SILVER SPRINGS CITRUS, INC., making it a consolidated subsidiary

2015
Acquired 51% of the shares of COUNTRY PURE FOODS, INC., making it a consolidated subsidiary

2011
Made POKKA CORPORATION a wholly owned subsidiary

2015
Entered soy milk and chilled products business

2013
Integrated business with POKKA CORPORATION and started operations as POKKA SAPPORO FOOD & BEVERAGE LTD.

2016
Made SHINSYU-ICHI MISO CO., LTD. a consolidated subsidiary

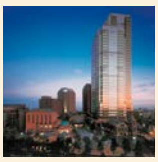
2019
Made spice manufacturer YASUMA CO., LTD. a consolidated subsidiary

Real Estate

1993
Completed construction of Sapporo Factory commercial complex on the former site of Sapporo Brewery

2018
25th anniversary of Sapporo Factory

1994
Completed construction of Yebisu Garden Place on the former site of Yebisu Brewery



2014
Completed construction of Ebisu First Square

2016
Completed construction of GINZA PLACE

2019
25th anniversary of Yebisu Garden Place

1977–	1988 (revival)	1993–	1994–	1994–	1996–	2003–
Sapporo Draft Beer Black Label	*Sleeman*	Sapporo Factory	Yebisu Garden Place	*Café de Crié*	*Jikkuri Kotokoto*	*Grande Polaire*

Our Businesses

(Fiscal year ended December 2018)

Alcoholic Beverages

Domestically, we developed the Alcoholic Beverages segment based on our Company slogan, "Bringing more cheer to your 'Cheers!,'" centered on beer products and which also includes wine and spirits. Overseas, we promoted our growth strategy with a focus on North America and Southeast Asia, basing it on the characteristics of each area. Our beer halls, such as *GINZA LION*, *YEBISU BAR*, and the Sapporo Beer Garden, and our other restaurants run with a Japanese style of service and spread the idea of *omotenashi* by offering our customers a safe, secure, and delicious dining experience in comfortable surroundings. We will always create new products in pursuit of new possibilities, and deliver enjoyment and richness to our customers.

Revenue
¥330.0 billion

EBITDA
¥20.7 billion

Food & Soft Drinks

Domestically, this segment centers on the production and sale of a variety of items, including lemon-based products, soups, soft drinks, and soy milk yogurts. This segment also covers the operation of cafe chains. Overseas, we are developing *POKKA* brand drinks for roughly 60 countries and regions from our Singapore base. With novel ideas, sparks of inspiration, and overflowing passion, we will continue to create products one after another and provide a sense of "deliciousness" in each one.

Revenue
¥161.3 billion

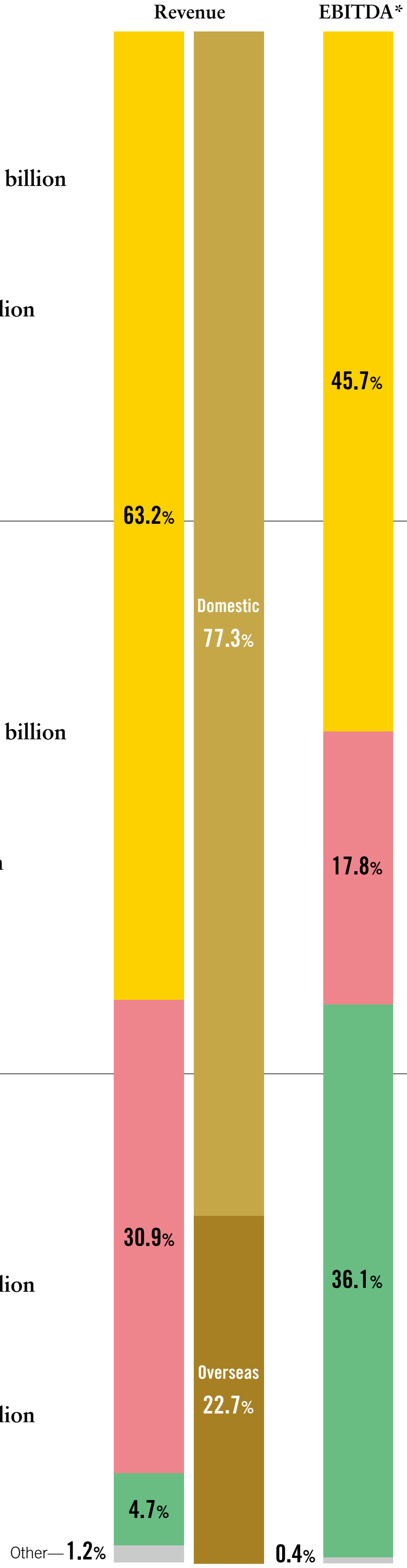
EBITDA
¥8.1 billion

Real Estate

The Sapporo Group has a business for managing, operating, and developing real estate centered in Ebisu, Sapporo, and Ginza, three locations where the Group has deep roots. Through urban development projects in these areas, such as Yebisu Garden Place, Sapporo Factory, and GINZA PLACE, we hope to create and cultivate both a "luxurious time" and "luxurious space."

Revenue
¥24.5 billion

EBITDA
¥16.3 billion



* The distribution of EBITDA by segment uses figures arrived at by a simple calculation that aggregates figures for each segment and which has not be adjusted for intersegment transactions.

Number of Employees
(As of December 31, 2018)

7,904 (Consolidated) 195 (Parent company)

Consolidated Subsidiaries and Equity-Method Affiliates
(As of December 31, 2018)

57 (Consolidated subsidiaries) 2 (Equity-method affiliates)

- **Main Brands:** Beer and beer-type beverages: *Sapporo Draft Beer Black Label, Yebisu Beer, Mugi to Hop, Goku Zero*
  Wine: *Grande Polaire, Penfolds* Champagne: *Taittinger* Spirits: *Bacardi, Dewar's*
  Overseas brands: *SAPPORO PREMIUM, SLEEMAN, ANCHOR* Restaurants: *GINZA LION BEER HALL, YEBISU BAR*
- **Main Sales Areas:** Japan and Asia (Vietnam, Korea, Singapore, China, Australia, etc.), North America (Canada, U.S.), Europe

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- **Main Brands:** Soft drinks: *Kireto Lemon, POKKA Coffee, Kaga-Bo-hojicha Roasted Green Tea* Soups: *Jikkuri Kotokoto*
  Lemon-based products: *POKKA Lemon 100* Soy milk: *SOYAFARM, SOYBIO* Cafe chain: *Café de Crié* Ice cream: *BLUE SEAL*
  Overseas brands: *POKKA*
- **Main Sales Areas:** Japan and Asia (Singapore), North America

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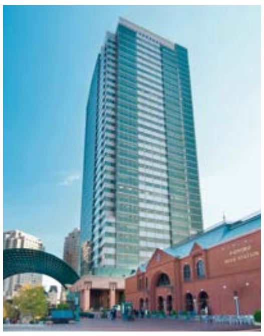


- **Main Facilities:** Yebisu Garden Place, Sapporo Factory, GINZA PLACE
- **Main Areas:** Ebisu, Sapporo, Ginza

2018 Value Creation Highlights

Business Operations

February

- Held WINE AVENUE wine-tasting event to showcase our brands

March

- Began trials for lemon cultivation utilizing information and communications technology (ICT)
- Launched *JELEETS*, a sweet jelly drink with a new sensation ❶
- Launched *SOYBIO*, a soy milk yogurt containing easy-to-digest soy isoflavones

April

- Started joint modal shift in Kansai–Chugoku and Kyushu areas of Eastern Japan at four beer companies
- Celebrated 25 years of the Sapporo Factory

June

- Celebrated 30th anniversary of Sapporo Breweries' Chiba Brewery with total renovation of plant tour facility ❷
- Opened Grande Polaire Vineyard in Hokuto, Hokkaido Prefecture, to procure high-quality grapes ❸
- POKKA SAPPORO Food & Beverage held the Lemon Sour Grand Prix 2018 in Kanto region to further topicalize lemon sours and increase fan base

❷


❸


❹


July

- Won gold prize and category award at Japan Wine Competition for Grande Polaire Yamanashi Koshu 2017 Barrel Fermentation, for the third consecutive year (an unprecedented achievement) ❹

Sapporo Draft Beer Black Label

Achieved Four Consecutive Years of Sales Growth

- The "Perfect Draft Beer Taste" event for *Sapporo Draft Beer Black Label* will run countrywide from June to September.

❺


August

- Launched *Sapporo Chu-hi 99.99 (Four Nines)*, an authentic chu-hi ❺

September

- Held the Yebisu Beer Festival

October

- Launched HOPPIN' GARAGE, a next-generation beer service aimed at creating value through user innovation

- Began export of *SAPPORO PREMIUM beer*, aimed at Chinese markets

November

- Began joint collection of beer pallets among four beer companies across six prefectures in Tohoku region
- Resolved agreements to acquire three office buildings in Ebisu, advancing urban development projects

Management

February

- Certified as a 2018 Excellent Enterprise of Health and Productivity Management (White 500) (awarded to Sapporo Holdings Limited and multiple operating companies)
- Received the Agriculture, Forestry and Fisheries Minister's Award at the 27th Grand Prize for the Global Environment Awards in recognition of brewing technologies utilized to advance biomass energy technology

- Received the Kanto Bureau of Economy, Trade and Industry Director-General's Award in recognition of promotion of energy-saving initiatives (awarded to Tokyo Energy Service Co., Ltd.)

March

- Received the 2018 JSBBA Award for Achievement in Technological Research in recognition of efforts extending from hop cultivation and breeding to product sales (awarded to Sapporo Breweries Limited)

May

- Embarked on long-term research project in Osakikamijima Town, Hiroshima Prefecture, regarding the effect of ingesting lemons on health
- Selected as a 2018 Competitive IT Strategy Company Stock Selection

June

- Published first integrated report
- Selected as a repeat member of the SNAM Sustainability Index

August

- Selected for the FTSE4Good Index Series and FTSE Blossom Japan Index
- Presented findings for measuring the color of beer foam at the inaugural global Brewing Summit

October

- Received the Kanto Bureau of Economy, Trade and Industry Director-General's Award for Factory Greenification (awarded to Sapporo Breweries' Chiba Brewery)
- Won Gold Prize at the first *Gan Ally Sengen* (Cancer Ally Declaration) awards for commitment as a business to accommodate employees with cancer

December

- Established Furusato Nagoya Lemon Orchard at Togokusan Fruits Park in Moriyama-ku, Nagoya City
- Launched the Sapporo Business Contest, part of an open innovation program

Sapporo Group's IT Strategy

Formalizing IT Infrastructure at a Global Level, Promoting Swift Decision-Making, and Creating Effective Group Synergies

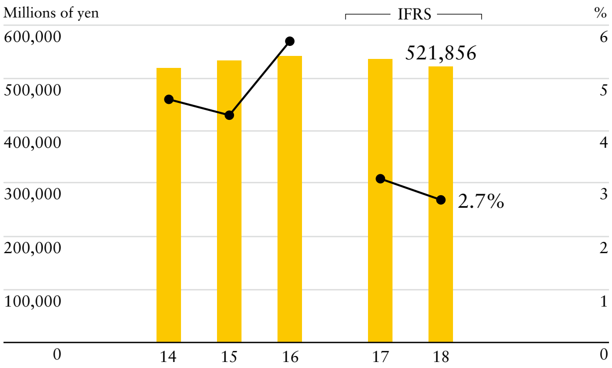
By integrating its IT infrastructure, the Sapporo Group has built a system that allows it to consistently plan and implement its IT strategy. By eliminating the legacy systems operated by each Group company and promoting the standardization and formalization of its IT infrastructure at a global level, IT costs have been reduced by approximately 30%. Furthermore, in addition to facilitating the prompt allocation of IT resources to advance management strategies such as M&A and corporate alliances, commonizing the system allows for global IT governance and swift decision-making, which will revitalize corporate value creation. Moreover, by actively pursuing digital innovations that utilize AI, robotic process automation (RPA), and the Internet of Things (IoT), we can put our full force toward "transformation with unprecedented speed," to realize our Long-Term Management Vision "SPEED150."

Financial and Non-Financial Highlights

Financial Highlights

*Representations of figures from fiscal 2014–fiscal 2016 are based on JGAAP. Representations from fiscal 2017–fiscal 2018 are based on IFRS.

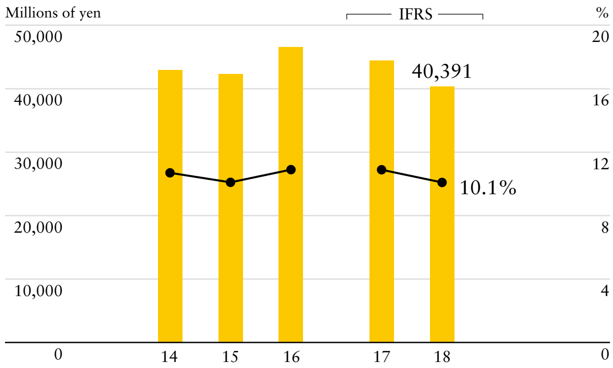
Revenue (Including Liquor Tax) / Operating Margin*1



Net sales (including liquor tax) (JGAAP) / Revenue (including liquor tax) (IFRS)   Operating margin

*1 Under JGAAP, operating margin is calculated as operating profit before goodwill amortization ÷ by net sales excluding liquor tax. Under IFRS, however, operating margin is calculated as operating profit ÷ by revenue excluding liquor tax.

EBITDA*2 / EBITDA Margin*3

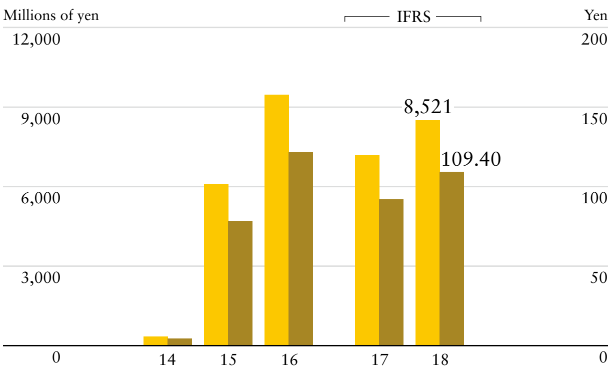


EBITDA   EBITDA margin

*2 Under JGAAP, EBITDA is calculated as operating profit + depreciation + goodwill amortization. Under IFRS, EBITDA is calculated as profit from operations before non-recurring items + depreciation (excluding depreciation expenses on leased assets charged on the rent of restaurants).

*3 Under JGAAP, EBITDA margin is calculated as EBITDA ÷ by net sales excluding liquor tax. Under IFRS, however, EBITDA margin is calculated as EBITDA ÷ by revenue excluding liquor tax.

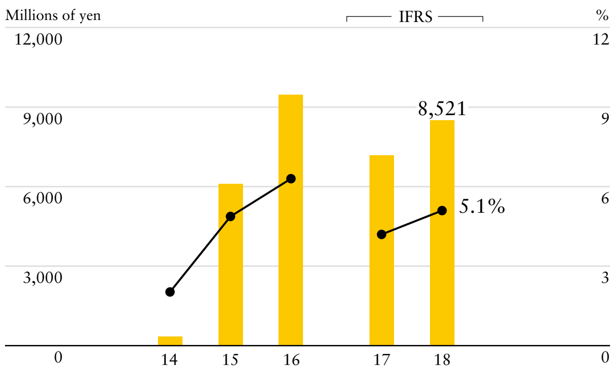
Profit Attributable to Owners of Parent / Earnings per Share*4



Profit attributable to owners of parent   Earnings per share

*4 On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, per-share information is presented on a basis that reflects this share consolidation.

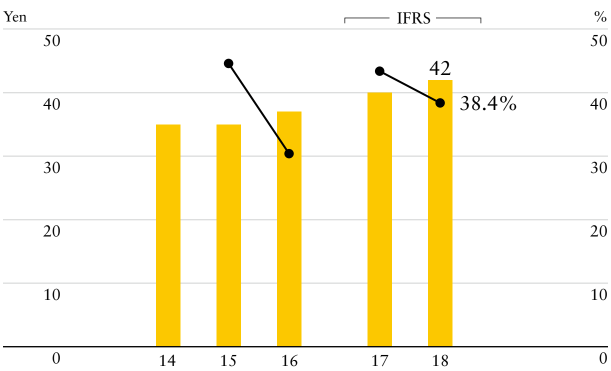
Profit Attributable to Owners of Parent / ROE*5



Profit attributable to owners of parent   ROE

*5 Under JGAAP, ROE is calculated before goodwill amortization.

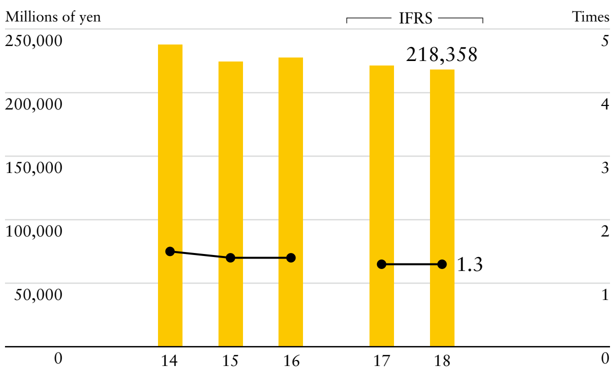
Dividend per Share*6 / Dividend Payout Ratio



Dividend per share   Dividend payout ratio

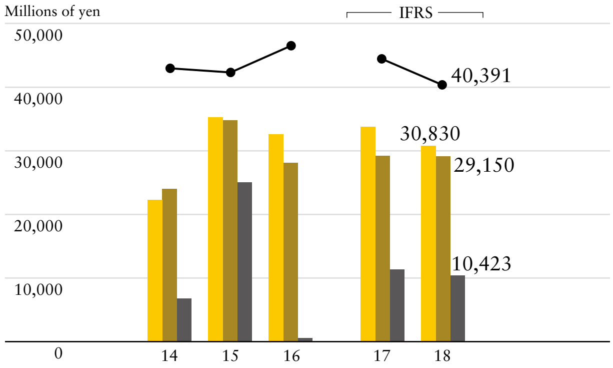
*6 On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, per share information is presented on a basis that reflects this share consolidation.

Net Financial Liabilities / Net Debt-to-Equity (D/E) Ratio



Net financial liabilities   Net debt-to-equity (D/E) ratio

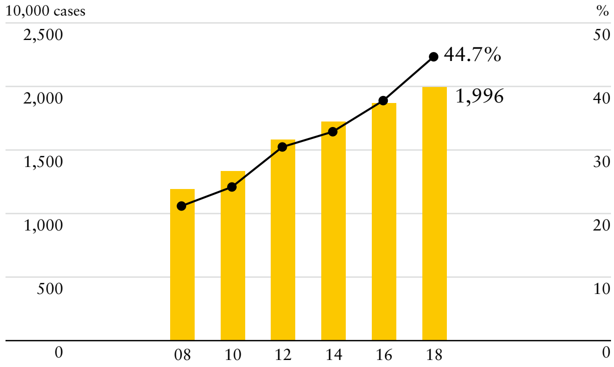
Cash Flows from Operating Activities and Status of Investments



Cash flows from operating activities
Investment amount*7
Proceeds from sale of investment securities and proceeds from sale of investment property
EBITDA

*7 Investment amount = Cash flows from investing activities + proceeds from sale of investment securities and proceeds from sale of investment property

Trends in Overseas Beer Sales Volume

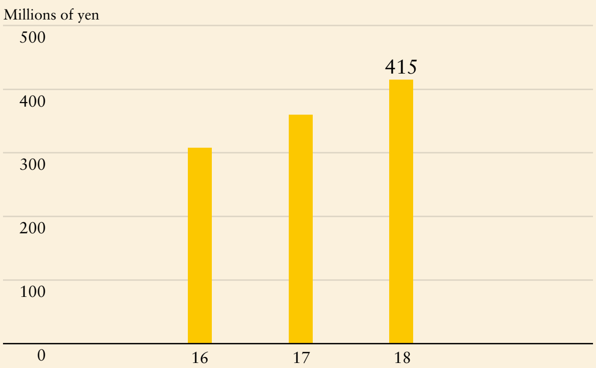


Overseas beer sales volume
Ratio of overseas beer sales volume to domestic beer sales volume

Non-Financial Highlights

Results of Social Contribution Activities

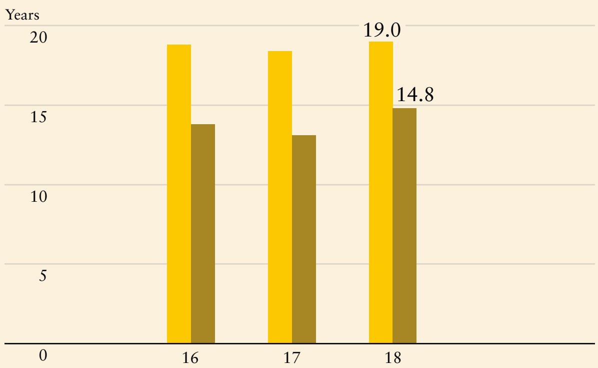
Society



Amount spend on social contribution activities

Average Number of Years Employed*8 (by Gender)

Human Resources

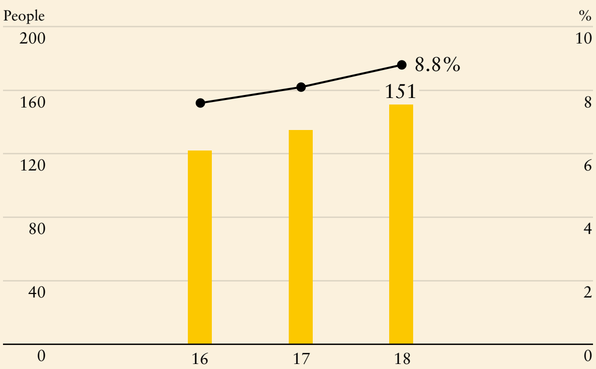


Men Women

*8 Average number of years employed at major domestic companies

Percentage of Women in Management Positions*9

Human Resources

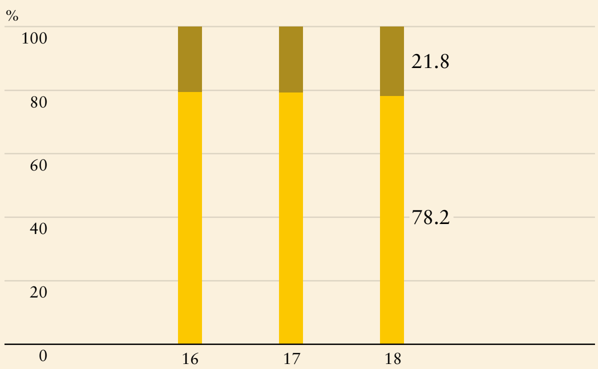


Number of women in management positions
Percentage of women in management positions

*9 Percentage of women in management positions at domestic and overseas Group companies

Ratio of Male to Female Employees*10

Human Resources



Men Women

*10 Percentage of women who are full-time employees at the Group domestically and overseas

Financial and Non-Financial Highlights

Non-Financial Highlights

Number of Presentations at Academic Conferences (in fiscal 2018)

Alcoholic Beverages, Food, and Soft Drinks

16

(14 conferences, 2 lectures)

The Sapporo Group gave 16 scholarly presentations on topics including Sapporo Breweries' diverse analyses of hop quality and initiatives regarding their application (which earned the 2018 JSBBA Award for Achievement in Technological Research), and the development of technology to measure the color of beer foam (the first in the world).

Number of Local Partnerships (in fiscal 2018)

Society

56

We have formed 56 cooperative agreements with a variety of entities across Japan—including prefectures, municipalities, and universities—and are engaged in activities that contribute to local communities, provide support for the next generation, and aid with disaster prevention.

Proportion of Employees Taking Childcare Leave (in fiscal 2018)

Human Resources

Women **100%**

Men **36%**

Eligible female employees employed at Sapporo Breweries utilized maternity leave at a rate of 100%.

Outside Evaluations

Included in SRI Indices

FTSE4Good Index Series
(FTSE Russell, the United Kingdom)

FTSE4Good

FTSE Blossom Japan Index
(FTSE Russell, the United Kingdom)

FTSE Blossom

MSCI Japan ESG Select Leaders Index
(MSCI Inc., the United States)

MSCI | MSCI Japan ESG Select Leaders Index

S&P/JPX Carbon Efficient Index
(S&P Dow Jones Indices, the United States)

S&P/JPX Carbon Efficient Index

SNAM Sustainability Index
(Sompo Japan Nipponkoa Asset Management, Japan)

Member of SNAM Sustainability Index 2018

Awards Related to R&D

Recipient of the 2018 JSBBA Award for Achievement in Technological Research from the Japan Society for Bioscience, Biotechnology, and Agrochemistry

The Group was lauded for its diverse analyses of hop quality over a span of several years and initiatives regarding its application of these analyses.

Awards Related to Our Highly Unique Employees

Certified as a 2019 Excellent Enterprise of Health and Productivity Management (White 500) for consecutive years

2019 健康経営優良法人 Health and productivity ホワイト500

Note: Sapporo Holdings and Sapporo Breweries were certified for the third consecutive year, and POKKA SAPPORO Food & Beverage and Sapporo Lion were certified for the second year in a row.

Sapporo Breweries obtained *Platinum Kurumin* certification from the Ministry of Health, Labor and Welfare for the second consecutive year.

プラチナくるみん 子育てサポートしています

Sapporo Holdings obtained the 4.5 Stars Smart Work Management Award.

NIKKEI Smart Work 2019 Best 44

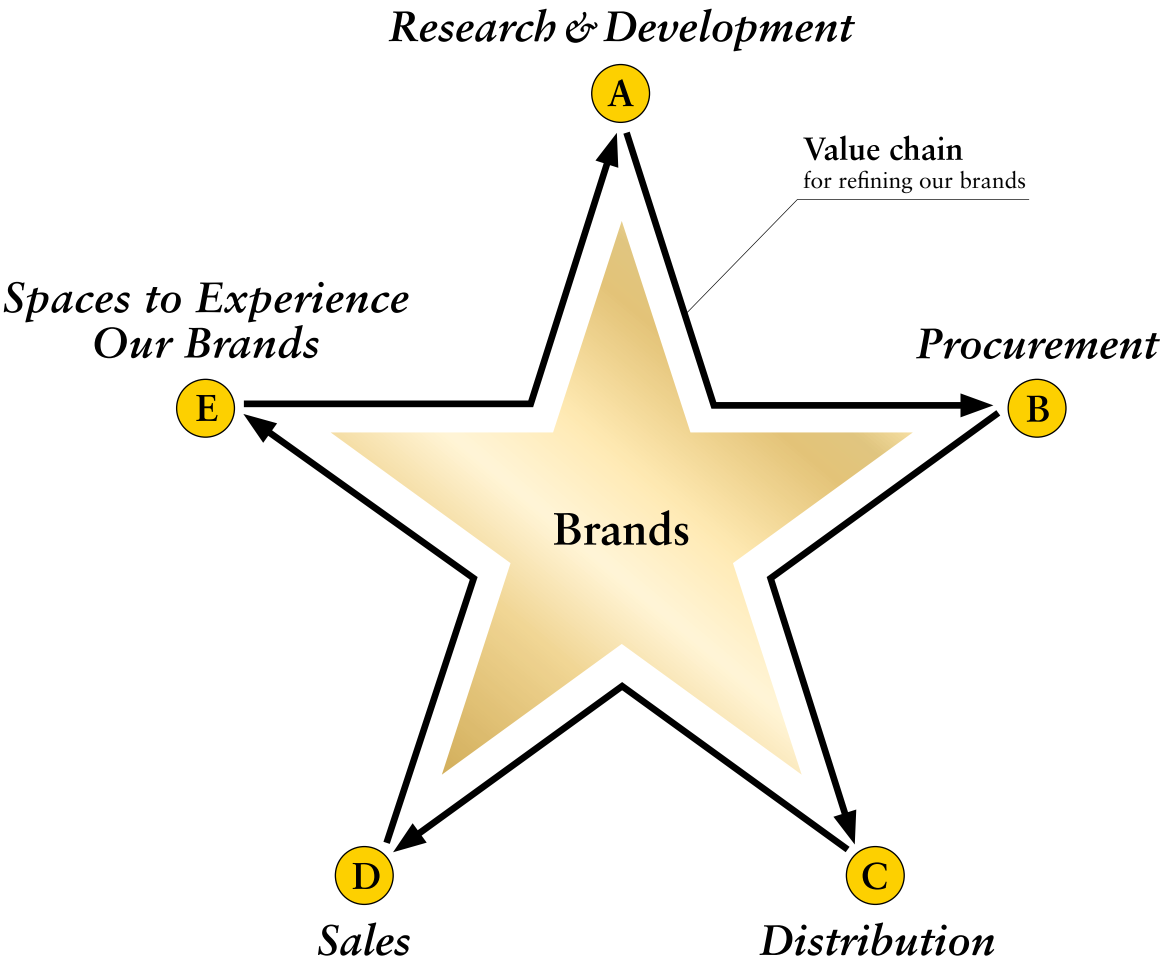
Other Awards

Sapporo Holdings was featured in the Competitive IT Strategy Company Stock Selection, from the Ministry of Economy, Trade and Industry its first inclusion in the listing.

2018 攻めのIT経営銘柄 Competitive IT Strategy Company

A Business Model for Refining Our Brands

Our unique brands represent the crystallization of our history and dialogues as well as our pursuit of innovation and quality. While cultivating and strengthening these brands by further refining them through our unique value chain, we will work to sustainably improve corporate value.



Corporate Governance P.62

We position the strengthening and enhancement of corporate governance as one of our priority management issues in order to maximize the sustainability of our business model.

Risk Management P.68

We are working to improve sustainable corporate value by reinforcing the risk management structure of the entire Group and conducting sound corporate management.

The Sapporo Group's Business Model

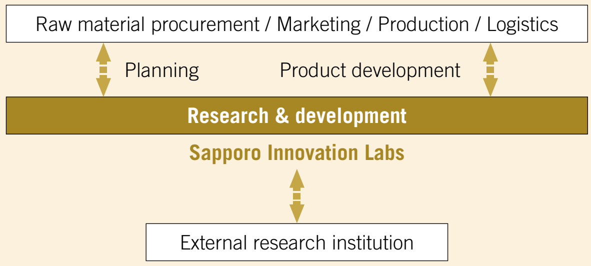
Value Chain for Refining Our Brands

Characteristics | System

A

Research & Development

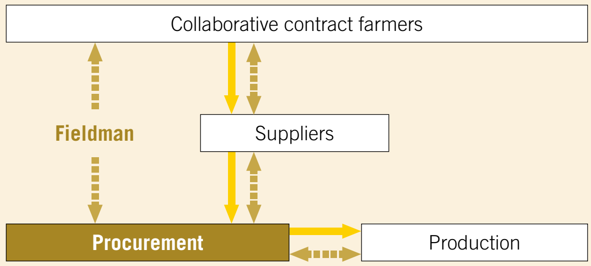
By way of **our Groupwide R&D structure, "Sapporo Innovation Labs,"** we improve the value we currently generate and pursue new value creation while promoting Groupwide collaboration and open innovation.



B

Procurement

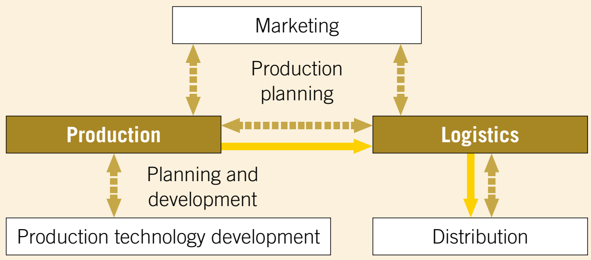
As part of **our unique efforts to pursue quality for our beer, our fieldman communicate directly with collaborative contract farmers.*** We work to procure safe, reliable, and high-quality raw materials for our products.



C

Distribution

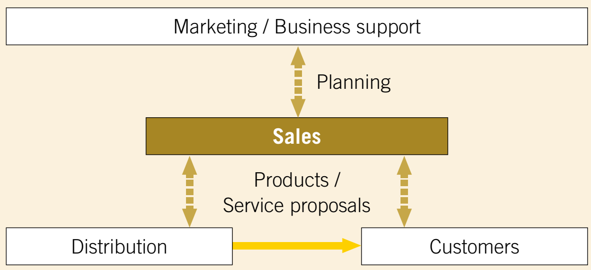
Through the **development of production methods tailored to product characteristics**, we are able to deliver high-quality goods in a stable manner, in addition to preparing a waste-free supply system with an appropriate production plan.



D

Sales

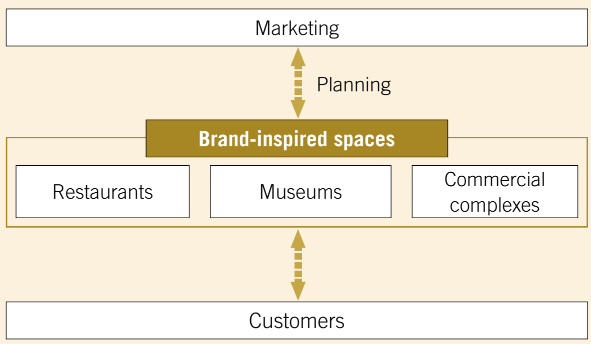
We continue to work toward **delivering customers our goods and services via the most optimal points of contact**, ranging from supermarkets, convenience stores, and restaurants to specialty stores, Internet sales, and vending machines.



E

Spaces to Experience Our Brands

We **provide brand-inspired spaces** through the operation of our much-beloved restaurants, commercial complexes, and other facilities, and in doing so grow our brands alongside the customer. In addition, the dialogues we have with our customers provide us with knowledge and insight that we put to good use in research and development and other parts of our value chain.



Flow of information   Flow of goods

Strengthening Bonds through Our Brand Story—CSR Initiatives at Each Stage of the Value Chain

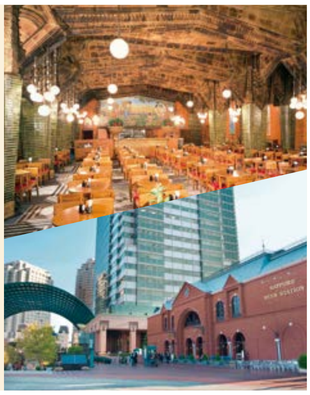
- Proved positive effects of lactic acid bacteria SBL88 on sleep—a new health function—in 2018
- Embarked on a long-term research project in Osakikamijima Town, Hiroshima Prefecture, to investigate the effects of ingesting lemons on health, beginning in May 2018
- Demonstrated effective reduction of the Group's environmental impact through the use of the "Sapporo SEPARE System," a proprietary quality control system for draft beer
- Reduced environmental impact by moving to can, six-pack, and cardboard packaging designs that lessen material use

- Formulated the Sapporo Group Suppliers CSR Procurement Guideline to promote understanding and cooperation with our suppliers of raw materials, and to work together to realize a sustainable society
- Work to enhance communication with suppliers through policy workshops, surveys, and exchange events
- Hold meetings with barley and hops farmers and suppliers working under the Collaborative Contract Farming System at the pre-season, pre-harvest, and post-harvest stages to share Company policies and approaches

- Recycle by-products and waste materials produced when manufacturing products
- Implement vigorous energy-saving measures and utilize renewable energy
- Promote more efficient water use at breweries, plants, and facilities
- Reduce environmental impact by promoting a modal shift to railway and marine transportation, and by utilizing joint delivery with other manufacturers

- Promote awareness campaigns to encourage proper drinking practices and to prevent underage drinking, hold proper drinking awareness seminars for university students and companies, and make calls for attention and prevention measures for improper drinking practices
- Promote sales of non-alcoholic beer taste beverages classified as a "food for specified health uses" and *Lemon no Okage Ureshio*, a certified *Karushio* (low salt content) product
- Promote sales of products produced in "cartocans," which include thinned wood generated through domestic forest cultivation practices
- "Contribute to a healthy and rich eating life" through a variety of activities to raise awareness of the positive health effects of lemons

- The Sapporo Beer Museum, one of the only beer museums in Japan
- The Yebisu Beer Museum, where one can learn the history and joy of drinking *Yebisu Beer*
- *Beer Hall Lion Ginza 7-chome*, currently the oldest existing beer hall in Japan
- The Furusato Nagoya Lemon Orchard opened in 2018
- The Sapporo Factory commercial facilities, built on the former site of the *Kaitakushi* Brewery, the birthplace of the Sapporo Group
- Yebisu Garden Place, a commercial complex built on the former site of the Yebisu Brewery



* For more details, please refer to the section "Tackling Risks Stemming from Climate Change through the Breeding of Barley and Hops" on pages 52 and 53.

★ *Special Feature 1*

Delivering Value Unique to the Sapporo Group by Refining Our Brands

SAPPORO DNA

The Sapporo brand has inherited rich traditions starting from the establishment of the *Kaitakushi* Brewery in 1876. Today, this brand demonstrates our unique presence, not only in Japan, but to the world.

The "Perfect Draft Beer Experience" Permeates Through—Four Years of Consecutive Sales Growth

To experience the deliciousness of the perfect draft beer, one looks toward *Sapporo Draft Beer Black Label*, the product of over 40 years of continued refinement. This is not simply a matter of product quality alone. We maintain our uncompromising dedication to quality at every step, from the research and development stage, to transport, operations, and provision.

We express high-quality brand worldviews that embody the perfect draft beer under the theme of "a draft beer loved by adults." Using this theme, we are working to enhance appeal through communication and key visuals.

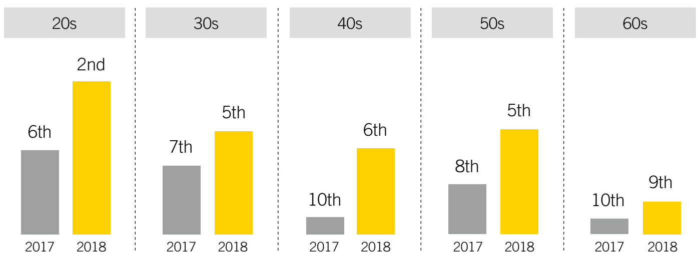
To increase the number of contact points between customers and our brand, we held "Perfect Black Label" events in 19 locations across the country and provided approximately 250,000 glasses of *Sapporo Draft Beer Black Label*, which is only available at drinking establishments. In order to reach the home market as well, we are running promotions on April 1, dubbed "Black Label Day." In these ways and more, we are working to create new opportunities for customer contact.

Spurred on by these efforts, sales of *Sapporo Draft Beer Black Label* have grown every year for the last four years. Going forward, we will continue to pursue innovation and quality throughout the value chain, and focus on delivering the perfect draft beer experience.

RISING SUN ROCK FESTIVAL is a registered trademark of WESS Inc.

Sales Ranking by Brand

Our efforts to convey the high quality of our brand worldviews and provide distinct experiences are winning growing support among 20–30 year olds, our strategic target demographic.



Source: True Data supermarket panel 2016 to 2018; October single month; single-can purchase amount

Making SAPPORO the World's Brand of Choice, Giving People Worldwide More Cheer for Their "Cheers!"

We will strengthen the *SAPPORO PREMIUM* brand by leveraging the North American market, positioned as the foundation of our overseas business, and the Southeast Asian market, an area of remarkable growth, working from our base in Vietnam.

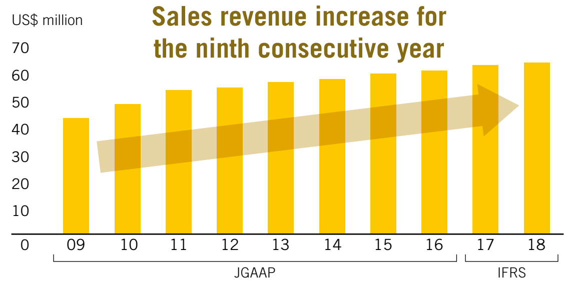
In the U.S., the first market we were able to penetrate with the *SAPPORO PREMIUM* brand, we have continued to provide the No. 1 selling Asian beer for 32 consecutive years.* However, we are not complacent in this position and continue to refine the *SAPPORO PREMIUM* brand. Previously, Sapporo U.S.A. had served as a sales company for the U.S. market, but in 2017, iconic San Francisco beer manufacturer Anchor Brewing Company came under the Group umbrella, allowing the Sapporo Group to acquire an integrated U.S. supply chain, from procurement and production to sales. Furthermore, through initiatives that include the integration of Sapporo U.S.A. and Anchor Brewing Company in April 2019, and studies into *SAPPORO PREMIUM* brand manufacturing, we will maximize synergies, further expanding market share and achieving brand penetration.

As for Southeast Asia, the *SAPPORO PREMIUM* brand is steadily gaining visibility in Vietnam, where we have established a brewery. We are currently in the process of reviewing our sales channels, rebuilding our distribution network, improving production efficiency at our Vietnam brewery, and increasing exports to Southeast Asia and other regions. In addition, a portion of the manufacturing duties of Canada-based Sleeman Breweries are being handled by the Vietnam brewery. Through this and other actions, we are working as an entire group to optimize our global supply chain, with a focus on Japan and Asia.

Moreover, we are actively promoting the *SAPPORO PREMIUM* brand across Asia as a whole, with efforts that include restarting exports for the Chinese market and increasing exports to Korea, a proven fan of Japanese beer. We also aim to establish a regional corporation in Europe and increase the *SAPPORO PREMIUM* brand presence there.

As we look to the future, we aim to achieve the goals of our Long-Term Management Vision "SPEED150" and corporate philosophy by continuing to refine the *SAPPORO PREMIUM* brand, making it stronger, and delivering it to the world.

Sapporo U.S.A. sales revenue in local currency
(before elimination of intercompany transactions)



* Source: The Beverage Information Group, *Beer Handbook 2018*, P.124–125 Imported Brand

Sapporo Beer Museum

The Founding Place of Sapporo Beer—a Bridge to Connect Japan and the World

The Sapporo Beer Museum is one of the only beer museums in Japan. The museum helps communicate the history of Japanese beer that was created through the passionate efforts of Japanese brewers. At the same time, the museum communicates the thoughts and stories inherited and passed on through Sapporo beer. Day after day, the museum hosts a multitude of visitors from overseas who are in search of the deliciousness of Japanese beer. In doing so, the museum plays an important role as a bridge that connects Japan and the world.

Special Feature 1

Premium YEBISU

The year 2020 will mark 130 years of *Yebisu Beer*. Alongside the district of Ebisu, a hub of culture and lifestyle that takes its name from the brand of beer, *Yebisu* continues its evolution into the future as a beer that is loved by customers.

Renewing the Pursuit of Value as We Look to 2020 and 130 Years of *Yebisu Beer*

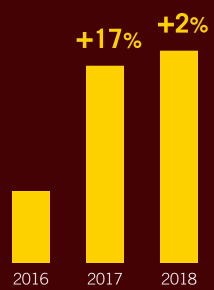
We continue to promote *Yebisu Beer* as a premium Japanese beer with a rich history, and work to enhance the drinking experience by adding this unique "Japanese joy" to any special day, whether New Year's, Mother's Day, Father's Day, or any other special occasion. Our aim is to increase the role the *Yebisu* brand plays in creating this "Japanese joy" by enhancing the "real and genuine" characteristics *Yebisu* possesses, which are representative of true Japanese beer. A deep commitment to the quality of our products is key to achieving this goal.

Experiencing the Charm and Worldview of the *Yebisu* Brand at the *YEBISU BAR*

The *YEBISU BAR* is a place where people can fully take in the charm and experience the worldview of the *Yebisu* Brand. There are currently 18 *YEBISU BAR*s operating in Japan. To improve brand loyalty, we launched an *YEBISU BAR* app in May 2018. Unlike point cards, where benefits are geared toward discounts, the app provides benefits in the form of products such as food or beer as customers collect more stamps. The app, therefore, is special because it allows customers a more favored status. By establishing customer contact through the app, we then create an "upward spiral" where customers who eat and drink at the *YEBISU BAR* can enjoy *Yebisu Beer* at home, and vice versa.

YEBISU BAR sales (countrywide)

*YEBISU BAR*s are well received as a space where one can experience the charm and worldview of the *Yebisu* brand.



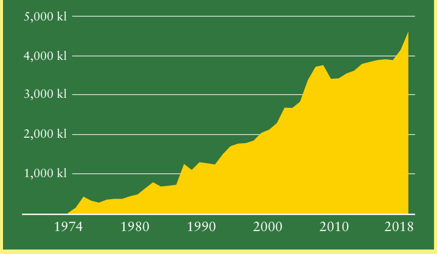
Providing 25 Years of "Luxurious Time" and "Luxurious Space"

In 2019, Yebisu Garden Place celebrated 25 years since its redevelopment on the site of our old beer brewery, renovated and reopened as a pioneer integrated urban area. To better embody its brand message, "Ebisu, a city on the grow," we aim to increase brand strength and user-friendliness and are promoting various measures to increase value. The Yebisu Beer Museum, located at the site where *Yebisu Beer* was born, welcomes close to 260,000 visitors from Japan and overseas every year, who see, feel, drink, and experience the worldview of the *Yebisu* brand.


Yebisu Garden Place

Sales Volume of *POKKA Lemon*

By creating lemon-related value in the food market, we have been working to expand the market since the launch of *POKKA Lemon*.



Note: From 1974 to 2011, totals are calculated using the period from April to March of the following year. From 2012 to 2018, totals are calculated using the period from January to December of the same year.

With a history of over 60 years, the lemon business is a core business for POKKA SAPPORO Food & Beverage and is a strength in and of itself.
By proposing lemon-based eating habits, we hope to spread the fondness of lemons, be it for one customer, or for many.
In that spirit, POKKA SAPPORO Food & Beverage is working to expand the lemon market as a whole.

INSPIRATION

"Lemon-Based Eating Habits" and "Familiarity with Lemons" —Expressing the Diverse Value of Lemons

POKKA Lemon was first launched in 1957 as an easy-to-use lemon food product. Over the years, we have pursued product development for *POKKA Lemon* that caters to the changing times, including promoting a variety of uses for lemons and increasing variation in product containers and volume. In these ways, *POKKA Lemon* has continued to grow over the course of 60 years as one of our long-selling products.

In addition to promoting *POKKA Lemon* in a supporting role on dinner tables as a dressing for food and a flavor-booster for drinks, we have introduced a wide variety of recipes using the product that take full advantage of the delicious taste of lemons. In doing so, we are working to express their value to a wider group of customers. For children, who are the next generation, we have hosted lectures and nutritional seminars where children can have fun learning about the various health benefits of lemons. Through these actions, we have created opportunities for children to become more familiar with lemons and learn about their nutritional value.

Thoroughly Researching Lemons as a Pioneer in the Lemon Business

"The Lemon Bible"

Wishing to increase the number of employees able to passionately express the value and charm of lemons to their customers, friends, and family, in 2013, POKKA SAPPORO Food & Beverage, having spent many years engaged in research on lemons, introduced the annual "Lemon Kentei," a test to spur the acquisition of basic lemon knowledge. To increase Group collaboration, employees from Sapporo Holdings and Sapporo Breweries started taking the test in 2015. By 2018, the number of participants had steadily increased to 1,404 people from the three companies. In 2018, to increase Group collaboration even further, POKKA SAPPORO conducted its first web-based test as a means to expand lemon-related studies within the Sapporo Group.

Using Lemons to Support Town Development in Nagoya, the Birthplace of POKKA

POKKA SAPPORO Food & Beverage is utilizing lemons in an effort to support town development in Nagoya, where the original company was first founded. In December 2018, together with the Nagoya City Green Association, a non-profit incorporated foundation dedicated to providing more spaces and opportunities for residents to learn and experience the connection between food and agriculture, POKKA SAPPORO Food & Beverage established the Furusato Nagoya Lemon Orchard at Togokusan Fruits Park in Moriyama-ku, Nagoya City. In the future, we plan to organize events, such as hands-on lemon cultivation and harvesting activities and nutritional classes, in addition to selling lemons that have been harvested and providing lemon cookbooks.

Furusato Nagoya Lemon Orchard

The Sapporo Group Long-Term Management Vision "SPEED150"

2026 Group Vision

The Sapporo Group will be a company with highly unique brands in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks" around the world.

Action Guidelines

1. Make customers' lifestyles around the world more fulfill by creating new value through the pursuit of innovation and quality
2. Strive to provide products and services and to nurture brands that foster communication among customers
3. Practice efficient management in tandem with addressing changes in the environment

Three Major Strategic Themes

1 Establish Robust Profitability in the Japanese Alcoholic Beverages and Soft Drinks Businesses

In the Japanese Alcoholic Beverages business, the Group will strengthen brands in the beer business and nurture the wine business. In the Soft Drinks business, the Group will strategically shift to a profitable structure and expand overseas business. Through these measures, robust profitability will be established to drive the growth of the entire Group.

2 Accelerate Growth in the "Food" Field

We will broadly increase the presence of the Sapporo Group in the "Food" field by strengthening existing businesses and entering new businesses through the provision of deliciousness, enjoyment, and fulfillment to all dining settings.

3 Promote Global Business Expansion

We will increase the Group's presence globally by strengthening the global management platform as the Group's growth driver and promoting the expansion of existing businesses and such new business development initiatives as M&A activities.

Management Platform

R&D	Pursue innovative food value creation P.42
HR	Develop "Go Beyond Boundaries" personnel P.44
Finance	Enhance cash-generation capabilities P.48

Strengthening Corporate Communication

For the various corporate activities we pursue based on our Management Philosophy, we will work to enhance the Group's presence among our stakeholders by strengthening our ability to communicate information to them.

Long-Term Vision Road Map

First Medium-Term Management Plan
(Fiscal 2017–Fiscal 2020)

Fundamental Policy
Transform with Unprecedented Speed

↓

Second Medium-Term Management Plan
(Fiscal 2021–Fiscal 2023)

Proactively invest and produce results

↓

Third Medium-Term Management Plan
(Fiscal 2024–Fiscal 2026)

Tackle the challenge of creating new opportunities

First Medium-Term Management Plan 2020

Strategies for Business Activities	While executing strategic investments in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks," the Group will achieve continuous growth in existing businesses and produce results in the investment business as early as possible. The Group will enhance its cash flow generation capabilities, and allocate cash to investments in new growth opportunities. **Continuous Growth in Existing Businesses** The Group will enhance brand strength and achieve continuous growth by focusing on issues in the competitive areas identified by each business segment. **Produce Results in the Investment Business** The Group will work to enhance the profitability of the investment business and pave the way for a fast transition to an expansive growth stage. **Capture Growth Opportunities** ① **Accelerate Growth in the "Food" Field:** The Group will nurture a high-value-added food business by identifying target fields based on consumer needs, in addition to taking new approaches to value creation on both the materials and processing fronts. ② **Promote Global Business Expansion:** The Group will explore new growth opportunities in conjunction with executing strategies based on the characteristics of each area, centered on North America and Southeast Asia, and strengthening the business platform for boosting profitability.
Group Management	The Sapporo Group will execute Group management by taking the lead in strengthening its platform functions through the strategic shift of resources, business structural reforms, and the promotion of segment management, which will spur the Group's growth. ① By 2018, the Group will put in place an organizational structure optimal for the "Food" field, which will drive growth and expand global business growth, along with optimal Group Head Office functions for supporting that structure. ② The Group will accelerate initiatives to promote growth within R&D, personnel and human resources, and finance.

Positioning of Fiscal 2019

Fiscal 2017–2018 ▸▸▸	Fiscal 2019 ▸▸▸	Fiscal 2020 ▸▸▸
Achievements • Transformation of the Group management platform • Strengthening of core brands **Issues** • Major changes in the alcoholic beverage and soft drinks business environments in Japan and overseas, resulting in delayed progress	**Themes** • Structural reforms and foundation building We have positioned fiscal 2019 as a year of change in which we will clarify and tackle the issues facing the Group.	• Law revision toward unification of liquor taxes • Tokyo Olympic and Paralympic Games • The 130th anniversary of *Yebisu Beer* Dynamic growth of the Sapporo Group

For details regarding a review of fiscal 2017–fiscal 2018 in terms of the First Medium-Term Management Plan 2020, major focal points for fiscal 2019, and "Promoting Global Business Expansion," one of the themes of our long-term growth strategy, please refer to the "Business Strategy" section, beginning on page 36.

The Sapporo Group Long-Term Management Vision “SPEED150”

First Medium-Term Management Plan 2020

We aim to foster and strengthen the Group brand and achieve steady growth by restructuring our business organization, promoting international business along specific business lines and further enhancing Company management.

Seiji Ubukata
Director (Member of the Board)

Main Initiatives for Fiscal 2019

Continuous Growth in Existing Businesses / Produce Results in the Investment Business

- Continuously enhance core beer brands (*Sapporo Draft Beer Black Label*, *Yebisu Beer*)
- Saplings planted at Hokuto, Hokkaido vineyard (first harvest expected in 2021)
- Introduce production facility for secondary in-bottle fermentation sparkling wine
- Enhance production facilities for ready-to-drink (RTD) products

Capture Growth Opportunities

1 Accelerate Growth in the “Food” Field

- Continue efforts to promote and develop lemon production in Hiroshima Prefecture, and begin in-house lemon cultivation to expand demand domestically
- Establish new, hybridized cup soup production facility at Sapporo Sendai Brewery
- Establish new soy milk yogurt production line
- Utilize spice manufacturer Yasuma Co., Ltd.’s expertise for procurement of raw materials

2 Promote Global Business Expansion

- Integrate Sapporo U.S.A. and Anchor Brewing Company and create a framework incorporating Sleeman Breweries in North America for generating synergies
- Establish a European sales subsidiary

Management Platform

1 Overall Administration

- Streamline Head Office functions and transformation of business administration

* For details on changes by segment, please refer to page 35.

2 Research & Development

- Apply research into whiteness of beer foam to the relaunching of *Sapporo Draft Beer Black Label*
- Apply results of research on hops, lemons, and soybeans to business
- Make proposals to create new value that leverage our strengths
  March: Launch *Papatto Miso Powder*
  April: Launch RTD *Lemon the Rich*

3 Human Resources

- Carry out cross-border human resource development (“Go Beyond Boundaries”), workstyle reform, and promotion of diversity P.44
- Open Sapporo Logistics University (combined distribution and human resource training)

4 Finance

- Continue with initiatives to improve balance sheet quality P.48

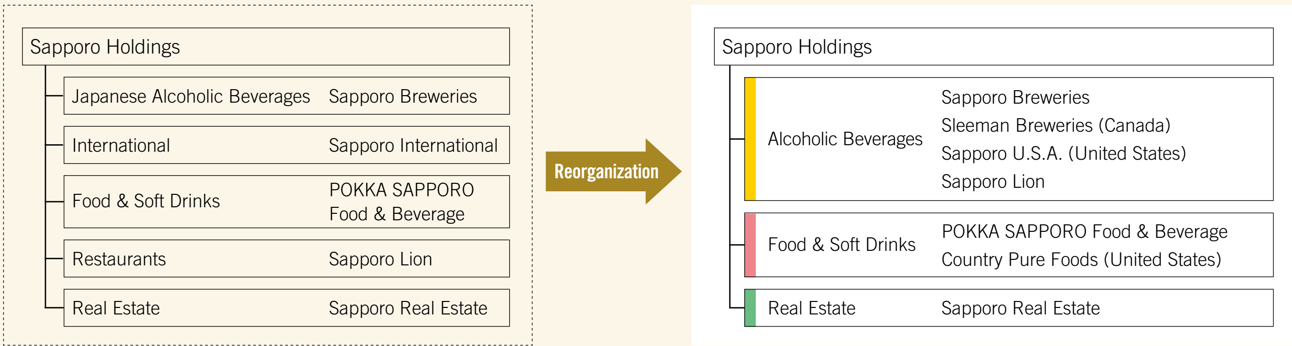
Strengthening Corporate Communication

Expand Spaces to Experience Sapporo Brands

- Utilize *YEBISU BAR* and other spaces to disseminate our brands
- Promote Ebisu urban development, refurbish Sapporo Factory
- Establish Furusato Nagoya Lemon Orchard to build communication through lemons

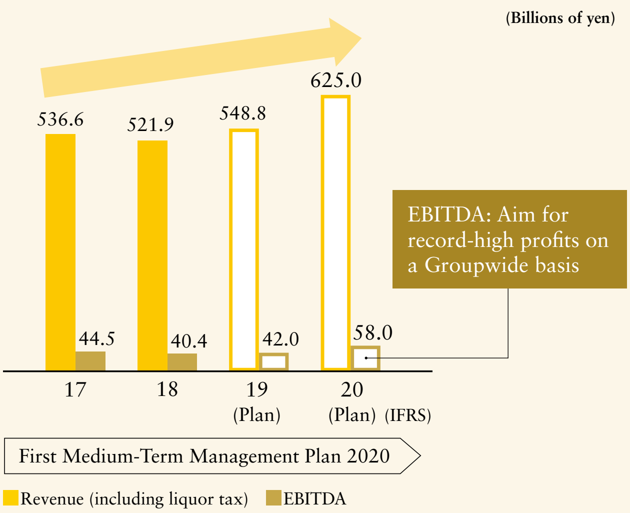
Structural Reform and Foundation Building

The previous five business segments of Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants, and Real Estate have been reorganized into three new segments: Alcoholic Beverages, Food & Soft Drinks, and Real Estate. In addition, international operations have been incorporated into Alcoholic Beverages and Food & Beverages operations, respectively. Furthermore, Restaurant operations have been incorporated into Alcoholic Beverages operations.



Alcoholic Beverages	• Enhance operations of our foundational business by integrating Asian (and Japanese) strategies and North American operations through further investments • Produce continued growth in profitability as well as Group synergies by developing closer cooperation with restaurant operations, which serve as an important contact point with customers
Food & Soft Drinks	Expand food operations and implement measures that realize speedy profitability and continuous improvements in global soft drinks operations
Real Estate	The Sapporo Group is closely linked to Ebisu, Sapporo, and Ginza, and has positioned them as key strategic areas to enhance the value of the Sapporo Group brand and contribute to growing revenue and profits while also promoting urban development

Quantitative Targets



Financial Indicators

To be achieved during the four years from fiscal 2017 to fiscal 2020

Cash Flows from Operating Activities:

¥180.0 billion

Generate cash flows by achieving continuous growth in existing businesses and producing results

Interest-Bearing liabilities:

Target a debt-to-equity (D/E) ratio of around 1.0 times

Cash Flows from Investing Activities:

¥130.0 billion

Proactively allocate cash to the business fields of “Alcoholic Beverages,” “Food,” and “Soft Drinks”

Shareholder Returns:

Target a dividend payout ratio of 30%

Business Strategy

Alcoholic Beverages

Seeking No.1 by Accumulating One-of-a-Kind Products

Consolidated Subsidiaries

SAPPORO BREWERIES LIMITED
YEBISU WINEMART CO., LTD.
TANOSHIMARU SHUZO CO., LTD.
SAPPORO FIELD MARKETING CO., LTD.*
SHINSEIEN CO., LTD.
SAPPORO LION LIMITED
NEW SANKO INC.
MARUSHINKAWAMURA INC.
GINRIN SUISAN INC.
SAPPORO U.S.A., INC.
ANCHOR BREWING COMPANY, LLC
SAPPORO CANADA INC.
SLEEMAN BREWERIES LTD.
SAPPORO ASIA PRIVATE LTD.
SAPPORO VIETNAM LTD.
SAPPORO LION (SINGAPORE) PTE. LTD.
4 other companies

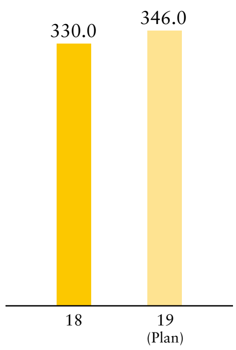
* Name changed from STARNET CO., LTD., as of April, 2019

Strengths (S)	Weaknesses (W)
• Strong standard and premium brands in the domestic market (Standard: *Sapporo Draft Beer Black Label*, etc.; Premium: *Yebisu Beer*, etc. • The world's sole example of the Collaborative Contract Farming System (CCFS) to breed barley and hops for the procurement of raw materials • Operation of contact points between customers that includes Japan's oldest beer hall • Strong partnerships with Bacardi and Taittinger leading to a greater variety of products under distribution • Third-largest share in the Canadian beer market with 12 consecutive years of sales growth • No. 1 share for Asian beer in the U.S market (No. 1 Asian beer for 32 consecutive years)	• Process industries require a large number of assets, acting as a barrier to entry • Business is sensitive to economies of scale, therefore, a decline in sales is linked directly to a fall in profitability • Set period of time for conversion to income due to manufacturing process between cultivation and procurement of raw materials and fermentation and storage stages
Opportunities (O)	**Threats (T)**
• Changes to the Japanese Liquor Tax Act to unify definition of beer (which will affect over 60% of beer products produced by the Company) • Growing Japanese wine market • Increase in overseas visitors as a result of Tokyo 2020 Olympic and Paralympic Games • Emerging nations in Asia seeing population growth, economic development, and the appearance of a new middle class	• Stricter regulations on alcoholic beverages • Uncertainty caused by political or religious turmoil, as well as changes in U.S. political and economic situations • Falling demand due to declining birth rate and aging society in Japan • Increased demand for lower prices caused by prevailing "deflation mind-set" • Increasing costs for distribution and labor

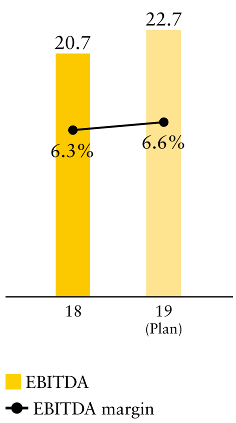
Growth Strategies

- Strengthen beer brands based on revisions to the Japanese Liquor Tax Act, which will take effect from 2020
- Establish the wine business as a pillar of growth, second to the beer business
- Take on challenges in the growing ready-to-drink (RTD) beverage market
- Pursue new initiatives aimed toward growth, such as expansion in the e-commerce market and promotion of beer export businesses

Revenue (Billions of yen)



EBITDA (Billions of yen)
EBITDA Margin (%)



First Medium-Term Management Plan 2020 Initiatives

Review of Fiscal 2017–Fiscal 2018

Major Achievements

- Continued aggressive investment in the beer business, in line with policy of "continuation of strengthening the beer business" for Japan. As a result, sales of *Sapporo Draft Beer Black Label* brand canned products saw fourth year of consecutive growth. In RTD products, *Sapporo Chu-hi 99.99 (Four Nines)*, launched in August 2018, met end-of-year sales target of two million cases in November, ahead of schedule, creating foothold in and expanding share of rapidly growing market
- In Vietnam, business turned profitable for the first time due to reforms at Sapporo Vietnam for improving sales methods and strengthening export sales
- In North America, Canada-based Sleeman Breweries continued investment in marketing for its premium core brands, resulting in ongoing sales growth
- In restaurants, *YEBISU BAR* saw strong performance, while organizational reforms improved profitability in Singapore

Major Issues

- Growing competitiveness of new-genre market and accelerating shift toward RTD products in Japan
- In North America, steep increase in distribution costs, similar to Japan, with adverse effect on revenue. In addition, post-merger integration (PMI) of Anchor Brewing Company was affected by growing competition in San Francisco caused by the growing number of microbreweries amid an overall slump in demand in the U.S. market
- In restaurants, lack of workers led to higher recruitment costs. This, coupled with higher prices for raw materials, had a negative effect on revenue at existing locations

Major Focal Points for Fiscal 2019

In Japan, we will live up to our "Beer Revival Declaration" and continue our efforts to strengthen our beer brands, which include the renewal of *Sapporo Draft Beer Black Label* and the launch of *Yebisu Premium Ale*. In RTD products, we plan to keep *Sapporo Chu-hi 99.99 (Four Nines)* as our central item while creating one-of-a-kind products that will surprise and delight customers. In the wine category, we will continue to strengthen our lineup of fine wines, and grow the business into our No. 2 pillar behind the beer business. Looking at restaurants, we plan to extend the areas covered by mainstay formats such as *GINZA LION* and *YEBISU BAR* while also working to create new formats.

Promoting Global Business Expansion

In North America, we have been continuously growing Sleeman Breweries and strengthening our value chain via management integration of Sapporo U.S.A. and Anchor Brewing Company. Furthermore, Sapporo Breweries is working to increase exports throughout Asia from its base in Vietnam, and has established a sales subsidiary in the Netherlands to increase its presence in Europe. As we work to strengthen our brands in each of these three areas, we are also moving forward with efforts to optimize our global supply chain management.

Business Strategy

Food & Soft Drinks

Creating Delicious New Products That Enrich and Brighten People's Lives

Consolidated Subsidiaries

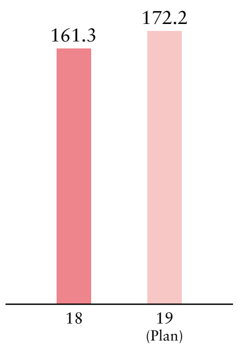
POKKA SAPPORO FOOD & BEVERAGE LTD.
POKKA SAPPORO HOKKAIDO LTD.
OKINAWA POKKA CORPORATION CO., LTD.
POKKA CREATE CO., LTD.
FOREMOST BLUE SEAL, LTD.
PS BEVERAGE LTD.
YASUMA CO., LTD.
SHINSYU-ICHI MISO CO., LTD.
POKKA CORPORATION (SINGAPORE) PTE. LTD.
POKKA INTERNATIONAL PTE. LTD.
COUNTRY PURE FOODS, INC.
18 other companies

Strengths (S)	Weaknesses (W)
• Expertise in both food and soft drink businesses • Development capabilities for lemon-based and soup products and high market share • High share of soy milk yogurt market • High market share for green tea drinks in Singapore • Research and development capabilities for both lactic acid bacteria SBL88 and lemons, as well as processing technology for powdered and freeze-dried products, etc.	• Need to maintain products outside of strong categories by promoting sales from vending machines
Opportunities (O)	**Threats (T)**
• Growing demand for health foods with emphasis on foods high in vegetable-based protein • Growing demand for convenience and trend toward time-saving	• Changing taxation laws and regulations in Japan and overseas • Increasing costs for distribution and labor

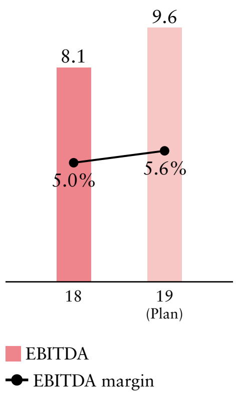
Growth Strategies

- Strengthen lemon procurement capabilities and communicate the value of lemons through functional research
- Implement capital expenditures, such as increasing soup production capacity, in accordance with market needs
- Display a strong presence in the sugar-free tea and fruit juice categories, which make use of domestic ingredients
- Promote business expansion centered on soy milk yogurt products
- Develop stable overseas soft drinks businesses through strategic cultivation

Revenue (Billions of yen)



EBITDA (Billions of yen)
EBITDA Margin (%)



First Medium-Term Management Plan 2020 Initiatives

Review of Fiscal 2017–Fiscal 2018

Major Achievements

- In domestic soft drinks, lemon-based drinks and sugar-free teas made from domestic tea leaves, such as *Kaga Bo-Hojicha*, performed well
- In lemon-based foods, *POKKA Lemon 100* and *Lemon Kaju o Hakko Sasete Tsukutta Lemon no Su* (lemon vinegar made from fermented lemon juice) succeeded in capturing the health-conscious consumer market
- In soy milk and chilled products, new soy milk yogurt product *SOYBIO* contributed to strong sales growth
- Overseas, maintained the No. 1 spot in the Singapore tea drinks market, with a roughly 70% share of the green tea market

Major Issues

- In Japan, growing need to pay close attention and respond to diversifying customer tastes while maintaining high management efficiency
- Rising costs caused by steep increases in distribution and labor expenses, in addition to fierce competition between beverage manufacturers
- Lower sales of coffee drinks, impacted by weak canned coffee market
- Negative impact on exports out of Singapore due to new tax regulations in some countries overseas

Major Focal Points for Fiscal 2019

In the domestic soft drinks business, we will refine the strengths of *Kireto Lemon, sozai-kei* (ingredients), and *shokkan-kei* (texture), as well as other areas of our business, as it continues to carve out a unique market position.

In the domestic food business, we will make an aggressive push to expand our steadily growing instant soup business. To support that expansion, POKKA SAPPORO Food & Beverage is constructing its Sendai Plant within the site of the Sendai Brewery owned by Sapporo Breweries. This plant will contain a new line for producing cup-based instant soups and granulation equipment for processing granulated materials used in its powdered soups. In the lemon-based foods category, we will continue our efforts to expand demand for *POKKA Lemon 100* and lemon vinegar products, which includes spreading the word about the health benefits of lemons. With regard to commercial-use channels, we will leverage Group synergies to expand sales in all product categories, from lemon-based products to powdered teas and soups. Looking to the chilled and soy products category, we are planning to develop new soy milk-based yogurt products, which is one of our strengths in this domain. Accordingly, POKKA SAPPORO Food & Beverage completed construction of a new soy milk yogurt manufacturing facility, replete with raw soy milk extraction equipment, at its Gunma Plant in March 2019. These efforts will further accelerate expansion in the "Food" field.

In cafe chain operations, we will continue to conduct fine-tuned marketing for the *Café de Crié* chain in order to stimulate business at its existing outlets and will enhance the value of the *Crié* brand by accelerating chain expansion.

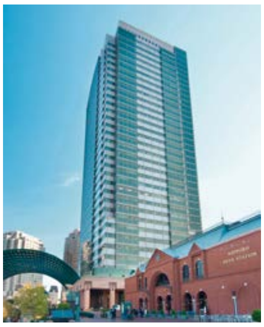
Promoting Global Business Expansion

In Asia, we strive to maintain our dominance in the tea and fruit drinks markets, while also expanding sales and increasing efficiency in operations. Furthermore, we plan to increase the presence of *POKKA* brands by developing products suited to the market needs of each country. In North America, Country Pure Foods and Silver Springs Citrus have completed their management integration and are moving quickly to put their combined management resources into effect.

Business Strategy

Real Estate

Offering a "Luxurious Time" in a "Luxurious Space" for Cities and for Society as a Whole



Consolidated Subsidiaries

SAPPORO REAL ESTATE CO., LTD.
YGP REAL ESTATE CO., LTD.
TOKYO ENERGY SERVICE CO., LTD.
YOKOHAMA KEIWA BUILDING CO., LTD.

Strengths (S)

- Superior properties and strong relationships with local communities, primarily in the Ebisu, Sapporo, and Ginza districts, grounded on the history of the Sapporo Group
- Stable cash flow generation
- Synergies with Group companies in the "Alcoholic Beverages," "Food," and "Soft Drinks" fields

Weaknesses (W)

- Periodic maintenance and repair required

Opportunities (O)

- Greater interest in Ebisu, Sapporo, and Ginza due to increase in number of visitors from overseas
- Planned reconstruction of the Souseigawa East Area in Sapporo City

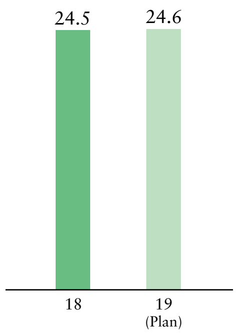
Threats (T)

- Changes in market conditions due to increase in property supply
- Increasing competition among cities
- Changing demand for office space amid work-style reforms (teleworking, etc.)

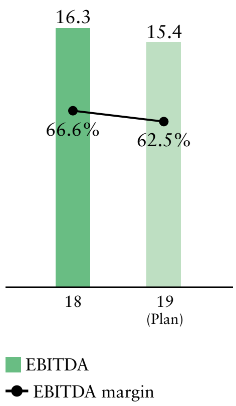
Growth Strategies

- Maintain high occupancy rates by increasing property value and flexibly revise rent levels in accordance with market conditions
- Build and deepen long-term relationships with local communities through collaborative urban development

Revenue (Billions of yen)



EBITDA (Billions of yen)
EBITDA Margin (%)



First Medium-Term Management Plan 2020 Initiatives

Review of Fiscal 2017–Fiscal 2018

Major Achievements

- Maintained a high occupancy rate at Yebisu Garden Place and our other major properties. In addition, aggressive efforts to raise rent levels produced results that exceeded plans
- Carried out Strategic review of property portfolio and made progress with urban development efforts to improve appeal of Ebisu area
- Increased performance of GINZA PLACE commercial complex in line with its concept as a "base for information dissemination and exchange"

Major Issue

- Assets require regular maintenance and repair to improve their value in response to changing market conditions, etc.

Major Focal Points for Fiscal 2019

We will continue our efforts to enhance the competitiveness of our real estate and related services as we seek to raise occupancy rates and rent levels at our properties. We will also continue to strategically review and revise our property portfolio and advance our urban development projects.

Promoting Urban Development —Launching the EBISU UPDATE PROJECT for "Digital Urban Development"

In March 2019, we launched the EBISU UPDATE PROJECT, a web-based "Ebisu of the Future" that takes a new approach toward increasing the brand value of the Ebisu area. The "Ebisu of the Future" is a design that exists in the digital space. It is based on the current-day image of Ebisu—an area with perceptions and lifestyles associated with high quality and refinement—and reflects future trends such as the Sustainable Development Goals, with the aim of responding to future social needs. The "Ebisu of the Future" employs the concept of "Social Wellness—Creating an Urban Area Where Feeling Good Benefits Society and the Planet." As a first step based on this concept, we will promote a social wellness college (with online courses), which offers opportunities to learn about and experience social wellness, and a social wellness market (curated online marketplace), which introduces and sells products.

R&D Strategy

Our R&D will accelerate new food value creation to achieve further growth of the Sapporo Group.

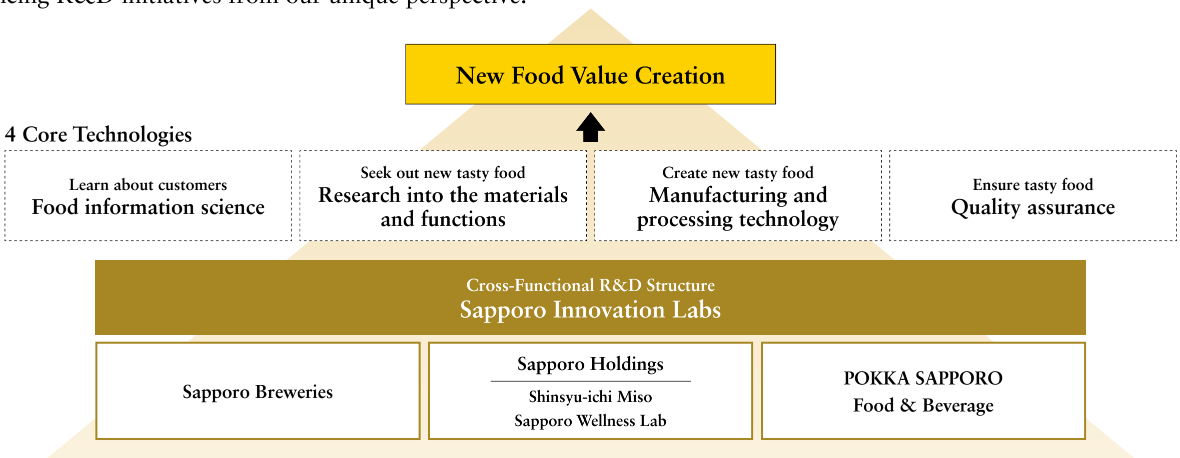
Yasuyuki Oohira
Director (Member of the Board),
Director of Group Research and Development Division

The Sapporo Group's R&D Vision	We will deliver happiness and satisfaction to our customers through the continued creation and production of food.

Sapporo Innovation Labs

The Sapporo Group established a cross-functional R&D structure, "Sapporo Innovation Labs," with the goal of creating technology synergies. We are advancing R&D efforts that will lead to further growth as a global food company group under this structure. As part of our efforts to facilitate new value creation, we have organized the Sapporo Group's strengths into "4 Core Technologies" and positioned them as a source of R&D competitiveness.

We provide new value to our customers through the following research and development activities: breeding barley and hops that have supported beer quality for many years, exploring the functional value of materials such as lemon and soy, production processing technology to create the tastefulness of beverages and food, and brewing technology. As customer tastes grow more and more diverse, we maintain our unchanging commitment to delicious taste and will continue advancing R&D initiatives from our unique perspective.



TOPICS

Proposals for New Value

Lactic Acid Bacteria SBL88 Leads to Improved Sleep Quality

Sapporo Holdings has confirmed via clinical study that lactic acid bacteria SBL88 leads to improved sleep quality, a new health function for the proprietary functional food ingredient. The study required participants to ingest food products containing SBL88 over a four-week period. Participants displayed less drowsiness and greater fatigue recovery upon waking up (Japanese Pharmacology Therapeutics Vol. 46 No. 10, 2018). SBL88 derived from barley was found among various stocks of Sapporo Breweries Culture Collection, which was constructed for research on beer quality assurance. Many beneficial health functions have been revealed during its many years of research.

In order to achieve further growth, we established Sapporo Wellness Lab Limited (SWL) on February 4, 2019, which will generate value inside and outside the Group in a prompt manner. SWL has adopted a corporate philosophy: we support the healthy, bright smiles of our customers through deliciousness and reliable evidence.

Lactic Acid Bacteria SBL88

Health Project with Lemons in Osakikamijima Town

Osakikamijima in Hiroshima Prefecture, which has a collaborative partnership agreement with POKKA SAPPORO Food & Beverage, is a major lemon producing area. In May 2018, research on the health effects of lemon intake began with the cooperation of approximately 500 residents. This project is being carried out through the joint research of Sapporo Holdings, POKKA SAPPORO Food & Beverage, Prefectural Hiroshima University, and Osakikamijima for five years.

Our goal is to contribute to the health of the people by utilizing the research results and to play a role in production promotion of lemons in Hiroshima.

Human Resource Strategy

Message from the Director of Human Resources

"By further promoting a "Go Beyond Boundaries" mind-set, ingraining deeper diversity and inclusion, and working to improve employee health, we will continue to lead the Group toward sustainable growth.

Mayumi Fukuhara
Director (Member of the Board),
Director of Human Resources Department

Promote the Current Mind-Set toward "Going Beyond Boundaries" Even Further

The underlying idea behind the Sapporo Group's human resource strategy is to "Go Beyond Boundaries," overcoming the unconscious walls we create ourselves, the barriers of organizations, and going beyond the boundaries of business and country. In that light, we are working to cultivate human resources with a "Go Beyond Boundaries" mind-set that provide new value and passion to customers under our Long-Term Management Vision "SPEED150."

The phrase "Go Beyond Boundaries" was coined in 2013, the year we began to accelerate growth in the "Food" field and promote global business expansion. Fortunately, the concept is simple and easy to understand and widely recognized by employees at Group companies, but for the idea to truly take root in corporate culture, we need constant reminding of its value. Above all, as business continues to globalize at an accelerating pace, it is crucial that we ask just how much each and every employee can extend our customer focus from the domestic sphere to overseas, and just how many employees have the mind-set to take on this task. While there has been a considerable change in employee mind-set over the years, this is a point that needs to change even further.

To spur on the "Go Beyond Boundaries" mind-set, which in turn works to advance global development, we are making effective use of both quiet, conventional methods that work within a system, and methods to support employees as they pursue their own self-driven goals. As part of the former methods, we are creating various opportunities for employees to take on challenges and gain overseas experience while they are young, in addition to tracking the growth of the Group and of each employee. Moreover, we are reviewing a work cycle that combines domestic and overseas work in order to cultivate globally minded human resources. As we review personnel systems and measures for each operating company within Japan, we are building and developing a shared platform. At the same time, we intend to actively appoint and promote human resources on a Groupwide scale. As part of more employee-driven methods, some operating companies have introduced a “window of action” where employees with ambition, aptitude, and the recommendation of their supervisor can take a simplified exam to initiate the move from general clerical work to management track positions. In these ways, we are heavily promoting that Group employees “Go Beyond Boundaries” as a way to strengthen human resources in growth areas.

Ingrain Diversity and Inclusion—Bringing Together Diverse Human Resources

In addition to cultivating personnel who “Go Beyond Boundaries,” the Sapporo Group aims to ingrain diversity and inclusion in its employees so that every individual can realize their maximum potential in recognition of their and each other’s diverse ideas and ways of thinking, and to support related activities. Diversity and inclusion serve as the underlying idea for the personnel systems and measures employed by the Sapporo Group.

Looking back, our understanding of diversity as a series of individual differences such as gender, age, and nationality has changed greatly over the past 10 years. The diversification of human resources in the Company might have taken place without any special measures, simply due to the needs of society. However, one of my roles up until this point has been to find ways to accelerate the process of diversification, to match the growth of business. The pressing question now is how to bring together a diverse group of individuals, each with their own differences, and optimize organizational strength moving forward. To address this question, it is important to ask whether the positive engagement and dynamism inherent in channeling all of this diversity into organizational strength are truly being conveyed; it is especially important to ask whether those in leadership positions at the top of the organization have this idea of inclusion. Looking forward, I will continue to act as a flagbearer for diversity and inclusion, and hasten efforts to ingrain and teach their necessity.

Empower Human Resources and Improve Employee Health to Improve Corporate Value

As we accelerate growth in the “Food” field and promote global business expansion, our business is becoming more sophisticated and complex. As business conditions and the business itself undergo major changes, the “learning” of each and every employee is key to keeping pace with these changes and becoming leading human resources. The Company has upgraded its training program under the motto “‘My career built by myself.”

On the other hand, one cannot expect employees to take such forward-thinking action without being mindful of their individual health. The Company is promoting health management by making the health of its human resources a management cornerstone. This includes the introduction of various measures to improve health, such as the “Health Creation Declaration” made the by the president of each Group company, the deployment of public health nurses, and the distribution of health apps. In addition, the Company has formulated a medium-term plan for health management to take effect from 2019, and has created new measures for balancing medical treatment and work, as well as measures for reducing smoking.

There is a “centripetal force” in keeping with our corporate philosophy, created through an emotional attachment to the Company’s unique brands, products, and services. There is also a “centrifugal force” that relies on a collective healthy body and mind of the Group’s human resources, which fosters the ambition to “Go Beyond Boundaries” and allows each individual employee to realize their maximum potential. I recognize that striking a careful balance between these two forces is the role of the Human Resources Department. Going forward, we will take honest note of the words and manner of each individual employee and continue to put forth this message while improving our corporate value.

Nurture Human Resources Who Are Ambitious and Healthy in Both Body and Mind

Formulation of the Medium-Term Health Management Plan—Our Commitment to Employee Health

In February 2019, the Sapporo Group formulated the 2019–2022 Medium-Term Health Management Plan. We have set three goals—"protecting life," "improving health," and "increasing strength through diversity"—as the basis for enhancing activities to improve employee lifestyles. Through these goals, we aim to reach our numerical targets set for 2022.

In addition, we have released a "Message Regarding the Sapporo Group Anti-Smoking Policy," declaring the 22nd of every month a "No-smoking day." We believe that, as a company closely tied to the food industry, adopting a Groupwide anti-smoking policy will increase our trust with customers; therefore, we are working to motivate employees to quit smoking and lower smoking rates overall. In this light, we have introduced an online no-smoking treatment program on a trial basis.

22 禁煙の日

In keeping with these efforts to improve the health of all Group employees, Sapporo Holdings was among several businesses to be certified as a 2019 Excellent Enterprise of Health and Productivity Management (White 500), a distinction granted by the Ministry of Economy, Trade and Industry to businesses with exceptional health management.

2019 健康経営優良法人 Health and productivity ホワイト500

Message Regarding the Sapporo Group Anti-Smoking Policy

Based on the Sapporo Group Health Creation Declaration, the Sapporo Group began its anti-smoking initiative in 2019. This initiative is part of our commitment to protect the health of each and every one of our employees.

Furthermore, we aim to establish a healthy work environment by eliminating second-hand smoke.

As a company closely tied to the food industry, we believe that efforts toward our no-smoking policy will increase our trust with customers.

At the Sapporo Group, we are committed to health management in order to promote the happiness of employees, their families, the Company, and our customers.

Medium-Term Health Management Plan (2019–2022)

Goal	Initiatives	2022 Numerical Targets
Protecting Life	· Provide examinations at medical institutions for 100% of those who may require emergency treatment · Offer health checks for 100% of employees aged 40 and over with lifestyle-related diseases · Encourage no-smoking lifestyles · Improve sleeping patterns	Actions 1) Steps per day: Men: 9,200 steps, Women: 8,300 steps 2) Regular daily exercise: (30 minutes, twice a week for over a year) Men 39%, Women 35% 3) Adequate rest through proper sleep: 90% 4) Skipping breakfast: Under 15% 5) Percentage of smokers: Under 12%
Improving Health	· Utilize in-house nurses · Promote use of health apps · Carry out wellness surveys · Implement Companywide employees health declaration · Promote walking · Implement stress checks	
Increasing Strength through Diversity	· Create plan in collaboration with research department · Ensure improved health focused on women, the elderly, and other employee groups · Support coexistence of treatment and work	

→ Employee health spreading happiness to employees, their families, the Company, and customers

Creation of a Stronger Company by Establishing a Dialogue and Suitable Work Systems for Employees with Cancer

In order to increase their strength, Sapporo Breweries and POKKA SAPPORO Food & Beverage are working to create suitable work systems for employees diagnosed with cancer and to maintain a two-way dialogue. Accordingly, the two companies have created a manual targeting employees with cancer and their supervisors, "Supporting the Coexistence of Treatment and Work," as an easy-to-reference manual with the necessary information on mediating between both elements. In addition, these companies have introduced hourly paid leave, super flex time, and teleworking to allow for more flexibility at work. Thanks to these efforts, these companies have created a system where employees can undergo treatment while still being able to perform their job duties.

In recognition of these efforts, Sapporo Breweries received the Gold Prize at the first *Gan Ally Sengen* (Cancer Ally Declaration) awards, held by the Gan-Ally-Bu, a privately run project dedicated to addressing the problem of mitigating cancer treatment and work.

gan-ally-bu AWARD 2018 GOLD

Supporting the Coexistence of Treatment and Work

- Published a manual, "Supporting the Coexistence of Treatment and Work," for a system where necessary information is easily accessible
- Introduced hourly paid leave and super flex time for a system where employees can undergo treatment while being able to perform their job duties
- Implement health checks for lifestyle-related diseases (including checks conducted through health insurance associations and examinations for cancer and similar ailments) with costs partly covered by the Company for a system where employees can take their checks during work hours
- Assigned industrial physicians and nurses to each work location for a system where it is easy for employees to consult about their health
- Provided in-house counselors for a system where employees can consult about their careers, including matters of health and family

My Career Built by Myself—Creating Opportunities to Tackle Challenges

In 2018, the Sapporo Group held its seventh "Global Resource Development Program for the Coming Generation" (GPC), a program that gathers young employees from each Group company to create globally minded human resources. In addition to training in Japan, the program includes on-the-job training overseas, with the aim of raising cross-cultural response skills and English communication ability. Participants in the program elect to join the program of their own accord, in the spirit of "self-driven career building." Among these participants, we select those who are ready to do full-fledged work overseas or conduct business related to overseas work.

Summary of GPC Program for fiscal 2018

1. Group training
2. Independent study (online English conversation classes, customized e-learning, and writing assignments conducted outside of official training hours)
3. Full-fledged work overseas (food product manufacturing factory visits in Vietnam)
4. Personal research and proposals

Group Training

Company food product factory visit (Vietnam)

The *Hirameki*! Lab—Beyond WorkStyle Reforms

An idea from the POKKA SAPPORO Food & Beverage workstyle reform promotion team sparked the creation of the *Hirameki!* Lab ("*hirameki*" is the Japanese word for "inspiration"). Workstyle reforms create stimulating stretches of time, producing "*hirameki!*" moments. The ideas produced in these times lead to changes in awareness and thinking and new initiatives while enjoying a process where people learn from each other and engage in dialogue. We are working to create spaces where these moments can take place.

"What new ideas and innovations can we create?" "How can we make POKKA SAPPORO Food & Beverage an even better company?" "How can we change the way we work?" These are the questions that the *Hirameki!* Lab tackles to its fullest—questions that apply to lifestyles outside of time at work. Utilizing flex time and telework and improving work flow are the keys to creating more time, which opens the door for study groups, workshops, and seminars.

Presentation

Group work

Financial Strategy

Message from the Director of Corporate Finance

"

By strengthening our financial base and making sound investments in growth fields, we will realize sustainable profitability and shareholder returns.

Shinichi Soya
Managing Director (Member of the Board)

Our Financial Strategy to Make Active Investments in Growth Fields

Under the First Medium-Term Management Plan 2020, we established a financial goal to generate ¥180.0 billion in cash flows from operating activities, with the intention to invest ¥130.0 billion in our core business areas: "Alcoholic Beverages," "Food," and "Soft Drinks." Now that our business plan has gone slightly off course from our original road map, the pressing question is just how our businesses will generate cash. To address this question, we need to move to a profitable structure, and naturally pursue a greater business scale. Looking at the Alcoholic Beverages business segment, our policy to "strengthen the beer business" is one manifestation of our meeting this need. This involves increasing our composition ratio of products and services with high profit margins, and thereby enhancing our cash-generating capabilities. At the same time, we are working to streamline our cost-control strategies for expenses such as sales promotions and advertising, without adhering to conventional ideas and concepts. With the cash generated in this manner, we will make carefully selected and clearly prioritized investments in growth fields.

To improve our balance sheet, we made efforts to increase asset efficiency, such as converting over ¥10.0 billion in strategic holdings of shares—one-quarter of total strategic holdings of shares when measured at market value—to cash in fiscal 2017–fiscal 2018. According to our Policy Related to Strategic Holding of Shares, which has been determined under our Basic Policy on Corporate Governance, we hold assets with a reasonable return as a general rule; however, we want to maintain flexibility so that we may liquidate assets if it becomes necessary. In fiscal 2018, we sought to diversify our methods for procuring funds by issuing convertible bonds with a view to increasing future equity. While taking these steps to increase our cash-generating capabilities and improve our balance between direct and indirect financing, we are also working to reduce interest-bearing debt, with the aim of reaching a 1.0 debt-to-equity ratio.

At the same time, we remain committed to carrying out steady shareholder returns in line with profit growth, keeping our sights set on maintaining a dividend payout ratio of around 30%. Despite recording a reduction in operating profit in fiscal 2018, we were able to increase dividends for the second consecutive year, due to lower corporation taxes as a result of reshuffling our international businesses, which in turn led to an increase in net profit, and to reasonable use of internal reserves.

Pursuing Growth Opportunities and Managing Risks as a Company with Highly Unique Brands

The Sapporo Group has included in its Long-Term Vision a mission to be "a Company with Highly Unique Brands." In this spirit, the Group has positioned its brands as the source of its competitive edge. The Group aims to cultivate and strengthen its brands in the three fields of "Alcoholic Beverages," "Food," and "Soft Drinks," its core businesses, and in the Real Estate business. I believe that this strategy involving a variety of brand-centric approaches is a unique feature of the Group, with its share of growth opportunities and risks.

For instance, in the Real Estate business segment, one of our "Brand Value Creation Businesses," our active urban development efforts in Ebisu serve to not only boost the brand of the region but also enhance the brand of *Yebisu* as a premium beer. Generally speaking, we can also look at the Real Estate business segment as an effective financial leveraging tool. However, we are ultimately manufacturers in the business fields of "Alcoholic Beverages," "Food," and "Soft Drinks." Because of this, we aim to reduce our interest-bearing debt, meaning that we are introducing measures to manage rising interest as a future risk while also limiting the number of liabilities. Moreover, it is essential that we accelerate overall growth and promote global business expansion in the "Food" field to spur sustainable growth in the medium to long term. In this light, we need to build a strong financial base that allows us to quickly respond to changing conditions and take advantage of investment opportunities. Bearing this need in mind, we are working to mitigate management risks and control volatility by building a unique portfolio of multiple and varied businesses with differing business cycles and terms. At the same time, we are cultivating and strengthening Company brands.

The Role of the Financial Department for Making Growth Investments and Mitigating Risks

In fiscal 2018, we recorded an impairment loss for Anchor Brewing Company. While this can be partly attributed to the amount of money spent, it is mainly because we deviated from the original business plan we laid out at acquisition. With regard to growth investments, we cannot limit our attention to the nature of an investment; we must also consider timing. Determining the right timing is the job of the financial department, and we must make an appropriate evaluation using consistent criteria. This criteria must be comprehensive, taking into account brand value and time value—factors that are not reflected in financial statements or the purchase price.

To ensure thorough regulation of investments, we revised the methodology of the Financial Investing Committees established at the holding company and at each operating company. We changed systems within each committee to include better monitoring of financial investments, which includes post-monitoring integration (PMI). Furthermore, we switched to a workflow system requiring an operating company to undertake a project while incorporating a Groupwide perspective, even if said project has already been sanctioned.

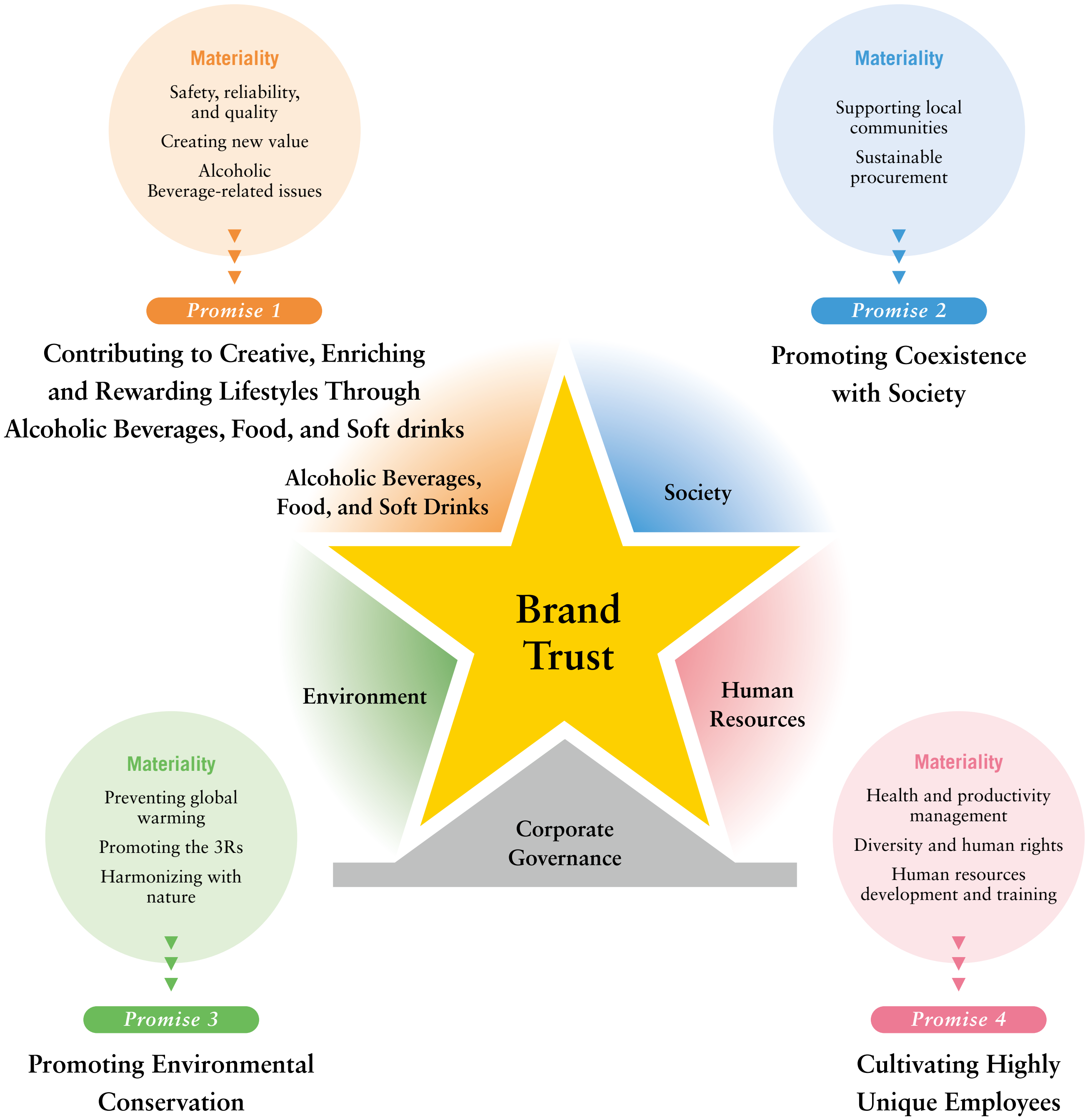
Making a pertinent evaluation of business risks is another important role played by the financial department. To properly fulfill this role, the financial department must be constantly vigilant regarding risks while being aware of what is occurring on the front lines of the Company. Even when helping management divisions to be more effective and rational, the financial department applies its motto to "use digital technology to the fullest, but practice analog face-to-face communication." We are therefore more conscious of opportunities for exchange inside and outside the Company, which then improves our sensitivity to risks as they exist on the front lines. In addition, we are working to engage in meaningful dialogues with our shareholders and investors, which means working to make these dialogues deeper through the sharing of negative information in a clear manner. Documents, such as our financial materials and this integrated report, are a means to making the direction of and challenges for our Company known. We create these documents as a way to spark dialogue and facilitate communication with all of our shareholders and other investors. We look forward to gathering more frank opinions going forward, and ask for your continued support and understanding as we work to do so.

Basic CSR Policy

Our 4 Key Promises for Strengthening Bonds through Our Brand Story

The Sapporo Group will inherit a brand story grounded in its over 140-year history as a collection of aspirations it wishes to share with its stakeholders. In addition, through its CSR activities, the Group aims to connect this brand story to the future.

In line with our 4 Key Promises, which summarize our CSR initiatives, we will forge ahead with our CSR endeavors in a bold and swift manner.



The Sapporo Group’s Basic CSR Policy

We are determined to remain a group that is trusted by society by conducting business in a way that keeps our customers happy.

Since the Sapporo Group’s founding in 1876, we have existed in harmony with society and have been sustained by the happiness of our customers as we forged our path to the present. From here on, the Sapporo Group will aim to grow as a company and contribute to sustainable social development by remaining an honest group that makes customers happy, based on its Management Philosophy: “As an intrinsic part of people’s lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles.”

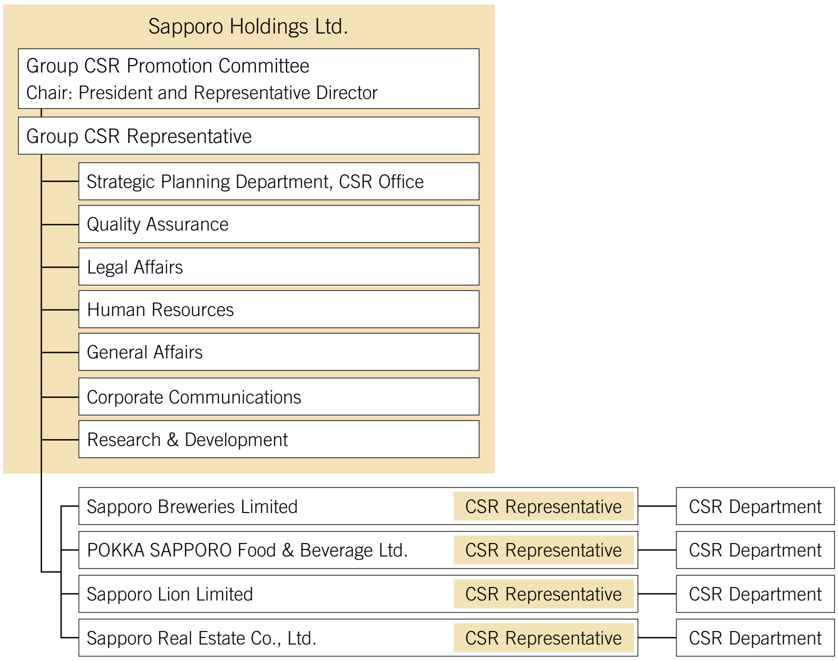
Our CSR Initiatives and Our 4 Key Promises

One of the goals of the Sapporo Group Long-Term Management Vision “SPEED150” is to “strengthen corporate communication.” To this end, we have organized our CSR initiatives into the following four designated fields, or 4 Key Promises: “Contributing to Creative, Enriching and Rewarding Lifestyles Through Alcoholic Beverages, Food, and Soft Drinks,” “Promoting Coexistence with Society,” “Promoting Environmental Conservation,” and Cultivating Highly Unique Employees.” By pursuing these efforts while also working to enhance our corporate governance—which provides the foundation for all our businesses—we will contribute toward realizing the Sustainable Development Goals (SDGs) and, at the same time, develop brands and earn the trust that will provide the source for growth going forward.

CSR Activity Implementation Structure

Sapporo Holdings formulates the overall policy for implementing the Sapporo Group’s CSR activities and has established a Group CSR Promotion Committee. This committee is chaired by the president and representative director of the Company, who is responsible for coordination and adjustment within the Group.

The Strategic Planning Department, meanwhile, develops and implements various measures to promote CSR activities at each Group company, holds monthly meetings with CSR personnel, and shares information and progress via its CSR Office.



(As of March 31, 2019)

★ *Special Feature 2*

Tackling Risks Stemming from Climate Change through the Breeding of Barley and Hops

In the Future, as in the Past, the Breeding of Barley and Hops Supports the Delicious Taste of Beer.

Since its foundation, Sapporo Breweries has pursued the cultivation of barley and hops in order to realize its wish to provide great-tasting beer to customers. Breeding is a painstaking and labor-intensive process that involves the cross-fertilization and selection of varieties of barley and hops over many months and years. Sapporo Breweries is the only beer maker in the world to breed both barley and hops and procure these materials through a Collaborative Contract Farming System.*

Among the achievements of hop breeding and research that have continued from the era of the *Kaitakushi* Brewery is the outstanding hop variety Shinshu-Wase that is still being planted today. The expertise we have developed through the breeding of and research on hops, which are disease-prone and difficult to produce, is utilized in the production guidance we give to growers and helps in the procurement of high-quality raw materials through the Collaborative Contract Farming System. Indeed, Sapporo Breweries' breeding technologies once saved hops from a crisis. The crisis occurred around 1970 due to the outbreak of a virus in the hop-growing region of Saaz, in what is now the Czech Republic. That region is known as a production area for fine aroma hops of the highest quality that are used in premium beers across the world. The virus adversely affected the quality of said hops and resulted in a decrease in yields. From 1989, Sapporo Breweries provided technological guidance in the region and created a virus-free seedling. As a result of these efforts, we succeeded in restoring the hops to their previous outstanding quality. Following that, in 1994 we founded V.F. Hunmuls in the Czech Republic, a company that continues to manufacture and sell virus-free seedlings.

Now, triggered by climate change, Sapporo Breweries continues to tackle challenges through breeding amid increasing risks associated with abnormal weather such as damage and disease of agricultural products, drought, and decreasing yields. For example, with regard to barley, concerns are growing in Hokkaido and elsewhere about pre-harvest sprouting, Fusarium head blight, and skin crackling caused by rainfall at harvest time. Sapporo Breweries is striving to resolve such production and quality issues through high-quality development of varieties that also excel agriculturally, based on our knowledge and expertise regarding breeding. In addition, we have established a decentralized

Sapporo Breweries has been employing the Collaborative Contract Farming System for barley and hops since 2006.


Spring 2019 Collaborative contract farmers, engaged in cutting-edge agriculture in Canada, visited Sapporo Breweries' Bio-research and Development Division.

procurement system for barley and hops as a means to reduce and avoid the effects of climate change, utilizing production areas around the world. Going forward, for great-tasting beer and the happiness of our customers, we will continue to tackle challenges in beer manufacturing from the standpoint of breeding while dealing with the impacts of climate change.

Resolving Global Issues through Cooperative Partnerships between Industry and Academia

In July 2017, Sapporo Holdings concluded a comprehensive partnership agreement with Tokyo University of Agriculture in order to contribute to the resolution of global food and environmental problems.

Tokyo University of Agriculture and Sapporo Breweries had cooperated at a departmental level on matters such as the production and use of barley and hops, even before concluding this agreement. However, with the impetus gained from expanding our relationship from a departmental level to a university-wide level, and from Sapporo Breweries to Sapporo Holdings, we are now proactively engaged in international cooperation activities through activities that contribute to the re-energization of food and related industries and support for product development.

While leveraging such cooperative partnerships between industry and academia, the Sapporo Group is tackling risks stemming from climate change head-on. At the same time, while transforming risks into opportunities, we will link the procurement of safe, secure, and high-quality raw materials with sustainable manufacturing activities.

At the signing of the comprehensive partnership agreement (on the left is President Katsumi Takano of Tokyo University of Agriculture; on the right is President and Representative Director Masaki Oga)

Advancing Joint Research and Surveys with Tokyo University of Agriculture's Okhotsk Campus

Tokyo University of Agriculture and Sapporo Breweries are currently conducting joint research on differences in root system development between varieties of hops, based on the hypothesis that the development of the root system may be enhancing the ability of hops to adapt to water-related stresses such as aridity.

Through such efforts, we are striving to develop varieties of hops that can cope with such effects of climate change as drought and heavy rainfall.

Joint research with students from Tokyo University of Agriculture's Okhotsk Campus

* The Collective Contract Farming System is Sapporo Breweries' proprietary raw materials procurement system. Through this system, internal experts on barley and hops ("fieldman") make direct visits to growing areas and work with growers to provide deliciousness, safety, and reliability to customers.
The three main elements of the Collective Contract Farming System are:
1. Well-defined information on barley and hop growing areas and growers
2. Well-defined information on growing methods
3. Communication exchange between the company and growers

Initiatives Based on Our 4 Key Promises

Promise 1

Contributing to Creative, Enriching and Rewarding Lifestyles Through Alcoholic Beverages, Food, and Soft drinks

We will offer the joy of living and enrich the lives of our customers by creating new value through "Alcoholic Beverages," "Food," and "Soft Drinks."

Acquisition of Safety Certification for Nine Breweries and Plants

As of May 2019, the Sapporo Group owns eight major breweries for alcoholic beverages with FSSC 22000 certification, which targets food manufacturing organizations and is the international standard for food safety management systems. In addition, our Gunma Plant, a dedicated food and soft drinks site, has also received the same certification. Going forward, we will continue to raise our level of quality assurance across the entire Group.

Alcoholic Beverage-Related Issues

The Sapporo Group believes that, as a corporate entity engaged in the distribution of alcoholic beverages, it bears a responsibility to communicate proper drinking practices and instill a proper understanding about the characteristics of alcohol. To this end, we are engaged in a variety of initiatives.

Policy Related to Proper Drinking Practices

- In light of the nature of alcohol, we will consider the social impact when engaging in the manufacture, sale, and advertisement of alcoholic beverages.
- We promote moderation in alcohol consumption consistent with a healthy and joyful lifestyle while moving forward with measures to prevent alcohol abuse, such as underage drinking, driving while intoxicated, and drinking by pregnant and nursing mothers.

Spreading of Proper Drinking Awareness among University Students

To disseminate proper knowledge regarding alcohol consumption among university students and to promote healthy enjoyment of alcoholic beverages, Sapporo Breweries has been conducting Proper Drinking Awareness Seminars since 2015, primarily focused in metropolitan area universities. A total of 24 seminars were held by 2018, and in that same year seminars were hosted across seven universities.

Creation of New Value through New Packaging Development

Sapporo Breweries is working to create new value by developing new packaging. The *Sapporo Draft Beer Black Label Korokoro Stocker* and the *Sapporo Draft Beer Black Label Storage BOX* are two new types of packaging being developed that perfectly match customer lifestyles and serve as examples of efforts to provide enjoyment and convenience to more and more customers. In March 2019, each packaging was awarded the special prize for the second consecutive year by LOHACO, an online shopping website for everyday goods operated by ASKUL Corporation.

① *Korokoro Stocker*: An eight-pack carton of *Sapporo Draft Beer Black Label* ready-made to stock beer in a refrigerator, this packaging is notable for its playful and fun design. As cans are taken from the bottom and new cans are put in, a new can rolls into place (creating the onomatopoeic *korokoro* sound in Japanese), making it easier to grab the next beer while also saving fridge space.

② *Storage BOX*: This box of *Sapporo Draft Beer Black Label* contains four 12-packs of beer (48 cans in total) and features a wooden-design that is a welcome addition to any room. As an extra bonus, each box comes with an unassembled *Korokoro Stocker*.

Promise
2

Promoting Coexistence with Society

We will contribute to the development of local communities and solve issues as part of local society, and create a better future along with everyone in society.

Resolution of Social Issues through Collaborative Agreements

Since its founding, the Sapporo Group has cherished its ties to the areas and local communities where the Group has a long history. Beginning with a comprehensive collaborative agreement with Hokkaido Prefecture in 2007, the Sapporo Group has established 56 agreements with local municipalities and universities across Japan. These agreements are part of our ongoing efforts to promote regional contribution, urban development, and disaster prevention.

33 Years of Support for the Hakone Ekiden

The Hakone Ekiden is a relay marathon synonymous with the Japanese New Year. The single-minded attitude that goes into running for the honor of one's alma mater and one's colleagues goes hand-in-hand with Sapporo Breweries' "heart and conviction for craftsmanship."

Sapporo Breweries has supported the Hakone Ekiden since 1987, for a total of 33 years. Employees of the company sell original sports goods around the finish area, with part of the proceeds donated to the Hakone Trust Fund, established by the town of Hakone, Kanagawa Prefecture, and dedicated to environmental conservation.

Education for Suppliers about Our CSR Procurement Policy

Based on the Sapporo Group Procurement Basic Policy and the Sapporo Group Suppliers CSR Procurement Guideline, the Group has chosen six main subjects to frame two-way communication with suppliers and undertake cooperative CSR efforts: Safety and quality, compliance with laws, human rights and labor, environmental conservation, coexistence with society, and alcoholic beverage-related issues. Through these efforts, we aim to realize a healthy and enriching society.

At supplier-oriented information sessions about our operating policies, we provide explanations and education regarding the Sapporo Group's approach to procurement.

Support for Raising the Next Generation through the Shareholder Benefit Plan

Since fiscal 2008, Sapporo Holdings has employed a system whereby shareholders can choose to forego special benefits (material rewards) and donates an equivalent value toward social programs, which the Company matches with an equivalent donation. Sapporo Holdings has been providing restoration support to the Tohoku region since 2012 following the Great East Japan Earthquake, and about ¥3.5 million raised in 2017 was put toward the following programs in 2018.

- Support for "Tsubaki-themed learning" in Funato City, Iwate Prefecture ("Tsubaki" is the Japanese word for the camellia tree)
- Support for "hometown studies" as a pillar of elementary and junior high school learning in the town of Otsuchi, Iwate Prefecture
- Support for project for overseas and domestic high school students to disseminate safety information about food grown in Fukushima, Fukushima Prefecture

Initiatives Based on Our 4 Key Promises

Promise 3

Promoting Environmental Conservation

In order to pass on nature's bounty to the future, we will strive to prevent global warming, promote the 3Rs, and achieve symbiosis with nature at every phase.

Sapporo Breweries' Chiba Brewery Receives Award for Superior Greening Efforts

Sapporo Breweries' Chiba Brewery was commended for 30 years of activities dedicated to promoting greenification and local community contribution activities, a practice that has been ongoing since the brewery's construction. For these efforts, it received the Kanto Bureau of Economy, Trade and Industry Director-General's Factory Greening Award in October 2018. Moving forward, we aim for all our breweries to continue their contributions to society through proactive environmental conservation efforts.

Support for Regional Conservation

Sapporo Breweries launched a limited release of the *Shinshu Environmental Support Can of Sapporo Draft Beer Black Label* in Nagano Prefecture. One yen for every can sold is donated toward the ongoing environmental conservation efforts of Shinshu (the traditional Japanese name for Nagano Prefecture). Furthermore, Sapporo Breweries entered into the Biodiversity Protection Partnership Agreement in 2017, and continues to work in conjunction with Nagano Prefecture to promote environmental conservation.

Promotion of the 3Rs

The Sapporo Group promotes the 3Rs (reduce, reuse, recycle) to lower its environmental impact. To this end, it utilizes resources as effectively as possible and spreads its efforts across each stage of production, from the procurement of raw materials to disposal and recycling. Sapporo Breweries and POKKA SAPPORO Food & Beverage strive for a 100% recycling rate for by-products and waste created in the product manufacturing process. Canada-based Sleeman Breweries, which has worked to incorporate environmental conservation into its supply chain, was recognized with a gold level standing by the Recycling Council of Ontario for these efforts.

Installation of Solar Panels on Plant Rooftops

POKKA SAPPORO Food & Beverage has had solar panels installed on the rooftop of its Gunma Plant as part of efforts to reduce its environmental impact. Each month, these panels generate an average of 100,000 kWh.

Promise 4

Cultivating Highly Unique Employees

We respect the wide-ranging diversity of employees and bolster the development of an environment that allows all employees to demonstrate their abilities to the maximum extent.

As part of the Sapporo Group Long-Term Management Vision "SPEED150," the Group is committed to developing personnel who "Go Beyond Boundaries." To this end, the Group is promoting initiatives toward enhancing health and shifting human resources to growing business areas.

For details, please refer to the Human Resource Strategy section on pages 44–47.

For information on our medium-term goals aimed at resolving CSR priority issues and the current status of our efforts, please visit the Sapporo Group website.
https://www.sapporoholdings.jp/en/csr/policy/systems/

Stakeholder Engagement

As a business practice done in earnest and in accordance with its basic CSR policy, the Sapporo Group works toward proactive and appropriate disclosure of information and mutual communication in order to deepen trust between the Group and its stakeholders. These efforts serve to strengthen bonds with stakeholders through our brand story, and help us achieve "stronger corporate communications," one of the pillars of its Long-Term Management Vision "SPEED150."

Customers

Providing valuable products and services that build trust

- Customer service centers
- Brewery and plant tours
- Events, etc.

Sapporo Breweries begins its management meetings by listening to the frank opinions of its customers gathered from customer service centers. In addition, breweries and sales bases have been holding events for employees to listen to customer feedback. By taking an active interest in customer feedback and always keeping the customer's perspective in mind, Sapporo Breweries aims to provide an "enriching and rewarding lifestyle for our customers," part of our corporate philosophy.

Shareholders / Investors

Adhering to the Corporate Governance Code, implementing appropriate shareholder returns

- General Meeting of Shareholders
- Financial results briefings
- Individual dialogues with domestic and overseas institutional investors
- Publication of reports, etc.

Sapporo Holdings is committed to maintaining a dialogue with all of its shareholders and investors. The Company holds information sessions with individual investors several times a year, as well as conference calls every first and third quarter and financial results briefings every second and fourth quarter for institutional investors. Furthermore, the Company holds an overseas roadshow twice a year, held in overseas locations to accommodate institutional investors outside of Japan. By carrying out these IR activities, we are able to gather the opinions and requests of our shareholders and investors and provide regular feedback to management and related departments of the Company.

Suppliers

Respecting human rights and promoting environment-friendly procurement

- Daily communication
- Group procurement basic policy, procurement from a CSR perspective, etc.

The Sapporo Group is carrying out CSR initiatives throughout its supply chain while working to promote understanding and cooperation among suppliers of raw materials. Sapporo Breweries makes regular visits to suppliers of packaging materials to conduct quality control inspections and employee training. These visits also serve as opportunities to hold exchange events where the Company and suppliers can share knowledge and opinions related to CSR and SDG initiatives.

Community / Society

Implementing training/food education for next generation, regional activities, and environmental conservation using each business' characteristics

- Next-generation training
- Regional contribution activities
- Disaster-recovery efforts
- Environmental conservation activities, etc.

The Sapporo Group has formed 56 cooperative agreements with a variety of entities across Japan—including prefectures, municipalities, and universities. In the Shibuya ward of Tokyo, where the Group headquarters is located, the Group concluded the "Shibuya Social Action Partner (S-SAP)" agreement, a comprehensive partnership agreement, in 2016. Through this agreement, the Group is engaged in urban development, focused on Yebisu Garden Place, and is working to resolve social issues. To help raise the next generation, the Group has provided support for the Shibuya Ward Kodomo (Children's) Table and for Orange Ribbon activities to spread awareness for preventing child abuse.

Employees

Creating an environment that embraces diversity, promotes health improvement, and encourages employees to tackle challenges

- Graduate and department-specific training
- Mental healthcare
- Open recruitment system for human resources, etc.

The Sapporo Group holds workplace visits to promote communication between employees and their families. POKKA SAPPORO Food & Beverage held its first workplace visit at its Nagoya Plant in March 2019. These visits increase employee motivation and also help promote exchanges between co-workers and their families. Such initiatives will help create a comfortable working environment.

Discussing Corporate

Tsutomu Kamijo
Chairman and Director

×

Shizuka Uzawa
Outside Director (Independent Officer)

In order to realize its Long-Term Management Vision "SPEED150" and improve corporate value, the Sapporo Group is working to upgrade and enhance its corporate governance, powered by the voice of its stakeholders. Mr. Shizuka Uzawa, an outside director, and Mr. Tsutomu Kamijo, chairman and director, sat down to discuss the current state of governance and its ideal future. The following section is a transcription of this dialogue.

"We always try to be aware of whether our envisioned management structure and system designs make sense from the outside looking in.

—— Tsutomu Kamijo

01 A Vision of Corporate Governance Tailored to the Sapporo Group

Kamijo: It's important to always keep in mind that strengthening corporate governance is not a task with a set finish but an evolutionary process—there is no such thing as "an absolute solution." We need to bear in mind alternatives and ideas that exist outside of the Company while addressing the question of "Why?" as in why we follow a certain corporate philosophy, and why we have certain systems in place. This question should always be clear from both inside and outside of the Company. At the same time, we must resolve issues with a company-minded approach while bearing in mind discussions with investors and other stakeholders. As an example of how these discussions aid us, I understand that outside officers are of the opinion that a director at a holding company should serve concurrently as president of an operating

Governance

> *I have to take the third-party stance of a shareholder or investor and, from time to time, throw out a startling observation or statement.*
>
> —— **Shizuka Uzawa**

company. In light of such opinions and suggestions, we are gathering frank opinions and viewpoints as we pursue and evolve toward a vision of governance that is tailored to the Group.

Uzawa: The question of how to upgrade and enhance Group governance is one that should be given time for thorough discussion. No organization or system ever reaches a "final" form, so we should focus our discussions on how to evolve. Here and now, the Board of Directors is holding such lively discussions, which has led to a holding structure that has helped with business supervision.

Kamijo: We shifted to a three-segment business structure that consists of Alcoholic Beverages, Food & Soft Drinks, and Real Estate and which incorporates overseas business operations. Furthermore, we switched over to a policy of a separate growth strategy by business. We accordingly adopted a structure that puts the Alcoholic Beverages segment under the supervision of the Company president, and charged the managing director with overseeing the Food & Soft Drinks segment. There are a few advantages to this action. Not only does it make the Group easier to understand as a whole, it also makes it easier to explain business endeavors to our stakeholders.

Needless to say, the shift to a three-segment business structure is a reflection of the president's deliberation and intent, but it is also the product of discussions based on the suggestions and opinions of outside directors. In terms of governance, the prevailing opinion is that it is more appropriate to have a system where it's possible to monitor each business and their overseas operations. We always try to be aware of whether our envisioned management structure and system designs make sense from the outside in.

Uzawa: Information that is difficult for institutional investors, analysts, the press, and other outside parties to understand is usually pretty difficult for outside officers to understand as well. Conversely speaking, if something is discussed until it's clear to outside officers, then it will likely be more comprehensible to those outside parties. What this shows is that much consideration is being put toward building an ideal composition of the Board of Directors, which involves the incorporation of outside officers.

Kamijo: We have highlighted global development centered in North America and Southeast Asia as a strategic theme and are putting the right people in place to advance our growth strategy. Both myself and Mr. Uzawa number among several associated with the Company who have experience overseas as expat employees. Among them is Mr. Shuji Fukuda, whom we welcomed as an outside director, and we expect that his wealth of experience working in the Pacific Rim will result in useful suggestions. And Mr. Mackenzie Clugston, from Canada, who has served as Ambassador Extraordinary and Plenipotentiary of Canada to Japan and to ASEAN, is familiar with

Discussing Corporate Governance

conditions in North America and Southeast Asia and provides opinions from a viewpoint outside Japan.

Uzawa: The members of the Board are not there to fill a certain number of slots; they form a roster of people with tested abilities. One characteristic of people with experience in the industry such as myself, as well as several outside directors, is a willingness to listen to perspectives differing from those of business-to-consumer companies. On the other hand, auditors bear the burden of managing specialized legal and accounting duties. In addition, several companies appoint women directors from outside the company in consideration of diversity, and it is worth noting that one member of the Company's Board of Directors is a woman who rose through the Company ranks to be an inside director. It takes many years to develop management human resources, but I fully expect the Company to produce a succession of inside women directors in the future.

02
The Advisory Committee to the Board of Directors and Management Human Resources

Kamijo: We discuss the election of human resources charged with the future management of the Company and director compensation with the Nominating Committee and the Compensation Committee, both of which fall under the Advisory Committee to the Board of Directors. These committees, which were established in 1998 and form part of the history of the Company, have allowed us to maintain a fertile breeding ground for human resources where choices aren't handled by the president and human resource officer alone. Each committee comprises three outside directors, such as Mr. Uzawa, and the president.

When selecting and dismissing officers, an important issue is how we analyze not only directors of the holding company but also the presidents and directors of operating companies and other personnel with significant business responsibilities. Accordingly, the Nominating Committee considers methods of analysis in addition to the ideal evaluation methods. Outside directors maintain an understanding of projects and their progress from meetings held once or twice a year attended by directors of Group operating companies with an executive rank or higher. I think these face-to-face explanations are a good chance for the outside directors to gain better understanding of the management human resources within the Group.

Uzawa: As a member of the Nominating Committee, I can say that these meetings provide a valuable opportunity to get in touch with personnel who will be responsible for the next generation of Company management. In that sense, it promotes input from those most suitable to speak on a topic of discussion, as opposed to just hearing from the president of an operating company. This gives us more chances to get in touch with the next line of people who will fill management roles in the future. As opposed to transparency for the sake of it, I believe a culture where the next generation of young personnel can chime in on discussions is a wonderful thing.

Kamijo: We are "Food" manufacturers, so naturally eating and drinking together makes for a good opportunity as well. That seems to me like another way to understand the thought processes of human resources ahead of being put before the Nominating Committee. This includes human resources at operating companies.

Uzawa: The Outside Director Committee gives us outside directors a chance to have frank discussions about topics of most interest to the president. These discussions are very much "free discussions" that don't demand previously prepared documents. Because the number of participants is lower than that attending Board meetings, the Outside Director Committee meeting provides a highly effective opportunity to engage in straightforward exchanges of opinions. In recent times, there are an increasing number of companies forming however many arbitrary committees of various types, but it's rare to have a committee where such free and easy dialogue is possible.

03

Realizing the Long-Term Management Vision and Promoting Sustainable Growth

Kamijo: As chairman of the Board, I believe that honest opinions and suggestions from outside directors serve to deepen discussions with inside directors. Ultimately, I hope that these discussions go on to serve as an encouraging force to inside officers as they execute their duties. To that end, I make inside officers aware that people outside of the Group possess a variety of viewpoints and ways of thinking as we take in the spirited comments of outside officers. We use stakeholder opinions as a point of reference using that same mind-set. In the end, it's the president who forms the final opinion, and directs the discussion based on his thoughts, ideas, and judgments.
Uzawa: I think lively discussions on the execution side are taking place at the management conferences and elsewhere. However, in Board meetings, even inside directors will clam up the moment the discussion moves outside of their own field of interest. This is an unfortunate point and is not limited to Sapporo. However, it's a director's implicit responsibility to increase their body of knowledge outside of their own area of expertise, and it should be expected that they ask questions when they don't understand something and receive logical answers in return.

As an outside director of the Company, I want to be part of the "cheering section" and contribute to the Sapporo Group's sustainable development. To make a meaningful contribution in this role, I can't always roll in the same direction as the execution side. I have to take the third-party stance of a shareholder or investor and, from time to time, throw out a startling observation or statement.
Kamijo: In our financial report for fiscal 2018, we recorded an impairment loss on Anchor Brewing Company. Now, I believe that the pressing question for us is how to improve effective accuracy, which also applies to post-acquisition post-merger integration, and how to support effective and accurate execution throughout the entire Group.
Uzawa: M&A doesn't always go as planned. When it

doesn't, it is important to have a way to correct things. One must consider the extreme option of withdrawing from the process. It is also necessary to strengthen monitoring as a holding company.

To promote global business expansion, the Company needs to leverage its unique brands and high technological expertise as a base. Fortunately, the Company has a stable source of revenue in its Real Estate segment. It is necessary to act boldly while making careful decisions about using the acquired cash for growth investment.
Kamijo: We are aiming for higher growth, so we have to tighten our belts and move forward with business. Japan is experiencing a population decline, but consumers are seeking more diverse value, necessitating a wider variety of initiatives. In light of this situation, I believe that we are providing products and services that garner the enthusiasm and interest of consumers, and that under these circumstances our brands will shine through.

As stated in our Long-Term Management Vision, we aim to be "a company with highly unique brands." Management must communicate this aim continuously, so that each and every individual of the Company will keep that aim in mind as well. It is my hope that we can cultivate human resources who share this goal.
Uzawa: In 2026, Sapporo will celebrate its 150th year. By then, the organization and the business will be undergoing considerable change. The process of cultivating in-house, overseas human resources, as well as local human resources in North America and Vietnam, is well underway. As an outside director, I look forward to more discussions with these people in the future.

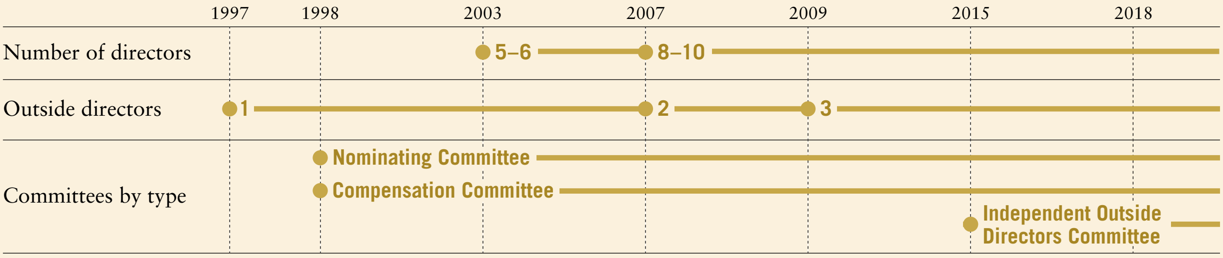
Corporate Governance

Governance Digest

Format While Sapporo Holdings is a Company with Company Auditors, we voluntarily established a Nominating Committee and a Compensation Committee in November 1998 and have been making efforts to enhance the transparency of our management relating to the nomination and remuneration of directors, and to preserve a sound management structure. Furthermore, in December 2015, we set up the Outside Director Committee in an effort to strengthen the exchange of information and sharing of knowledge with the independent outside directors regarding such matters as Groupwide management strategies and corporate governance issues.

History of Corporate Governance Reforms

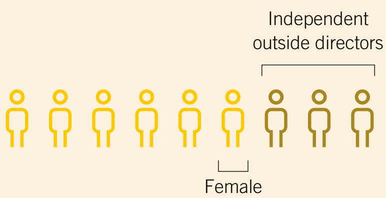
We continue to introduce corporate governance reforms in order to better increase effectiveness.



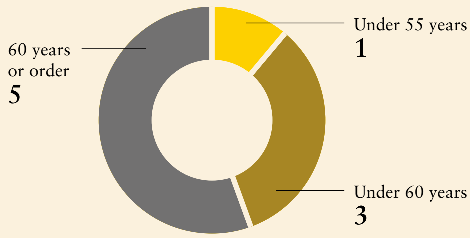
Notes: 1. The Company began operations under a holding company framework in 2003.
2. The term for directors was shortened to one year from March 2005.

Board of Directors

Constituent members

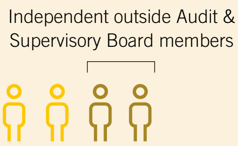


By age



Audit & Supervisory Board

Constituent members



Basic Governance Approach

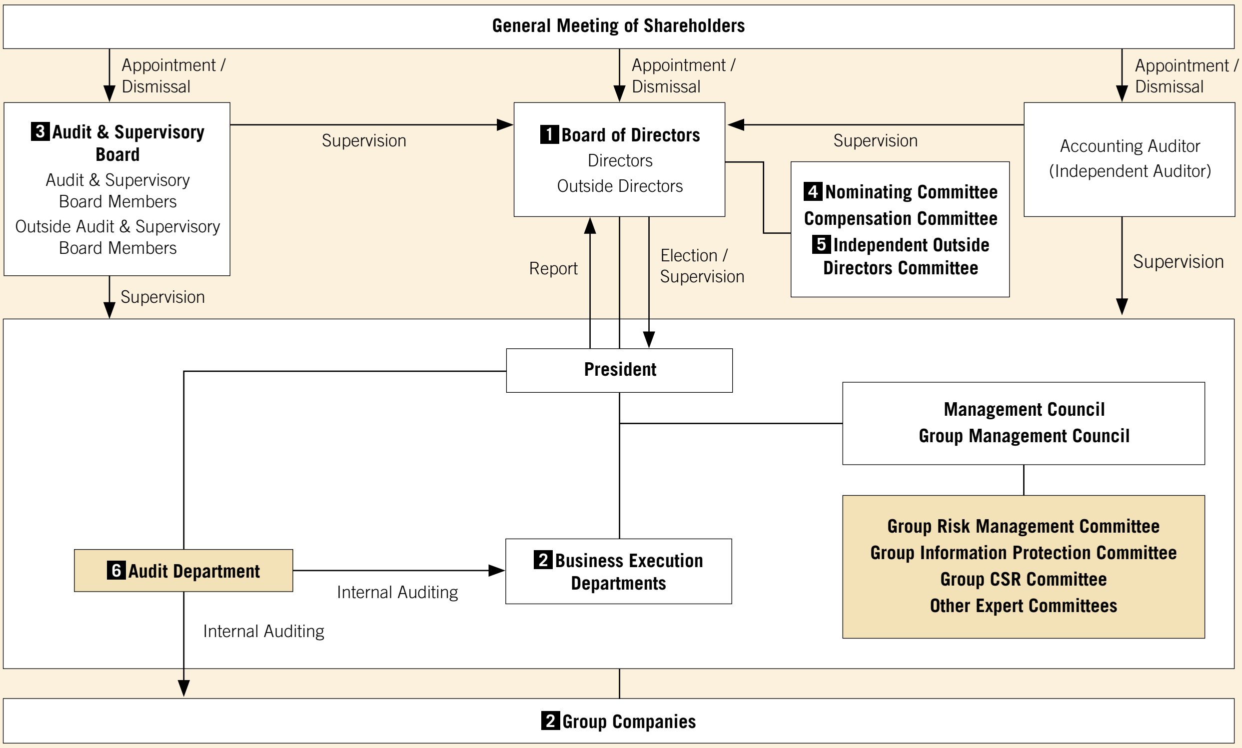
The Sapporo Group has enacted the Basic Policy on Corporate Governance for the purpose of specifying its thinking and operational policy regarding corporate governance with the goal of attaining sustained growth and enhanced corporate value over the medium to long term, and in light of the purport and spirit of the Corporate Governance Code set forth in the Listing Rules of the Tokyo Stock Exchange.

As part of the policy, the Group's basic philosophy is to regard strengthening and enhancing corporate governance as one of its top management priorities. The Group is working to clarify supervisory, business execution, and auditing functions throughout the Group under the holding company framework. The Group is also working to strengthen management supervisory functions to increase management transparency and achieve management goals.

For details on the Company's basic approach to corporate governance, management direction, and other policies, please refer to the Basic Policy on Corporate Governance.

https://www.sapporoholdings.jp/en/csr/gri/pdf/basic_governance_approach.pdf

Corporate Functions and Internal Control Relationships



1 Board of Directors

The Board of Directors performs a supervisory role and makes decisions on statutory matters and important matters related to business execution stipulated by the Board's regulations. The Board of Directors also elects and supervises the business execution of the representative director, president, directors, Group operating officers, and other key personnel.

About Independent Outside Directors

Three of the nine members of the Company's Board of Directors are independent outside directors. All three have submitted notification to the Tokyo Stock Exchange and the Sapporo Securities Exchange of their independent director status as stipulated by the exchange regulations. The independent outside directors are expected to objectively advise and supervise the management team from a neutral standpoint, based on their high perception. The independent outside directors offer advice and suggestions from their independent and objective standpoints and are expected to fulfill a role raising corporate value.

Reasons for appointment of directors

Name	Reasons for appointment
Tsutomu Kamijo	Mr. Kamijo was representative director of the Company from 2011 and has a wealth of experience, a rich track record, and great insight as a manager. The Company has determined that he will be the right administrator and supervisor of overall Group management.
Masaki Oga	Mr. Oga has served as representative director of the Company and president and representative director of an operating company, and has a wealth of experience, a rich track record, and great insight as a manager. The Company has determined that he will be the right person to promote Group management and strengthen the corporate governance of the Company.
Shinichi Soya	Mr. Soya has extensive experience in the accounting and finance departments of operating companies and has been in charge of corporate planning and international departments. He therefore has the experience, track record, and insight for overall corporate planning. The Company has determined that he will be the right person to strengthen the Group management structure and global management of the Company.
Mayumi Fukuhara	Ms. Fukuhara has been in charge of the human resource departments of operating companies. She therefore has the experience, track record, and insight for overall human resource strategy. The Company has determined that she will be the right person to promote the diversity and strengthen human resource development of the Sapporo Group.
Yasuyuki Oohira	Mr. Oohira has substantial knowledge and experience in overall corporate management, having long-standing experience in the engineering department of an operating company, and having served as the person in charge of a corporate planning department, production technology department, research and development department, and supply chain management department. The Company has determined that he will be the right person to promote the broad supply chain system and the research and development of the Sapporo Group.

Corporate Governance

Name	Reasons for appointment
Seiji Ubukata	Mr. Ubukata has substantial experience, a rich track record, and great insight in overall corporate strategy, having been in charge of human resources and the sales and marketing departments at operating companies, and having served as the president of Sapporo U.S.A., Inc. The Company has determined that he will be the right person to formulate and promote the Sapporo Group's growth strategies as well as its global strategies.
Shizuka Uzawa Outside Director	Mr. Uzawa has a wealth of experience, a rich track record, and great insight as the president of a holding company as well as extensive insight in the treasury and corporate management fields. Based on this experience, Mr. Uzawa offers pertinent opinions and advice to the Company's Board of Directors from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company in such areas as the strengthening of the Group's management structure.
Mackenzie Clugston Outside Director	Mr. Clugston has extensive insight in the fields of diplomacy and trade in North America and Southeast Asia where the Company is pursuing business development. Based on that wealth of experience, a rich track record, and great insight, Mr. Clugston can offer pertinent opinions and advice to the Board of Directors of the Company from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company, which is moving forward with global expansion.
Shuji Fukuda Outside Director	Mr. Fukuda has a wealth of experience, a rich track record, and great insight as the president of a business corporation. Based on his experience in overall treasury, human resources, and corporate management fields up to the present, Mr. Fukuda can offer pertinent opinions and advice to the Board of Directors of the Company from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company in such areas as strengthening of the Group's management structure.

2 Group Operating Officers

The president controls business execution across the entire Group based on the resolutions of the Board of Directors. The Group operating officers, under the direct authority of the president, control business execution in the main business segments.

3 Audit & Supervisory Board

Sapporo Holdings Ltd. uses the Audit & Supervisory Board member system, in which Audit & Supervisory Board members, who are completely independent from the Board of Directors, audit the job performance of directors from an independent standpoint.

About Independent Outside Audit & Supervisory Board Members

Sapporo Holdings has four Audit & Supervisory Board members, two of whom are independent outside Audit & Supervisory Board members. Both independent outside Audit & Supervisory Board members have submitted notification to the Tokyo Stock Exchange and the Sapporo Securities Exchange of their independent auditor status as stipulated by the exchange regulations. The independent outside Audit & Supervisory Board members audit the duties executed by the directors from an objective and neutral standpoint, and offer input where fitting to preserve the propriety and appropriateness of decisions by the directors. Similarly, the independent outside Audit & Supervisory Board members are expected to provide input where needed during discussions on proposals and fulfill their roles to secure sound management.

Reasons for appointment of directors

Name	Reasons for appointment
Toshio Mizokami	Mr. Mizokami has gained substantial knowledge and experience from working in accounting and finance departments. He has also served as a director and as an executive Group operating officer of the Company, and has a wealth of experience, a rich track record, and great insight. The Company has therefore determined that Mr. Mizokami will audit the performance of duties by directors from an objective and fair perspective.
Tetsuo Seki	Mr. Seki has developed strong insight into the finance and accounting fields from having served as the person in charge of the accounting and finance departments of a business corporation. He also has a wealth of experience, a rich track record, and excellent insight as president of a financial institution. The Company has therefore determined that Mr. Seki will audit the performance of duties by directors from an objective and fair perspective.
Junya Sato Outside Audit & Supervisory Board Member	Although Mr. Sato has not been directly involved with the management of a company, he has a deep well of experience working as an outside director or auditor at companies with which he has been associated. In addition, as a lawyer, he has specialized knowledge regarding corporate and general law. The Company has therefore determined that Mr. Sato will audit the performance of duties by directors from an objective and fair perspective.
Kazuo Sugie Outside Audit & Supervisory Board Member	Mr. Sugie possesses strong insight based on a wealth of experience, and a wide breadth of knowledge and information gained as president of a business corporation. The Company has therefore determined that Mr. Sugie will audit the performance of duties by directors from an objective and fair perspective.

Standards and Policies Regarding Independence of Outside Directors and Outside Audit & Supervisory Board Members

Sapporo Holdings' Nominating Committee recommends personnel as candidates for an outside director position provided that they meet the standards for independence set out by financial instrument exchanges that have applied them, and that they have a strong background, track record, and insight into corporate management or certain specialist fields that will enable them to offer accurate proposals and advice on the Company's management issues. Moreover, outside Audit & Supervisory Board member candidates are required to meet the standards for independence set out by financial instrument exchanges that have applied them.

For details on the Company's standards for the independence of outside officers, please refer to the separate document Basic Policy on Corporate Governance.

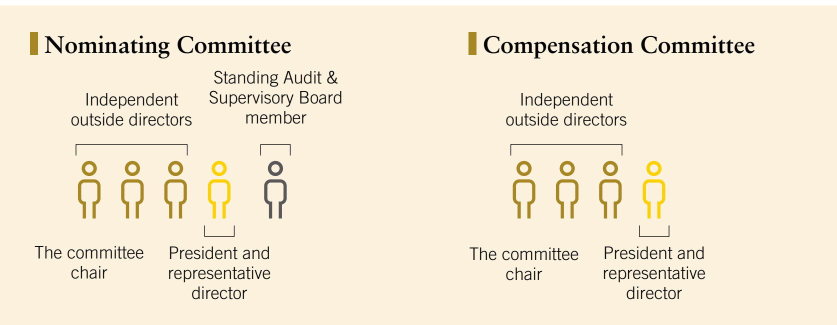
https://www.sapporoholdings.jp/en/csr/gri/pdf/basic_governance_approach.pdf

All of the Company's outside directors and outside Audit & Supervisory Board members satisfy the applicable standards of independence specified by the financial instruments exchanges and are therefore registered as independent officers with the Tokyo Stock Exchange and the Sapporo Securities Exchange.

Name	Important concurrent occupations or positions at other organizations	Policy on independence
Directors		
Shizuka Uzawa	External Executive Director of Japan Finance Corporation Outside Director of Nichirei Corporation	Mr. Uzawa was engaged in business execution at Nisshinbo Holdings Inc. until June 2016. No transactions have or are being made between said company and the Company or its subsidiaries, and the Company has determined Mr. Uzawa is unlikely to have a conflict of interest with shareholders. Accordingly, the Company has determined that Mr. Uzawa is unlikely to have a conflict of interest with the shareholders in light of the "Standards for Independence of Outside Officers" established by the Company.
Mackenzie Clugston	Outside Director of KAMEDA SEIKA CO., LTD. Professor under special tenure program of Kwansei Gakuin University Outside Director of Idemitsu Kosan Co., Ltd.	In September 2016, Mr. Clugston assumed office as a consultant of the Company, and since then, the Company's management has been receiving advice from him. The annual remuneration paid to Mr. Clugston was compensation for his advice to the Company management based on his experience and insight, and such remuneration was ¥5.0 million or less. Accordingly, the Company has determined that Mr. Clugston is unlikely to have a conflict of interest with the shareholders in light of the "Standards for Independence of Outside Officers" established by the Company.
Shuji Fukuda	Chairman and Director of Taiheiyo Cement Corporation Director of Yakushima Denko Co., Ltd.	Mr. Fukuda was involved in business execution at Taiheiyo Cement Corporation until March 2018. Currently, although there have been transactions between said company and the Company's subsidiaries, the amount of such transactions in the most recent business term has been less than 0.1% of either the consolidated revenue of the Company or the consolidated net sales of said company. Accordingly, the Company has determined Mr. Fukuda is unlikely to have a conflict of interest with the shareholders in light of the "Standards for Independence of Outside Officers" established by the Company.
Audit & Supervisory Board Members		
Junya Sato	Lawyer at the Law Offices of Oku, Katayama & Sato Outside Director of Nikki Co., Ltd. Outside Director of Mitsui Mining & Smelting Co., Ltd. Outside Audit & Supervisory Board Member of Taisho Pharmaceutical Holdings, Co., Ltd.	Mr. Sato is currently a lawyer at the law offices of Oku, Katayama & Sato. No transactions have or are being made between said firm and the Company or its subsidiaries. Accordingly, the Company has determined Mr. Sato is unlikely to have a conflict of interest with shareholders. Accordingly, the Company has determined that Mr. Sato is unlikely to have a conflict of interest with the shareholders in light of the "Standards for Independence of Outside Officers" established by the Company.
Kazuo Sugie		Mr. Sugie was involved in business execution at DIC Corporation until March 2015. Although there have been transactions of said company's products between said company and the Company's subsidiaries, the amount of such transactions in the most recent business term has been less than 0.1% of either the consolidated net sales of the Company or the consolidated net sales of said company. Accordingly, the Company has determined Mr. Sugie is unlikely to have a conflict of interest with shareholders. Accordingly, the Company has determined that Mr. Sugie is unlikely to have a conflict of interest with the shareholders in light of the "Standards for Independence of Outside Officers" established by the Company.

4 Nominating and Compensation Committees

Although Sapporo Holdings is a Company with Company Auditors, it has also established a Nominating Committee and a Compensation Committee with the goals of increasing transparency with respect to the nomination and remuneration of directors and preserving a sound management structure. The three outside directors and the president and representative director generally comprise the four members of both committees, while the committee chair of each committee is selected from the outside directors. However, regarding the Nominating Committee, when it recommends Audit & Supervisory Board member candidates, a standing Audit & Supervisory Board member joins the committee, thereby increasing its members to five. Furthermore, when choosing president and representative director candidates from among Group operating officers, the committee chair will stand in place of the incumbent president and representative director on the committee.



Corporate Governance

5 Outside Director Committee

In December 2015, the Company established the Outside Director Committee. This committee works to share information with the Company's independent outside officers pertaining to Groupwide management strategies, corporate governance policies, and other matters, thereby fostering and strengthening a mutual understanding.

Assessment of the Effectiveness of the Board of Directors

Every year, the Company conducts an analysis and assessment of the effectiveness of the Board of Directors based on the self-evaluations of each director. The Company also discloses an overview of the results of the analysis and assessment.

(1) Initiatives in Response to the Results of Board of Directors' Effectiveness Assessment for Fiscal 2017

In response to the issues identified based on the results of the Board of Directors' effectiveness assessment for fiscal 2017, we changed restrictions on the format and number of Board materials. In addition, the Company endeavored to create ample opportunities for the provision of the information necessary for decision-making processes, including reports starting from the project evaluation stage, as well as prior explanations as needed. These efforts were undertaken with the aim of ensuring constructive discussions based on medium- to long-term policies and the direction of management strategies. In order to achieve the goals of the Medium-Term Management Plan, both inside and outside directors attended off-site meetings other than Board meetings. In doing so, a wide range of opinions could be exchanged and discussed based on issues raised and points of improvement suggested by outside directors for use in future business execution plans.

(2) Results of Board of Directors' Effectiveness Assessment for Fiscal 2018

With respect to the Board of Directors' effectiveness assessment for fiscal 2018, in continuation of similar practices in fiscal 2017, all directors underwent an anonymous survey. In consideration of the results of this survey, the Board of Directors held a discussion at a Board meeting in December 2018 with the aim of ascertaining the current state of affairs and recognizing current issues.

In that discussion it was determined that the Board of Directors was effective as a whole, and functioning properly in terms of its composition, operations, roles and responsibility, provision of information to outside directors, and utilization of the advisory committee.

By means of an evaluative comparison with the results of the fiscal 2017 assessment and other similar activities, necessary actions regarding execution of the Medium- to Long-Term Management Vision and the Medium-Term Management Plan were shared and confirmed—specifically the necessity to continue deepening the discussions regarding both the direction of corporate strategy and achieving plan goals from a broader perspective, as well as the need to maintain continuous awareness of ongoing progress.

Through the resolution of acknowledged issues and the implementation of continuous assessments that make use of appropriate methods, the Company is making an effort to further improve the effectiveness of its Board of Directors.

Compensation for Directors and Audit & Supervisory Board Members

Compensation for directors is decided within remuneration limits set by the General Meeting of Shareholders. Compensation consists of a base salary for each director, determined by the duties performed, and that may, based on predetermined criteria, be adjusted in line with job performance in the previous fiscal year. Compensation for Audit & Supervisory Board members is also decided within remuneration limits set by the General Meeting of Shareholders, and consists of a base salary for each Audit & Supervisory Board member calculated in accordance with standards decided by the Audit & Supervisory Board.

The compensation amounts in 2018 were as follows.

Classification	Payment recipient	Payment amount (Millions of yen)
Directors (including outside directors)	10 (4)	189 (28)
Audit & Supervisory Board members (including outside Audit & Supervisory Board members)	4 (2)	49 (19)
Total (including outside officers)	14 (6)	238 (47)

Notes: 1. The Company had nine directors and four Audit & Supervisory members as of December 31, 2018.
2. Figures include one director who resigned mid-term.
3. Payment amounts to directors do not include employee-portion salaries
4. At the 93rd Ordinary General Meeting of Shareholders held on March 30, 2017, it was determined that director remuneration amounts should not exceed ¥500 million. This figure includes a limit of ¥50 million for outside directors, but does not include salaries in instances where employees serve as directors.
5. At the 83rd Ordinary General Meeting of Shareholders held on March 29, 2007, it was determined that Audit & Supervisory Board member remuneration amounts should not exceed ¥84 million.

In addition to the abovementioned payment amounts, Sapporo Holdings has introduced a performance-linked, stock-based compensation system (Board Benefit Trust, or BBT) for directors (excluding outside directors), and contributed ¥446 million (over three business years) in accordance with the officer stock benefit rules stipulated by the system. The system is separate from the abovementioned directors compensation, in accordance with a resolution of the 92nd Ordinary General Meeting of Shareholders held on March 30, 2016. The system applies to Group operating officers of the Company, including directors (excluding outside directors), and some of the directors of the Company's subsidiaries, with the total number as of December 31, 2018 being 27 persons.

6 Internal Audits

Under instructions from the president, Sapporo Holdings has established an Audit Department as an internal auditing organization independent of the executive chain of command. The Audit Department performs internal audits across the entire Group, including operating companies and their subsidiaries. The Audit Department and the Audit & Supervisory Board members meet regularly to exchange views on the results of the internal audits, the status of internal control, and other related matters. The internal audit report of the Audit Department is read by the Audit & Supervisory Board members as part of the information that they share.

Upgrading the Internal Control Systems

To ensure thorough implementation of the basic policies decided by the Board of Directors and carry out ongoing development and strengthening of systems across the entire Group, the Board of Directors takes responsibility for appointing directors with specific responsibilities and promoting specific measures. Moreover, the Guidelines on the Construction of Internal Control Systems at Sapporo Group have been enacted to set out specific matters in relation to internal control systems at the Group, and these guidelines are used to confirm the level of progress being made in individual measures and to promote collaboration.

Risk Management

Sapporo Holdings manages risks relating to itself and its subsidiaries and prepares crisis management measures. To achieve a more robust risk management structure for the entire Group, the Company has formulated basic policies and management systems for Group risk management, as well as crisis management regulations. Specifically, Sapporo Holdings and its subsidiaries upgrade and develop systems for managing risks associated with important decisions made during business execution or risks inherent to it, and systems for managing crisis situations that may arise. These efforts are governed by the basic policies for the development of internal control systems.

Compliance

The Group has set out the Sapporo Group Code of Business Conduct to provide a solid set of ethical guidelines for the conduct of all executives and employees. The Group Risk Management Committee has created a Groupwide compliance system and established a Whistle-Blower's Hotline and Helpline to help with prevention and early detection of misconduct, with the General Affairs Department serving as secretariat. In addition, the Audit Department, which is an internal auditing body that is independent of the executive chain of command, audits the general business operations of Sapporo Holdings and its subsidiaries to ensure compliance with laws and regulations, the Company's Articles of Incorporation, and internal rules.

Strategic Holding of Shares

(1) Policy on Strategic Holding of Shares

The Company operates such businesses as alcohol and non-alcoholic beverages, food, and real estate, which are closely connected with its customers' lifestyles, and believes it to be necessary—in terms of business strategy—to have cooperative relationships with many different companies along its supply chain, ranging from development to procurement, manufacturing, logistics, and sales. Based on this viewpoint, the Company may in some cases own strategically-held shares if, after comprehensively considering the state of such cooperative relationships, the Company finds that doing so would help raise corporate value over the medium-to-long term. The Board of Directors will regularly verify every year whether the Company's strategically-held shares are appropriately owned and managed in accordance with its strategic holding policy. As a result of the above-mentioned verification, the Company's strategically-held shares that are not deemed to meet its strategic holding policy will be reduced.

(2) Details of Verification Pertaining to Strategically-Held Shares

In fiscal 2018, the Board of Directors verified whether the Company's strategically-held shares were being appropriately retained and managed in accordance with its strategic holding policy from the viewpoints of objectives, risks, returns, and capital efficiencies, etc. As a result of the verification, the Company decided to sell a portion of strategically-held shares and sold such portion in a timely and appropriate manner.

(3) Exercise of Voting Rights Pertaining to Strategically-Held Shares

In the exercise of voting rights pertaining to strategically-held shares, the Company will comprehensively weigh the pros and cons from a medium- and long-term perspective, taking into consideration the Company's holding policy and the common interests of the shareholders in the investments. Regarding the contents of agenda and other issues pertaining thereto, the Company will, whenever necessary, have dialogues with the invested companies.

Risk Management

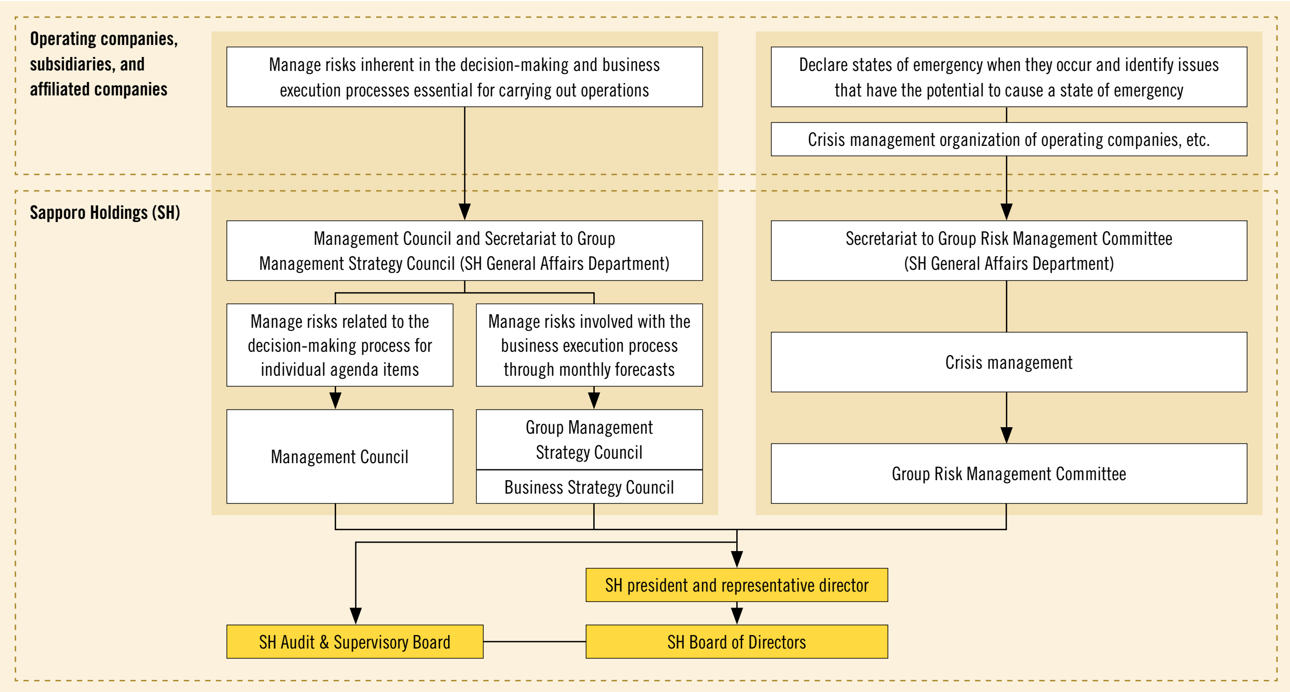
Basic Policy on Risk Management

The Sapporo Group has established a structure for managing risks inherent in the decision-making and business execution processes that are essential for carrying out its operations. The Group has also set up a crisis management structure for times of emergency. The Group will draw on these structures to put into motion a PDCA cycle.

Sapporo Holdings is working to conduct sound corporate management and improve corporate value in a sustainable manner by strengthening Groupwide risk and crisis management structures. In addition, the Company recognizes the possibility of new risks occurring as it promotes strategies aimed at realizing the Sapporo Group Long-Term Management Vision “SPEED150.” Accordingly, the Company and its subsidiaries are carrying out appropriate risk and crisis management. In particular, the Company is focusing on the following three tasks.

• Preventing the loss of life and maintaining safety • Pursuing quality • Thoroughly implementing compliance

Risk Management Structure



Major Business-Related Risks

Risk		Details	Measures
Risks related to business environment	Laws, regulations, and tax systems	The strengthening of legal regulations, such as the Liquor Tax Act, or the introduction of new regulations, could restrict business operations. Consequently, the Group could incur new expenses.	• Maintain constant watch over the Liquor Tax Act and other related regulations in order to keep up to date on their status, and respond proactively.
		Litigation could be brought against the Group in terms of issues pertaining to the Product Liability Act, intellectual property laws, tax laws, or other regulations.	• Ensure proper understanding of and thorough compliance with laws and regulations through in-house training on legal affairs. • Establish a response system to litigation supported by specialized lawyers able to provide accurate advice and support for each legal field.
		The Group’s overseas business activities are subject to a variety of factors that could have a negative impact on operating results.	• Gather and disseminate information related to laws and regulations of each country and region where we conduct overseas business.
	Fluctuations in foreign currency translations and market interest rates	In the event that market interest rates rise or the Group’s credit rating is lowered due to a comparatively high ratio of financial liabilities to total assets, the Group could become weighed down by financial burden and face adverse conditions for procuring funds. The cost of sales could increase due to a rise in the price of raw materials and supplies.	• Carry out currency forward transactions, interest swap transactions, and currency swap transactions so as to limit fluctuation-related risks. • Engage in market monitoring.

Risk		Details	Measures
Risks related to business environment	Climate change, natural disasters, and infectious diseases	The Group could sustain damage as a result of a large-scale natural disaster or a secondary disaster. This, in turn, could disrupt the supply of products.	• Strengthen safety and management systems at offices, commercial complexes, residences, and other facilities under possession. • Ensure that a distribution network is in place for when a disaster occurs.
		The Group's overseas business activities are subject to a variety of factors that could adversely affect operating results.	• Decentralize risks by dividing portfolio by country.
		Delayed responses to either climate change or social issues could hinder procurement of raw materials.	• Breed and research raw materials that can mitigate climate change risks. • Select growing areas with consideration given to effects of climate change. • Collect information from suppliers related to crop conditions and cultivation of raw materials. • Collect information related to disasters and how they will affect transportation of raw materials.
		Climate change may lead to changes in consumer preferences, which may negatively affect operating results.	• Develop products to meet changing consumer preferences.
Risks related to business execution	Changes in economic conditions and population movements	An economic downturn and other changes in macroeconomic trends could cause a drop in shipments of major products or cause unit prices to decline, which could in turn have an adverse effect on operating results.	• Gain an understanding of these trends and analyze their effect on business; formulate a response plan and execute. • Develop products that are appropriate for these shifting trends.
		Changes to living trends including lifestyles, consumer tastes, and distribution channels could cause a drop in shipments of major products or cause unit prices to decline, which could in turn have an adverse effect on operating results and revenue.	
		Assets under management could drop in value.	• Monitor entire market. • Establish strict investment criteria.
		A lack of human resources or a drop in quality of work could have a negative impact on operating results.	• Promote Groupwide utilization of human resources, personnel allocation plans, workstyle reforms, and the employment and flourishment of senior personnel, and redouble business process reengineering (BPR) efforts.
		A lack of respect for diversity or underutilization of diverse human resources could cause work conditions to deteriorate, which, if not dealt with in a timely manner, could have an adverse effect on operating results.	
	Governance	Failure to operate according to the Guidelines on the Construction of Internal Control Systems at Sapporo Group could cause confusion in organizational management, which could have a negative effect on operating results.	• Establish a complete internal auditing system, and execute appropriate risk assessments.
		Ineffective governance of overseas Group companies or ineffective monitoring of these companies from Group headquarters could adversely affect operating results.	
	Compliance	When producing and providing products and services, there is a possibility that legal violations and compliance violations may occur if the laws and regulations required for each business are not thoroughly understood and if such knowledge is not continuously reinforced.	• Correct understanding of laws and regulations and compliance through legal education and timely internal sharing of legal information.
	Stable provision of products and services	If situations arise related to product and service safety that exceed the scope of our quality assurance efforts, or if a new, quality-related problem affects the whole of society, this may affect operating results due to a suspension of sales, product recalls, or a cessation of operations.	• Analyze possible society-wide risks and develop preventive measures. • Carry out continuous simulation training of related risks.
		A lack of drivers or a rise in distribution costs could cause costs to rise and lead to lost opportunities throughout the supply chain, which could affect operating results.	• Optimize distribution costs based on changing conditions while complying with all relevant laws and regulations. • Form a network of production and distribution points. • Diversify transportation methods to include cooperative transportation. • Improve logistical literacy.
	Information leaks and information management systems	Leaks of personal information could result in higher expenses due to claims for damages or loss of trust, affecting operating results.	• Build and update information management systems. • Carry out thorough internal and outsourced auditing. • Promote thorough employee training.
		The loss, leak, or falsification of information, as well as a suspension or interruption of information management systems caused by computer viruses, unauthorized access and other security breaches, or by natural disasters, could have a negative impact on operating results.	• Implement appropriate security measures for information management systems, and incorporate advanced surveillance handled by security specialists. • Implement measures to ensure stable information management systems, including operation at secure data centers, constant network monitoring, and a protocol for system and data backups. • Maintain thorough management over hardware and software licensing life cycles.
	Dependence on specific business fields	Due to the high reliance on the domestic performance of the Alcoholic Beverages business segment, a decline in sales in the domestic market may adversely affect operating results.	• Expand business activities into other business fields and overseas regions.
	Business and capital alliances	The deterioration of the business operations of an alliance partner or investee could have a negative impact on operating results.	• Implement monitoring and appropriate risk assessments.
	Capital investments	Schedule delays, investment budget overruns, and other factors could adversely affect operating results.	• Maintain vigorous management over scheduling and progress. • Formulate a long-term real estate investment plan.

Board of Directors, Audit & Supervisory Board Members, and Group Operating Officers

As of March 28, 2019

Board of Directors

Tsutomu Kamijo

Chairman and Director

(January 6, 1954)

Apr. 1976 Joined the Company
Mar. 2001 Director (Member of the Board), Director of Sales Planning Department, of Sapporo Beverage Co., Ltd.
Mar. 2007 Director (Member of the Board), Director of Corporate Planning Department of the Company
Mar. 2009 Managing Director (Member of the Board) of the Company
Mar. 2011 President of Sapporo Beverage Co., Ltd.
President of the Company and CEO of the Group
Jan. 2017 Chairman and Representative Director
Mar. 2019 Chairman and Director (up to the present)

Masaki Oga

President and Representative Director

(December 2, 1958)

Apr. 1982 Joined the Company
Oct. 2006 Director, Tokyo Headquarters Office, Tokyo Metropolitan Area Sales and Marketing Division of Sapporo Breweries Limited
Mar. 2009 Operating Officer, Director of Hokkaido Sales & Marketing Division of Sapporo Breweries Limited
Mar. 2010 Director (Member of the Board) and Managing Officer, Director of Marketing Department of Sapporo Breweries Limited
Mar. 2013 President and Representative Director of Sapporo Breweries Limited
Director (Member of the Board) and Group Operating Officer of the Company
Mar. 2015 Group Operating Officer of the Company
Jan. 2017 President and Group Operating Officer of the Company
Mar. 2017 President and Representative Director of the Company (up to the present)

Shinichi Soya

Managing Director

(September 20, 1963)

Apr. 1986 Joined the Company
Oct. 2006 Director of Strategic Planning Department, Hokkaido Headquarters, of Sapporo Breweries Limited
Nov. 2009 Director (Member of the Board) of POKKA CORPORATION (currently POKKA SAPPORO Food & Beverage Ltd.)
Mar. 2015 Director (Member of the Board) and Managing Executive Officer of POKKA SAPPORO Food & Beverage Ltd.
Mar. 2016 Director (Member of the Board), Director of Corporate Finance and Business Management Department of the Company
Mar. 2018 Director, Sapporo Real Estate Co., Ltd. (up to the present)
Mar. 2019 Managing Director (Member of the Board) of the Company (up to the present)

Mayumi Fukuhara

Director

(April 2, 1964)

Apr. 1988 Joined the Company
Mar. 2013 Director of Human Resources and General Affairs Department of Sapporo Breweries Limited
Mar. 2014 Director of Human Resources Department of Sapporo Breweries Limited
Mar. 2016 Director (Member of the Board), Director of Human Resources Department of the Company (up to the present)

Yasuyuki Oohira

Director

(March 25, 1961)

Apr. 1984 Joined the Company
Mar. 2006 Director of Engineering Department of Sapporo Breweries Limited
Mar. 2011 Operating Officer and Director of Chiba Brewery of Sapporo Breweries Limited
Sept. 2012 Director (Member of the Board) and Operating Officer, Director of Corporate Planning Department of Sapporo Breweries Limited
Mar. 2016 Director (Member of the Board), Managing Executive Officer, Director of Research and Development Headquarters of POKKA SAPPORO Food & Beverage Ltd.
Mar. 2017 Director (Member of the Board) and Managing Executive Officer of POKKA SAPPORO Food & Beverage Ltd.
Mar. 2019 Director (Member of the Board), Director of Research & Development Division of the Company (up to the present)

Seiji Ubukata

Director

(November 1, 1964)

Apr. 1987 Joined the Company
Sept. 2008 Vice President of SAPPORO U.S.A., INC.
Mar. 2009 President of SAPPORO U.S.A., INC.
Mar. 2012 Director of Human Resources and General Affairs Department of the Company
Director of Group Human Resources and General Affairs Department of Sapporo Group Management Ltd.
Oct. 2014 Director of Human Resources Department and Business Planning Department of the Company
Mar. 2015 Senior Operating Officer, Director of Hokkaido Sales & Marketing Division and Representative of Hokkaido Head Office of Sapporo Breweries Limited
Mar. 2019 Director (Member of the Board) of the Company (up to the present)

Shizuka Uzawa

Outside Director (Independent Officer)

(January 30, 1946)

Apr. 1969 Joined Nisshinbo Industries, Inc. (currently Nisshinbo Holdings Inc.)
June 2001 Director (Member of the Board), Chief of Accounting and Finance Division of Nisshinbo Industries, Inc.
June 2009 President and Representative Director of Nisshinbo Holdings Inc.
June 2013 Chairman and Representative Director of Nisshinbo Holdings Inc.
Mar. 2015 Outside Director (Member of the Board) of the Company (up to the present)
June 2016 Advisor of Nisshinbo Holdings Inc.

Mackenzie Clugston

Outside Director (Independent Officer)

(June 19, 1950)

June 1982 Joined Ministry of Foreign Affairs, Trade and Development Canada
Aug. 2000 Consul General of Canada in Osaka
Aug. 2003 Minister, Embassy of Canada in Japan
Aug. 2009 Ambassador of Canada to the Republic of Indonesia, to the Democratic Republic of Timor-Leste and to the Association of Southeast Asian Nations (ASEAN)
Nov. 2012 Ambassador Extraordinary and Plenipotentiary of Canada to Japan
Sept. 2016 Consultant of the Company
Mar. 2018 Outside Director (Member of the Board) of the Company (up to the present)

Shuji Fukuda

Outside Director (Independent Officer)

(December 20, 1951)

Apr. 1974 Joined Onoda Cement Co., Ltd. (currently Taiheiyo Cement Corporation)
Aug. 2010 Director, Managing Executive Officer and General Manager of Human Resources Department, of Taiheiyo Cement Corporation
Apr. 2012 President and Representative Director of Taiheiyo Cement Corporation
Apr. 2018 Chairman and Director of Taiheiyo Cement Corporation (up to the present)
Mar. 2019 Outside Director (Member of the Board) of the Company (up to the present)

Audit & Supervisory Board Members

Toshio Mizokami

Standing Audit & Supervisory Board Member

(April 16, 1959)

Apr. 1984	Joined the Company
Mar. 2008	Director of Accounting & Finance Department of Sapporo Breweries Limited
Mar. 2011	Managing Officer, Director of Accounting & Finance Department of Sapporo Breweries Limited
Mar. 2012	Director of Accounting & Finance Department of the Company Director (Member of the Board), Director of Group Accounting & Finance Department of Sapporo Group Management Ltd.
Sept. 2013	Director (Member of the Board) of Sapporo Group Management Ltd.
Mar. 2014	Director (Member of the Board), Director of Corporate Finance and Business Management Department, of the Company
Mar. 2016	Managing Director (Member of the Board) of the Company President and Representative Director of Sapporo Group Management Ltd.
Mar. 2017	Executive Group Operating Officer of the Company
Mar. 2019	Standing Audit & Supervisory Board Member of the Company (up to the present)

Tetsuo Seki

Audit & Supervisory Board Member

(July 29, 1938)

Apr. 1963	Joined Yawata Iron & Steel Co., Ltd. (currently NIPPON STEEL & SUMITOMO METAL CORPORATION)
June 1993	Director (Member of the Board) of Nippon Steel Corporation (currently NIPPON STEEL & SUMITOMO METAL CORPORATION)
Mar. 2007	Outside Director (Member of the Board) of the Company (until September 2008)
Oct. 2007	Chairperson of the Japan Audit & Supervisory Board Members Association
Oct. 2008	President and Representative Director of The Shoko Chukin Bank, Ltd.
June 2015	Honorary Advisor of The Shoko Chukin Bank, Ltd. (up to the present)
Mar. 2016	Audit & Supervisory Board Member of the Company (up to the present)

Junya Sato

Outside Audit & Supervisory Board Member (Independent Officer)

(May 4, 1953)

Apr. 1982	Registered as a lawyer (Daiichi Tokyo Bar Association) Joined the Law Offices of Furness, Sato & Ishizawa (currently the Law Offices of Oku, Katayama & Sato) (up to the present)
Oct. 1990	Registered as a lawyer in the state of New York
Apr. 2011	Vice Chairman of Daiichi Tokyo Bar Association
Mar. 2012	Outside Audit & Supervisory Board Member of the Company (up to the present)

Kazuo Sugie

Outside Audit & Supervisory Board Member (Independent Officer)

(October 5, 1945)

Aug. 1970	Joined Dainippon Ink and Chemicals, Inc. (currently DIC Corporation)
June 2001	Director of Dainippon Ink and Chemicals, Inc.
Apr. 2009	Representative Director, President and CEO of DIC Corporation
Apr. 2012	Chairman of the Board of DIC Corporation
Mar. 2013	Outside Audit & Supervisory Board Member of the Company (up to the present)
Mar. 2015	Senior Advisor of DIC Corporation

Group Operating Officers

Hideya Takashima
Executive Group Operating Officer
President and Representative Director,
Sapporo Breweries Limited

Yoshihiro Iwata
Executive Group Operating Officer
President and Representative Director,
POKKA SAPPORO Food & Beverage Ltd.

Yuichiro Miyake
Executive Group Operating Officer
President and Representative Director,
Sapporo Lion Limited

Hiroshi Tokimatsu
Executive Group Operating Officer
President and Representative Director,
Sapporo Real Estate Co., Ltd.

Hirofumi Kishi
Group Operating Officer
President and Representative Director,
Sapporo Group Management Ltd.

Yasuhiro Hanazawa
Group Operating Officer
President & CEO
SLEEMAN BREWERIES LTD.

Eleven-Year Summary of Financial and Non-Financial Data

For the Year:	2008	2009	2010	2011
Net sales / Revenue				
Including liquor tax	414,558	387,534	389,244	449,452
Excluding liquor tax	284,411	264,604	269,874	336,837
Profit from operations before non-recurring items*1	—	—	—	—
Operating profit before goodwill amortization	15,552	13,922	16,575	21,994
Operating profit	14,685	12,895	15,403	18,883
EBITDA*2	37,157	36,469	39,080	46,476
Profit before tax	—	—	—	—
Profit attributable to owners of parent	7,640	4,535	10,772	3,164
Capital expenditures (cash basis)	27,342	21,909	19,801	13,422
Depreciation	21,604	22,546	22,504	24,482
Goodwill amortization	867	1,027	1,172	3,110
Cash flows from operating activities	22,291	12,454	27,431	22,313
Free cash flow	39,147	(19,773)	24,837	(28,578)

At Year-End:				
Total assets	527,286	506,874	494,798	550,784
Net assets / Total equity	116,862	118,590	126,645	124,775
Net financial liabilities*3	166,758	190,406	167,944	209,963

Other Indicators:				
Overseas sales ratio / overseas revenue ratio (excluding liquor tax)	8.8%	8.5%	9.4%	11.0%
Operating profit to net sales / Operating profit to revenue				
Excluding liquor tax; before goodwill amortization	5.5%	5.3%	6.1%	6.5%
Excluding liquor tax	5.2%	4.9%	5.7%	5.6%
Net debt-to-equity ratio (times)	1.4	1.6	1.3	1.7
Equity ratio	22.1%	23.4%	25.3%	22.4%
ROE (before goodwill amortization)	7.0%	4.7%	9.8%	5.1%
ROE	6.3%	3.9%	8.9%	2.5%
Interest coverage ratio*4 (times)	6.0	3.5	7.6	6.2
Number of employees*5 (people)	3,858	3,895	3,983	6,649
Groupwide ratio of women in management positions*5, 6	—	—	—	—
Groupwide CO_2 emissions*7 (kt)	—	—	—	—
Domestic Groupwide water use*8 (1,000 m^3)	—	—	—	—

*1 Profit from operations before non-recurring items is calculated as revenue – cost of sales – selling, general and administrative expenses
*2 Under JGAAP, EBITDA is calculated as operating profit + depreciation + goodwill amortization. Under IFRS, however, EBITDA is calculated as profit from operations before non-recurring items + depreciation (excluding depreciation expenses on leased assets charged on the rent of restaurants).
*3 Net financial liabilities include commercial papers, but do not include the balance of leased liabilities.
*4 Interest coverage ratio is calculated as operating cash flow divided by interest payment.
*5 As of December 31 of each period.
*6 Percentage of women in management positions at domestic and overseas Group companies.

Millions of yen

JGAAP					IFRS	
2012	2013	2014	2015	2016	**2017**	**2018**
492,490	509,834	518,740	533,748	541,847	536,585	521,856
379,792	395,377	401,813	418,319	424,059	406,810	398,745
—	—	—	—	—	17,445	14,409
18,294	19,329	18,493	18,103	24,188	12,806	10,828
14,414	15,344	14,728	13,950	20,267		
44,099	44,388	42,974	42,327	46,529	44,479	40,391
—	—	—	—	—	11,538	9,492
5,393	9,451	340	6,108	9,469	7,187	8,521
53,870	13,768	19,133	20,339	21,809	15,253	23,036
25,805	25,058	24,481	24,224	22,341	27,034	25,981
3,879	3,985	3,764	4,153	3,920	—	—
29,618	32,861	22,284	35,265	32,570	33,794	30,830
(29,867)	19,593	5,055	25,510	4,984	15,921	12,103
597,636	616,752	625,439	620,388	626,351	664,731	639,692
134,946	155,366	160,004	163,822	166,380	175,710	164,735
247,891	236,275	237,775	224,310	227,553	221,363	218,358
14.1%	18.3%	19.2%	22.6%	20.5%	22.4%	22.7%
4.8%	4.9%	4.6%	4.3%	5.7%	3.1%	2.7%
3.8%	3.9%	3.7%	3.3%	4.8%		
1.8	1.5	1.5	1.4	1.4	1.3	1.3
22.1%	24.6%	25.0%	25.5%	25.7%	25.9%	25.2%
7.3%	9.5%	2.7%	6.5%	8.4%	4.4%	5.1%
4.2%	6.7%	0.2%	3.9%	5.9%		
8.4	11.9	8.9	14.8	14.9	14.6	14.0
7,264	7,434	7,014	7,484	7,858	7,902	7,904
—	—	—	8.1%	7.6%	8.1%	8.8%
—	259.1	239.3	263.7	263.1	255.4	
—	6,861	6,492	6,498	6,500	6,409	

*7 In Japan, uses figures are based on periodic reports submitted in accordance with the Act on Rationalizing Energy Use. Applicable to Sapporo Breweries, POKKA SAPPORO Food & Beverage, Pokka Create, Sapporo Lion, and Sapporo Real Estate. Applicable to production facilities of overseas Group companies (2013–2014: 4 companies, 2015–2017: 6 companies). Amounts totaled from April to March of the following year.

*8 Applicable to Sapporo Breweries, POKKA SAPPORO Food & Beverage production facilities, Sapporo Lion, and Sapporo Real Estate. Amounts totaled from April to March of the following year.

The Sapporo Group has voluntarily applied International Financial Reporting Standards (IFRS), beginning in fiscal 2018. For comparison, IFRS has also been applied to figures from fiscal 2017. Furthermore, figures prior to fiscal 2017 have been rounded down to the nearest specified unit. Figures from fiscal 2017 onward have been rounded up or down to the nearest unit.

Management's Discussion and Analysis

The Sapporo Group has chosen to adopt International Financial Reporting Standards (IFRS) from fiscal 2018. Accordingly, financial figures for the previous fiscal year have been reclassified based on IFRS for comparison. Although reporting segments for the Group have been changed for fiscal 2019, the Management's Discussion and Analysis for fiscal 2018 has been published based on the Group's five-segment system.

Business Overview

During the fiscal year under review, the Japanese economy showed signs of a gradual recovery due to a rebound in exports and an improved employment environment. However, natural disasters, such as July's torrential rains and September's Hokkaido Eastern Iburi Earthquake, also had a significant impact on the Japanese economy. Global economic conditions, meanwhile, remained clouded by U.S.–China trade frictions, rising interest rates, and political instability in many countries that affect investment.

Conditions in the industries in which the Group conducts operations were as follows.

In the Japanese alcoholic beverages industry, consumers' well-entrenched preference for cost-cutting has shifted demand prominently to lower-priced products. Overseas, the North American beer market performed at a level lower than that of the previous fiscal year. Conditions in the Asian beer market vary widely depending on the country, but the Vietnamese market has continued to expand. Demand in the domestic soft drinks industry appears to have increased slightly year on year. Meanwhile, in the real estate industry, the office leasing market in the Tokyo metropolitan area continued to benefit from improving vacancy rates and moderate increases in rent levels.

Under these circumstances, in the Japanese Alcoholic Beverages segment, we focused our efforts on strengthening our core brands under the policy of "continuation of strengthening the beer business." Specifically, the launch of an integrated marketing strategy for *Sapporo Draft Beer Black Label*, one of those core brands, resulted in the fourth consecutive year of sales growth for the brand, despite a decline in overall beer demand. In non-beer growth areas, we continued to build a highly diversified product lineup with a focus on high-value-added products in the wine and spirits business.

In the International segment, we continued to strengthen our position in North America's premium beer market. In Canada, Sleeman Breweries Ltd., continued to engage in aggressive marketing activities, while in the United States, Sapporo U.S.A., Inc. and Anchor Brewing Company, LLC worked together to build a new structure to generated synergies and lead to new growth in the North American beer market. In the U.S. soft drinks market, we completed the merger of Country Pure Foods, Inc. and Silver Springs Citrus, Inc. and implemented measures to improve the management of the newly integrated entity. In the Vietnam business, we achieved profitability in fiscal 2018 as a result of various structural reforms.

In the Food & Soft Drinks segment, we continued to focus resources on core brands, investing to expand the lineup of beverages made from the highest-quality ingredients and our core lemon-based and soup products in Japan.

In the Restaurants segment, we continued to strengthen our operations in Japan by opening new outlets and renovating existing outlets, with the focus on our core GINZA LION and YEBISU BAR outlets. We also closed unprofitable outlets or changed their format in a bid to improve profitability.

In the Real Estate segment, we benefited from high occupancy rates at our rental properties such as Yebisu Garden Place throughout the year. We also made progress with our efforts to improve the appeal of the Ebisu area through urban development, and made strategic adjustments to our property portfolio. GINZA PLACE, a commercial complex conceptualized as a "base for information dissemination and exchange" again contributed to earnings in fiscal 2018.

In terms of the scope of consolidation, the Company had 57 consolidated subsidiaries and two equity-method affiliates as of December 31, 2018.

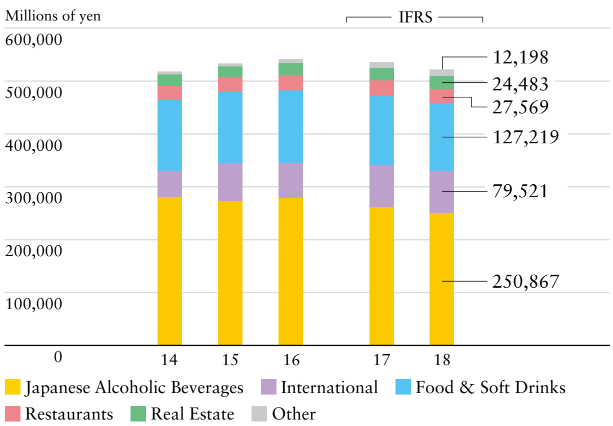
Consolidated Operating Results

Revenue

Revenue decreased ¥14.7 billion, or 2.7%, year on year, to ¥521.9 billion.

The Japanese Alcoholic Beverages segment showed somewhat mixed results. *Sapporo Draft Beer Black Label* enjoyed strong sales thanks to brand strengthening efforts, as did *Sapporo Chu-hi 99.99 (Four Nines)*, a new ready-to-drink (RTD) beverage, due to aggressive investing. On the other hand, shipments of happoshu and new-genre beer fell below levels in previous fiscal years. As a result, segment revenue declined overall. In the International segment, however, we achieved revenue growth in fiscal 2018, led by sales growth at Canada-based Sleeman Breweries and Sapporo Vietnam Ltd. In the Food & Soft Drinks segment, domestic shipments of lemon-based drinks and foods were higher than in fiscal 2017, but a weak canned coffee market and lower export sales volumes pushed segment sales below the previous year's level. Segment revenue also decreased year on year in the Restaurants segment, mainly owing to weak sales at our Japanese food outlets in Japan.

Revenue by Segment

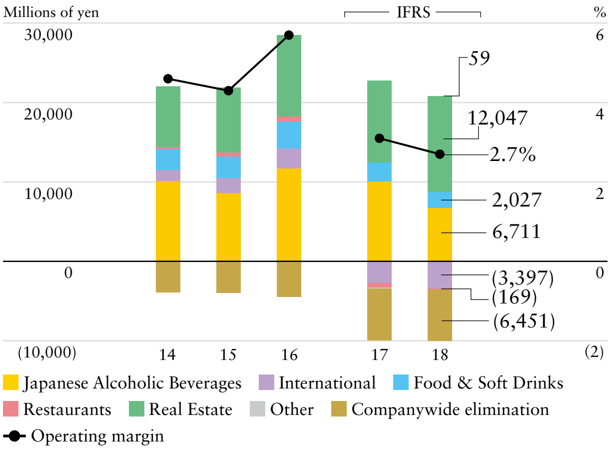


Operating Profit

Operating profit declined ¥2.0 billion, or 15.4%, year on year, to ¥10.8 billion.

Profits in the Japanese Alcoholic Beverages segment were down year on year, reflecting the drop in revenue noted above. Profits also declined year on year in the International segment as profit growth following structural reforms at Sapporo Vietnam was outweighed by the impairment loss incurred by U.S. subsidiary Anchor Brewing Company, which saw sales volume fall due to weak demand in its core operating areas, San Francisco and the U.S. West Coast. In the Food & Soft Drinks segment, profit also declined largely due to the falling sales of canned coffee in Japan. We did, however, achieve profit growth in the Real Estate segment, supported by increases in rental income and higher rates of occupancy at core properties.

Operating Profit by Segment / Operating Margin*



* Under JGAAP, operating margin is calculated as operating profit before goodwill amortization divided by net sales excluding liquor tax. Under IFRS, operating margin is calculated as operating profit divided by revenue excluding liquor tax.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased ¥1.3 billion, or 18.6%, year on year, to ¥8.5 billion.

Financial Position

Assets

Total assets as of December 31, 2018, stood at ¥639.7 billion, down ¥25.0 billion from a year earlier. This decline primarily reflected decreases in other financial assets (non-current) and trade and other receivables, which offset increases in other current assets and in property, plant and equipment.

Liabilities

Total liabilities came to ¥475.0 billion, down ¥14.1 billion from the end of the previous fiscal year, primarily owing to a decrease in current bonds and borrowings, which offset increases in retirement benefit liability and non-current bonds and borrowings.

Equity

Total equity was ¥164.7 billion, down ¥11.0 billion from the end of the previous fiscal year. This change primarily reflected the payment of year-end dividends and a decrease in financial assets measured at fair value through other comprehensive income, which offset an increase in profit attributable to owners of parent.

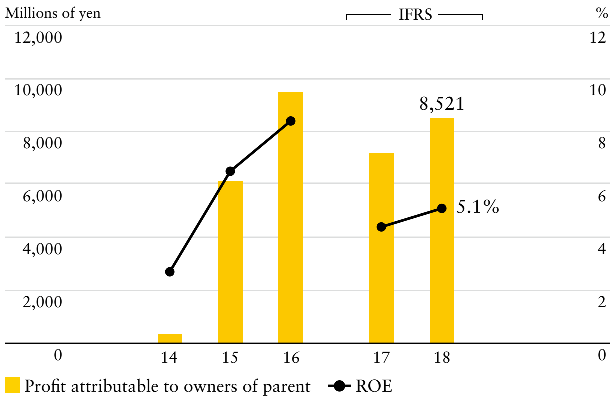
Management Indicators

The current ratio declined 0.5 percentage point, from 72.0% to 71.5%. The decrease reflected a decline in current assets of ¥11.2 billion and a decrease in current liabilities of ¥14.2 billion, due to factors such as a fall in current bonds and borrowings.

The ratio of total equity attributable to owners of parent to total assets decreased from 25.9% in the previous fiscal year to 25.2%. This is due to the decrease in total equity attributable to owners of parent, mainly as a result of the payment of year-end dividends, and a decrease in financial assets measured at fair value through other comprehensive income, despite an increase in profit attributable to owners of parent.

Return on equity (ROE) was up from 4.4% in the previous fiscal year to 5.1% due to the year-on-year rise in profit attributable to owners of parent.

Profit Attributable to Owners of Parent / ROE*

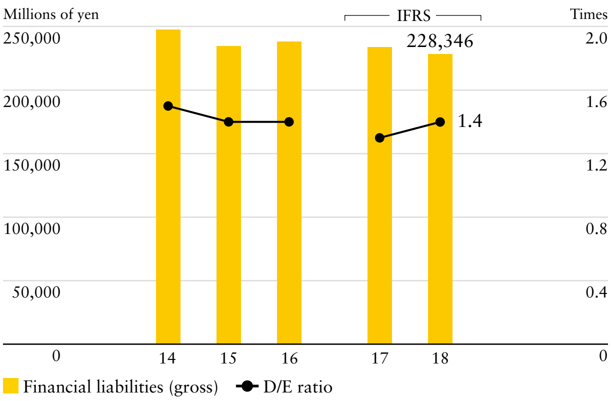


* Under JGAAP, ROE is calculated before goodwill amortization.

Management's Discussion and Analysis

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by total equity, was 1.4 times due to a decline in total equity from the previous fiscal year.

Financial Liabilities (Gross) / D/E Ratio



Analysis of Resources for Capital and Liquidity of Funds

1. Cash Flows

Cash and cash equivalents (collectively, "cash") totaled ¥10.0 billion as of December 31, 2018, down ¥2.5 billion, or 20.4%, from the previous fiscal year.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥30.8 billion, down 8.8%, or ¥3.0 billion, from fiscal 2017.

Major sources of cash inflows included ¥28.5 billion from depreciation and amortization, ¥5.4 billion from impairment losses, and ¥4.2 billion from decrease in trade and other receivables. The largest cash outflow was ¥10.7 billion in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥18.7 billion, up 4.8%, or ¥0.9 billion, compared with fiscal 2017.

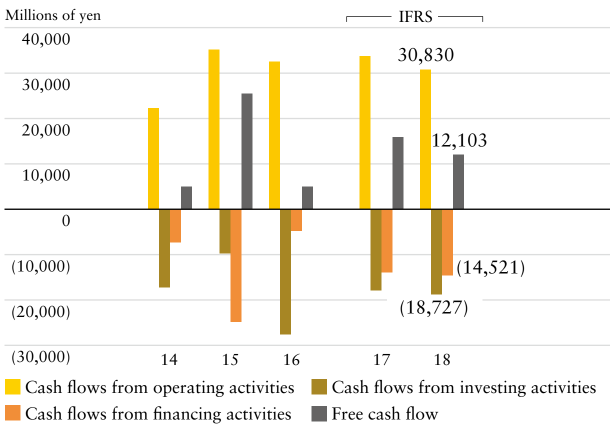
Major investment outflows included ¥13.6 billion for purchase of property, plant and equipment and ¥6.3 billion for purchase of investment securities. The major inflow from investing activities was ¥7.2 billion for proceeds from sale of trust beneficiary rights (investment property).

Cash Flows from Financing Activities

Net cash used in financing activities came to ¥14.5 billion, up 4.4%, or ¥0.6 billion, compared with fiscal 2017.

The main cash outflows were ¥22.5 billion for repayment of long-term borrowings and ¥10.1 billion for redemption of bonds. The main cash inflow came from proceeds from issuance of bonds totaling ¥20.0 billion.

Cash Flows



2. Liquidity and Procurement of Funds

The Sapporo Group primarily allocates working capital toward operating expenses, which include production expenses related to production and sales activities as well as SG&A expenses. In the Alcoholic Beverages and Food & Soft Drinks segments, capital for investment purposes is allocated as capital investments to establish and maintain plants, whereas in the Real Estate segment this capital is put toward property investment. Capital for investment purposes is also allocated to M&A in growth areas such as overseas and new businesses.

The Group has introduced a cash management system (CMS) that enables Sapporo Holdings to centrally manage fund allocation within the Group in Japan. The concentration at the Company of cash flows generated by individual Group companies helps preserve fund liquidity, while flexible and efficient fund allocation within the Group serves to minimize financial liabilities.

The Company strives to secure fund procurement channels and liquidity to ensure that there are sufficient funds to cover present and future operating activities, as well as the repayment of debts and other funding needs. The necessary funds are procured mainly from cash flows from operating activities and loans, primarily from financial institutions.

Outlook for Fiscal 2019

Fiscal 2019 is the third year of both the Sapporo Group Long-Term Management Vision “SPEED150” and of the First Medium-Term Management Plan 2020. 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 these plans.

To secure reliable growth while continuing to nurture and strengthen Group brands, we have decided to restructure our business organization to promote the growth of international business along specific business lines. Accordingly, reporting segments will be reduced from five to three in fiscal 2019, a change that will enable us to strengthen management oversight of each business.

Overall Forecasts

(Millions of yen)	Revenue	Operating profit	Profit before tax	Profit attributable to owners of parent
Fiscal 2019 forecast	548,800	12,600	11,300	8,700
Fiscal 2018 result	521,856	10,828	9,492	8,521
Difference (%)	5.2	16.4	19.0	2.1

Forecast by Segment

(Millions of yen)	Revenue			Operating profit		
	Fiscal 2018 result	Fiscal 2019 forecast	Difference (%)	Fiscal 2018 result	Fiscal 2019 forecast	Difference (%)
Alcoholic Beverages	330,009	346,000	4.8	3,856	9,700	151.5
Food & Soft Drinks	161,331	172,200	6.7	1,150	1,700	47.8
Real Estate	24,483	24,600	0.5	12,047	12,100	0.4

Consolidated Statement of Financial Position

December 31, 2017 and 2018

	Millions of yen		
	Transition date January 1, 2017	2017	2018
Assets			
I Current assets			
1 Cash and cash equivalents	10,476	12,537	**9,989**
2 Trade and other receivables	96,574	98,325	**93,340**
3 Inventories	37,619	37,873	**37,109**
4 Other financial assets	9,967	9,107	**4,790**
5 Other current assets	7,386	6,914	**8,316**
Subtotal	162,022	164,755	**153,544**
6 Assets held for sale	359	—	**—**
Total current assets	162,381	164,755	**153,544**
II Non-current assets			
1 Property, plant and equipment	151,602	151,334	**152,676**
2 Investment property	223,595	219,658	**215,522**
3 Goodwill	21,483	24,942	**21,229**
4 Intangible assets	10,305	13,339	**12,056**
5 Investments accounted for using equity method	372	391	**410**
6 Other financial assets	79,278	78,677	**70,205**
7 Other non-current assets	8,921	9,309	**8,526**
8 Deferred tax assets	2,176	2,326	**5,523**
Total non-current assets	497,733	499,976	**486,148**
Total assets	660,114	664,731	**639,692**

* The Company adopted International Financial Reporting Standards (IFRS) beginning in December 2018.
Figures from January 1, 2017 onward have been adjusted to reflect this transition.

	Millions of yen		
	Transition date January 1, 2017	2017	2018
Liabilities and equity			
Liabilities			
I Current liabilities			
1 Trade and other payables	38,460	36,488	**35,292**
2 Bonds and borrowings	75,580	80,716	**73,863**
3 Lease liabilities	6,609	6,533	**6,743**
4 Income tax payable	1,570	5,207	**1,527**
5 Other financial liabilities	33,108	33,277	**33,905**
6 Other current liabilities	66,424	66,590	**63,260**
Total current liabilities	221,750	228,809	**214,591**
II Non-current liabilities			
1 Bonds and borrowings	165,235	153,184	**154,483**
2 Lease liabilities	24,623	24,295	**24,495**
3 Other financial liabilities	48,125	45,956	**45,733**
4 Retirement benefit liability	8,996	6,283	**11,715**
5 Other non-current liabilities	2,689	2,621	**2,991**
6 Deferred tax liabilities	26,455	27,872	**20,950**
Total non-current liabilities	276,122	260,212	**260,367**
Total liabilities	497,872	489,021	**474,957**
Equity			
1 Share capital	53,887	53,887	**53,887**
2 Capital surplus	40,706	40,825	**40,998**
3 Treasury shares	(1,796)	(1,807)	**(1,822)**
4 Retained earnings	36,315	44,491	**46,065**
5 Other components of equity	28,515	34,659	**22,373**
Total equity attributable to owners of parent	157,628	172,055	**161,501**
Non-controlling interests	4,613	3,655	**3,234**
Total equity	162,241	175,710	**164,735**
Total liabilities and equity	660,114	664,731	**639,692**

Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Years ended December 31, 2017 and 2018

Consolidated Statement of Profit or Loss

	Millions of yen	
	2017	2018
Revenue	536,585	521,856
Cost of sales	373,148	362,210
Gross profit	163,437	159,646
Selling, general and administrative expenses	145,991	145,237
Other operating income	1,029	3,009
Other operating expenses	5,669	6,590
Operating profit	12,806	10,828
Finance income	1,338	1,139
Finance costs	2,626	2,494
Share of profit of investments accounted for using equity method	19	19
Profit before tax	11,538	9,492
Income tax expense	5,170	1,772
Profit	6,367	7,721
Profit attributable to		
Owners of parent	7,187	8,521
Non-controlling interests	(820)	(801)
Profit	6,367	7,721
Basic earnings per share (JPY)	92.27	109.40
Diluted earnings per share (JPY)	92.25	104.46

Consolidated Statement of Comprehensive Income

	Millions of yen	
	2017	2018
Profit	6,367	7,721
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	8,202	(9,201)
Remeasurements of defined benefit plans	537	(3,688)
Total of items that will not be reclassified to profit or loss	8,739	(12,890)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,032	(2,765)
Effective portion of net change in fair value of cash flow hedges	114	(69)
Total of items that may be reclassified to profit or loss	1,146	(2,834)
Total other comprehensive income, net of tax	9,884	(15,724)
Comprehensive income	16,252	(8,003)
Comprehensive income attributable to		
Owners of parent	17,183	(6,987)
Non-controlling interests	(931)	(1,016)
Comprehensive income	16,252	(8,003)

Consolidated Statement of Changes in Equity

Years ended December 31, 2017 and 2018

	Millions of yen								
					Other components of equity				
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of net change in fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total
Balance as of January 1, 2017	53,887	40,706	(1,796)	36,315	—	(317)	28,832	—	28,515
Profit				7,187					—
Other comprehensive income					1,137	126	8,195	537	9,996
Comprehensive income	—	—	—	7,187	1,137	126	8,195	537	9,996
Purchase of treasury shares			(17)						—
Disposal of treasury shares		1	6						—
Dividends				(2,888)					—
Share-based payment transactions		117							—
Transfer to retained earnings				3,876			(3,315)	(537)	(3,852)
Other									—
Total transactions with owners	—	118	(11)	989	—	—	(3,315)	(537)	(3,852)
Balance as of December 31, 2017	53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	—	34,659

	Millions of yen		
	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2017	157,628	4,613	162,241
Profit	7,187	(820)	6,367
Other comprehensive income	9,996	(111)	9,884
Comprehensive income	17,183	(931)	16,252
Purchase of treasury shares	(17)	—	(17)
Disposal of treasury shares	7	—	7
Dividends	(2,888)	(20)	(2,907)
Share-based payment transactions	117	—	117
Transfer to retained earnings	24	(24)	—
Other	—	17	17
Total transactions with owners	(2,756)	(26)	(2,783)
Balance as of December 31, 2017	172,055	3,655	175,710

	Millions of yen								
					Other components of equity				
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of net change in fair value of cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total
Balance as of January 1, 2018	53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	—	34,659
Profit				8,521					—
Other comprehensive income					(2,622)	2	(9,200)	(3,688)	(15,508)
Comprehensive income	—	—	—	8,521	(2,622)	2	(9,200)	(3,688)	(15,508)
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)			(466)	3,688	3,222
Total transactions with owners	—	173	(15)	(6,947)	—	—	(466)	3,688	3,222
Balance as of December 31, 2018	53,887	40,998	(1,822)	46,065	(1,485)	(188)	24,046	—	22,373

	Millions of yen		
	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2018	172,055	3,655	175,710
Profit	8,521	(801)	7,721
Other comprehensive income	(15,508)	(215)	(15,724)
Comprehensive income	(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	(603)	603	—
Total transactions with owners	(3,566)	595	(2,972)
Balance as of December 31, 2018	161,501	3,234	164,735

Consolidated Statement of Cash Flows

Years ended December 31, 2017 and 2018

	Millions of yen	
	2017	2018
I Cash flows from operating activities		
1 Profit before tax	11,538	9,492
2 Depreciation and amortization	29,569	28,512
3 Impairment losses	3,810	5,430
4 Interest and dividend income	(1,330)	(1,123)
5 Interest expenses	2,397	2,368
6 Share of loss (profit) of investments accounted for using equity method	(19)	(19)
7 Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets	719	(659)
8 Decrease (increase) in trade and other receivables	(1,136)	4,209
9 Decrease (increase) in inventories	333	70
10 Increase (decrease) in trade and other payables	(2,337)	(830)
11 Increase (decrease) in accrued alcohol tax	132	(1,950)
12 Other	(4,253)	(2,968)
Subtotal	39,422	42,533
13 Interest and dividends received	1,383	1,150
14 Interest paid	(2,315)	(2,197)
15 Income taxes paid	(4,696)	(10,657)
Net cash provided by (used in) operating activities	33,794	30,830
II Cash flows from investing activities		
1 Purchase of property, plant and equipment	(10,598)	(13,581)
2 Proceeds from sale of property, plant and equipment	3,086	1,729
3 Purchase of investment property	(2,499)	(4,712)
4 Purchase of intangible assets	(2,197)	(2,220)
5 Purchase of investment securities	(1,020)	(6,345)
6 Proceeds from sale of investment securities	8,278	1,455
7 Purchase of investments in subsidiaries resulting in change in scope of consolidation	(11,623)	—
8 Purchase of trust beneficiary rights (investment property)	—	(2,523)
9 Proceeds from sale of trust beneficiary rights (investment property)	—	7,239
10 Payments for loans receivable	(68)	(139)
11 Collection of loans receivable	4,267	4,081
12 Other	(5,499)	(3,712)
Net cash provided by (used in) investing activities	(17,873)	(18,727)
III Cash flows from financing activities		
1 Net increase (decrease) in short-term borrowings	(3,076)	(264)
2 Net increase (decrease) in commercial papers	(1,000)	(3,500)
3 Proceeds from long-term borrowings	12,500	12,000
4 Repayment of long-term borrowings	(12,603)	(22,524)
5 Proceeds from issuance of bonds	9,960	20,021
6 Redemption of bonds	(10,083)	(10,068)
7 Dividends paid	(2,913)	(3,133)
8 Repayment of lease liabilities	(6,686)	(7,038)
9 Purchase of treasury shares	(17)	(20)
10 Other	7	6
Net cash provided by (used in) financing activities	(13,911)	(14,521)
IV Effect of exchange rate changes on cash and cash equivalents	51	(130)
V Net increase (decrease) in cash and cash equivalents	2,061	(2,548)
VI Cash and cash equivalents at beginning of period	10,476	12,537
VII Cash and cash equivalents at end of period	12,537	9,989

Corporate Data (As of December 31, 2018)

Corporate Information

Company Name	SAPPORO HOLDINGS LIMITED
Business	Holding company
Date of Establishment	September 1, 1949
Head Office	20-1, Ebisu 4-chome, Shibuya-ku, Tokyo 150-8522, Japan
Capital	¥53,887 million
Fiscal Year-End Date	December 31 on an annual basis
Number of Employees	7,904 (Consolidated) 195 (Parent company)

Stock Information

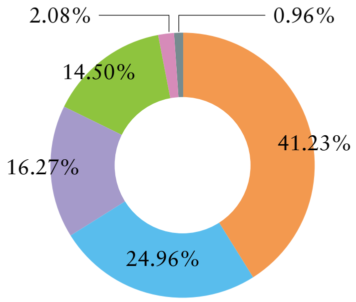
Total Number of Authorized Shares	200,000,000
Total Number of Issued Shares	78,794,298
Number of Shareholders	67,802
Securities Traded	Tokyo Stock Exchange, First Section Sapporo Securities Exchange (Securities Code: 2501)
Shareholder Register Manager	Mizuho Trust & Banking Co., Ltd.

Major Shareholders

Name of Shareholder	Number of Shares (Thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,944	7.62
Japan Trustee Services Bank, Ltd. (Trust Account)	3,337	4.28
Trust & Custody Services Bank, Ltd., as retirement benefit trust assets Mizuho Trust and Banking Co., Ltd.	2,442	3.13
Nippon Life Insurance Company	2,237	2.87
Meiji Yasuda Life Insurance Company	2,236	2.87
The Norinchukin Bank	1,875	2.40
Marubeni Corporation	1,649	2.11
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,594	2.04
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,438	1.84
Taisei Corporation	1,400	1.79

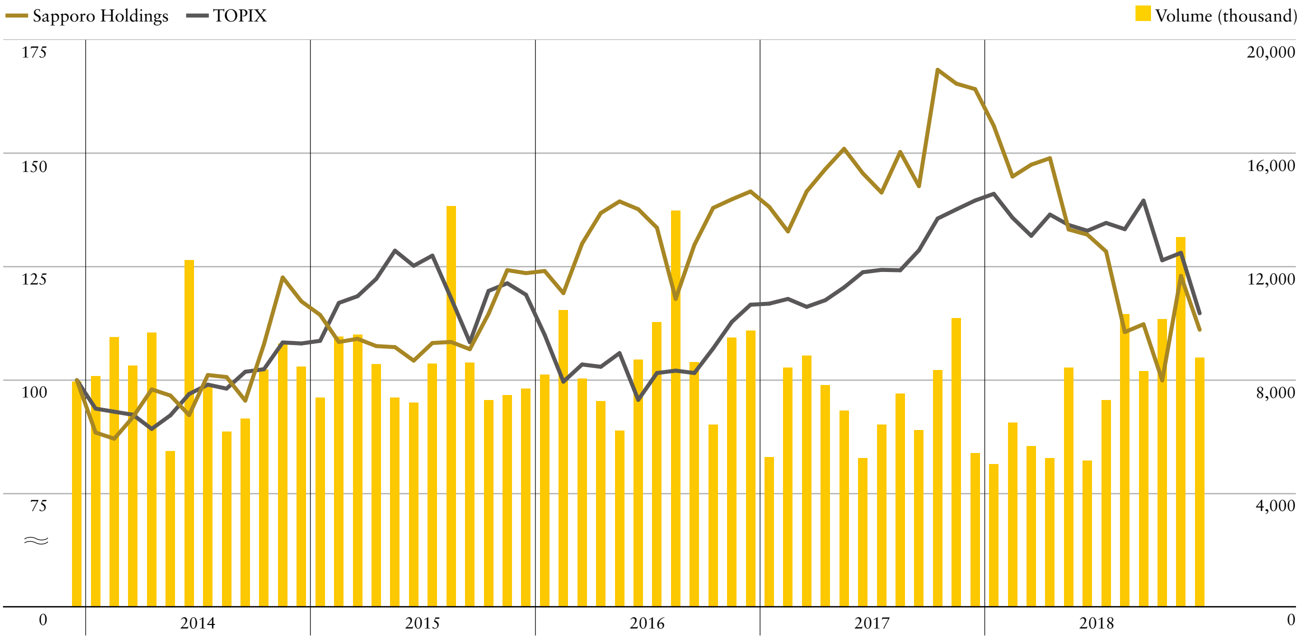
*1 Shareholding ratios are calculated after deduction of treasury stock (760,011).
*2 The statuses of the above major shareholders are based on the shareholder register.

Breakdown of Shareholders by Investor Type



Japanese financial institutions	32,490 thousand
Japanese individuals	19,664 thousand
Japanese corporations	12,816 thousand
Foreign institutions and individuals	11,427 thousand
Japanese securities firms	1,635 thousand
Treasury stock	760 thousand

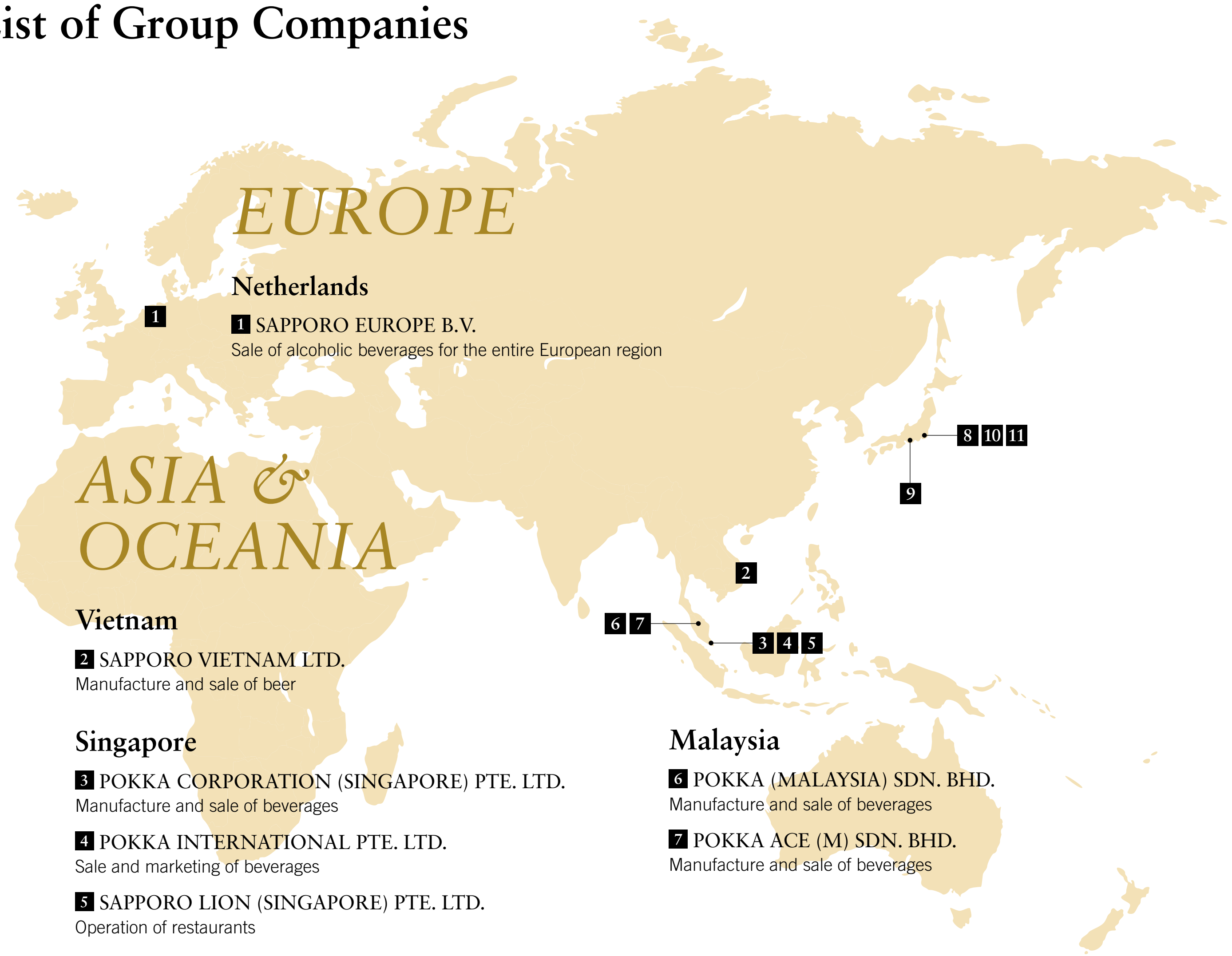
Trends in Stock Price and Volume



*1 The stock prices of Sapporo Holdings and TOPIX are indexed with the closing price data of December 2013 set at 100.
*2 Stock prices have been adjusted to reflect the impact of the stock consolidation.

Corporate Data (As of April 30, 2019)

List of Group Companies



EUROPE

Netherlands

1 SAPPORO EUROPE B.V.
Sale of alcoholic beverages for the entire European region

ASIA & OCEANIA

Vietnam

2 SAPPORO VIETNAM LTD.
Manufacture and sale of beer

Singapore

3 POKKA CORPORATION (SINGAPORE) PTE. LTD.
Manufacture and sale of beverages

4 POKKA INTERNATIONAL PTE. LTD.
Sale and marketing of beverages

5 SAPPORO LION (SINGAPORE) PTE. LTD.
Operation of restaurants

Malaysia

6 POKKA (MALAYSIA) SDN. BHD.
Manufacture and sale of beverages

7 POKKA ACE (M) SDN. BHD.
Manufacture and sale of beverages

Alcoholic Beverages

SAPPORO BREWERIES LIMITED	8
YEBISU WINEMART CO., LTD.	
TANOSHIMARU SHUZO CO., LTD.	
SAPPORO FIELD MARKETING CO., LTD.	
SHINSEIEN CO., LTD.	
SAPPORO LION LIMITED	10
NEW SANKO INC.	
MARUSHINKAWAMURA INC.	
GINRIN SUISAN INC.	
SAPPORO EUROPE B.V.	1

SAPPORO U.S.A., INC.	13
ANCHOR BREWING COMPANY, LLC	12
SAPPORO CANADA INC.	
SLEEMAN BREWERIES LTD.	15
SLEEMAN BREWING COMPANY USA INC.	
SAPPORO ASIA PRIVATE LTD.	
SAPPORO VIETNAM LTD.	2
SAPPORO VIETNAM DISTRIBUTION QUEBEC LTD.	
SAPPORO LION (SINGAPORE) PTE. LTD.	5
KEIYO UTILITY CO., LTD.*	

JAPAN

8 SAPPORO BREWERIES LIMITED
Manufacture and sale of beer, wine, and other alcoholic beverages

9 POKKA SAPPORO FOOD & BEVERAGE LTD.
Beverage & food businesses, restaurant business, etc.

10 SAPPORO LION LIMITED
Operation of restaurants

11 SAPPORO REAL ESTATE CO., LTD.
Leasing and rental of real estate, real estate development, hotel operation, etc.

NORTH AMERICA

United States

12 ANCHOR BREWING COMPANY, LLC
Manufacture and sale of beer

13 SAPPORO U.S.A., INC.
Sale of beer

14 COUNTRY PURE FOODS, INC.
Manufacture and sale of chilled beverages

Canada

15 SLEEMAN BREWERIES LTD.
Manufacture and sale of beer

Food & Soft Drinks

POKKA SAPPORO FOOD & BEVERAGE LTD.	9
POKKA SAPPORO HOKKAIDO LTD.	
OKINAWA POKKA CORPORATION CO., LTD.	
POKKA CREATE CO., LTD.	
FOREMOST BLUE SEAL, LTD.	
PS BEVERAGE LTD.	
PUBLIC VENDING SERVICE LTD.	
STAR BEVERAGE SERVICE CO., LTD.	
OKINAWA SUN POKKA CO., LTD.	
IWATA POKKA FOODS CO., LTD.	
OKINAWA POKKA FOODS CO., LTD.	
YASUMA CO., LTD.	
SHINSYU-ICHI MISO CO., LTD.	
POKKA CORPORATION (SINGAPORE) PTE. LTD.	3
POKKA INTERNATIONAL PTE. LTD.	4
POKKA ACE (M) SDN. BHD.	7
POKKA (MALAYSIA) SDN. BHD.	6
COUNTRY PURE FOODS, INC.	14

11 other companies

Real Estate

SAPPORO REAL ESTATE CO., LTD.	11
YGP REAL ESTATE CO., LTD.	
TOKYO ENERGY SERVICE CO., LTD.	
YOKOHAMA KEIWA BUILDING CO., LTD.	
THE CLUB AT YEBISU GARDEN CO., LTD.*	

Other Companies

SAPPORO GROUP MANAGEMENT LTD.
SAPPORO GROUP LOGISTICS CO., LTD.
SAPPORO LOGISTICS SYSTEMS CO., LTD.
SAPPORO WELLNESS LAB LIMITED

* Equity-method affiliates

SAPPORO

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Financial Section 2018

Contents

SAPPORO HOLDINGS LIMITED

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

i) Consolidated Statement of Financial Position

		(Millions of yen)			(Thousands of U.S. dollars)
As of	Note	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Assets					
Current assets					
Cash and cash equivalents	8	10,476	12,537	9,989	90,063
Trade and other receivables	9	96,574	98,325	93,340	841,587
Inventories	11	37,619	37,873	37,109	334,589
Other financial assets	10	9,967	9,107	4,790	43,188
Other current assets	12	7,386	6,914	8,316	74,977
Subtotal		162,022	164,755	153,544	1,384,404
Assets held for sale	13	359	–	–	–
Total current assets		162,381	164,755	153,544	1,384,404
Non-current assets					
Property, plant and equipment	14	151,602	151,334	152,676	1,376,578
Investment property	16	223,595	219,658	215,522	1,943,218
Goodwill	15	21,483	24,942	21,229	191,405
Intangible assets	15	10,305	13,339	12,056	108,700
Investments accounted for using equity method		372	391	410	3,700
Other financial assets	10	79,278	78,677	70,205	632,987
Other non-current assets	12	8,921	9,309	8,526	76,877
Deferred tax assets	19	2,176	2,326	5,523	49,801
Total non-current assets		497,733	499,976	486,148	4,383,266
Total assets		660,114	664,731	639,692	5,767,670

The accompanying notes to consolidated financial statements are an integral part of these statements.

As of	Note	(Millions of yen) January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	(Thousands of U.S. dollars) December 31, 2018
Liabilities and equity					
Liabilities					
Current liabilities					
Trade and other payables	22	38,460	36,488	35,292	318,203
Bonds and borrowings	20	75,580	80,716	73,863	665,976
Lease liabilities	21	6,609	6,533	6,743	60,798
Income taxes payable		1,570	5,207	1,527	13,764
Other financial liabilities	24	33,108	33,277	33,905	305,703
Other current liabilities	25	66,424	66,590	63,260	570,376
Total current liabilities		221,750	228,809	214,591	1,934,820
Non-current liabilities					
Bonds and borrowings	20	165,235	153,184	154,483	1,392,868
Lease liabilities	21	24,623	24,295	24,495	220,856
Other financial liabilities	24	48,125	45,956	45,733	412,344
Retirement benefit liability	23	8,996	6,283	11,715	105,627
Other non-current liabilities	25	2,689	2,621	2,991	26,965
Deferred tax liabilities	19	26,455	27,872	20,950	188,889
Total non-current liabilities		276,122	260,212	260,367	2,347,548
Total liabilities		497,872	489,021	474,957	4,282,368
Equity					
Share capital		53,887	53,887	53,887	485,859
Capital surplus		40,706	40,825	40,998	369,653
Treasury shares		(1,796)	(1,807)	(1,822)	(16,425)
Retained earnings		36,315	44,491	46,065	415,335
Other components of equity		28,515	34,659	22,373	201,721
Total equity attributable to owners of parent		157,628	172,055	161,501	1,456,143
Non-controlling interests		4,613	3,655	3,234	29,159
Total equity		162,241	175,710	164,735	1,485,302
Total liabilities and equity		660,114	664,731	639,692	5,767,670

The accompanying notes to consolidated financial statements are an integral part of these statements.

ii) Consolidated Statement of Profit or Loss

For the fiscal year ended	Note	(Millions of yen) December 31, 2017	(Millions of yen) December 31, 2018	(Thousands of U.S. dollars) December 31, 2018
Revenue	6, 28	536,585	521,856	4,705,220
Cost of sales		373,148	362,210	3,265,800
Gross profit		163,437	159,646	1,439,420
Selling, general and administrative expenses		145,991	145,237	1,309,500
Other operating income	31	1,029	3,009	27,129
Other operating expenses	31	5,669	6,590	59,416
Operating profit	6	12,806	10,828	97,633
Finance income	32	1,338	1,139	10,271
Finance costs	32	2,626	2,494	22,489
Share of profit of investments accounted for using equity method	18	19	19	171
Profit before tax		11,538	9,492	85,586
Income tax expense	19	5,170	1,772	15,975
Profit		6,367	7,721	69,611
Profit attributable to				
Owners of parent		7,187	8,521	76,830
Non-controlling interests		(820)	(801)	(7,219)
Profit		6,367	7,721	69,611
Basic earnings per share (Yen or U.S. dollars)	35	92.27	109.40	0.99
Diluted earnings per share (Yen or U.S. dollars)	35	92.25	104.46	0.94

The accompanying notes to consolidated financial statements are an integral part of these statements.

iii) Consolidated Statement of Comprehensive Income

		(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	Note	December 31, 2017	December 31, 2018	December 31, 2018
Profit		6,367	7,721	69,611
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	33	8,202	(9,201)	(82,963)
Remeasurements of defined benefit plans	33	537	(3,688)	(33,257)
Total of items that will not be reclassified to profit or loss		8,739	(12,890)	(116,220)
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	33	1,032	(2,765)	(24,928)
Effective portion of net change in fair value of cash flow hedges	33	114	(69)	(624)
Total of items that may be reclassified to profit or loss		1,146	(2,834)	(25,552)
Total other comprehensive income, net of tax		9,884	(15,724)	(141,772)
Comprehensive income		16,252	(8,003)	(72,161)
Comprehensive income attributable to				
Owners of parent		17,183	(6,987)	(63,000)
Non-controlling interests		(931)	(1,016)	(9,161)
Comprehensive income		16,252	(8,003)	(72,161)

The accompanying notes to consolidated financial statements are an integral part of these statements.

iv) Consolidated Statement of Changes in Equity

For the fiscal year ended December 31, 2017

(Millions of yen)

	Note	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	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total
Balance as of January 1, 2017		53,887	40,706	(1,796)	36,315	–	(317)	28,832	–	28,515
Profit					7,187					–
Other comprehensive income	33					1,137	126	8,195	537	9,996
Comprehensive income		–	–	–	7,187	1,137	126	8,195	537	9,996
Purchase of treasury shares	26			(17)						–
Disposal of treasury shares	26		1	6						–
Dividends	27				(2,888)					–
Share-based payment transactions	36		117							–
Transfer to retained earnings					3,876			(3,315)	(537)	(3,852)
Other										–
Total transactions with owners		–	118	(11)	989	–	–	(3,315)	(537)	(3,852)
Balance as of December 31, 2017		53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	–	34,659

	Note	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2017		157,628	4,613	162,241
Profit		7,187	(820)	6,367
Other comprehensive income	33	9,996	(111)	9,884
Comprehensive income		17,183	(931)	16,252
Purchase of treasury shares	26	(17)	–	(17)
Disposal of treasury shares	26	7	–	7
Dividends	27	(2,888)	(20)	(2,907)
Share-based payment transactions	36	117	–	117
Transfer to retained earnings		24	(24)	–
Other		–	17	17
Total transactions with owners		(2,756)	(26)	(2,783)
Balance as of December 31, 2017		172,055	3,655	175,710

The accompanying notes to consolidated financial statements are an integral part of these statements.

For the fiscal year ended December 31, 2018

(Millions of yen)

	Note	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	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total
Balance as of January 1, 2018		53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	–	34,659
Profit					8,521					
Other comprehensive income	33					(2,622)	2	(9,200)	(3,688)	(15,508)
Comprehensive income		–	–	–	8,521	(2,622)	2	(9,200)	(3,688)	(15,508)
Purchase of treasury shares	26			(20)						–
Disposal of treasury shares	26		0	5						–
Issuance of convertible bonds with share acquisition rights			182							–
Dividends	27				(3,122)					–
Share-based payment transactions	36		(9)							–
Transfer to retained earnings					(3,826)			(466)	3,688	3,222
Total transactions with owners		–	173	(15)	(6,947)	–	–	(466)	3,688	3,222
Balance as of December 31, 2018		53,887	40,998	(1,822)	46,065	(1,485)	(188)	24,046	–	22,373

	Note	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2018		172,055	3,655	175,710
Profit		8,521	(801)	7,721
Other comprehensive income	33	(15,508)	(215)	(15,724)
Comprehensive income		(6,987)	(1,016)	(8,003)
Purchase of treasury shares	26	(20)	–	(20)
Disposal of treasury shares	26	6	–	6
Issuance of convertible bonds with share acquisition rights		182	–	182
Dividends	27	(3,122)	(8)	(3,130)
Share-based payment transactions	36	(9)	–	(9)
Transfer to retained earnings		(603)	603	–
Total transactions with owners		(3,566)	595	(2,972)
Balance as of December 31, 2018		161,501	3,234	164,735

The accompanying notes to consolidated financial statements are an integral part of these statements.

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	Note	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	Financial assets measured at fair value through other comprehen-sive income	Remeasure-ments of defined benefit plans	Total
Balance as of January 1, 2018		485,859	368,090	(16,289)	401,143	10,256	(1,718)	303,959	–	312,497
Profit					76,830					
Other comprehensive income	33					(23,642)	22	(82,953)	(33,257)	(139,830)
Comprehensive income		–	–	–	76,830	(23,642)	22	(82,953)	(33,257)	(139,830)
Purchase of treasury shares	26			(185)						–
Disposal of treasury shares	26		3	49						–
Issuance of convertible bonds with share acquisition rights			1,645							–
Dividends	27				(28,146)					–
Share-based payment transactions	36		(86)							–
Transfer to retained earnings					(34,492)			(4,202)	33,257	29,054
Total transactions with owners		–	1,563	(136)	(62,638)	–	–	(4,202)	33,257	29,054
Balance as of December 31, 2018		485,859	369,653	(16,425)	415,335	(13,386)	(1,696)	216,804	–	201,721

	Note	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2018		1,551,300	32,959	1,584,259
Profit		76,830	(7,219)	69,611
Other comprehensive income	33	(139,830)	(1,942)	(141,772)
Comprehensive income		(63,000)	(9,161)	(72,161)
Purchase of treasury shares	26	(185)	–	(185)
Disposal of treasury shares	26	52	–	52
Issuance of convertible bonds with share acquisition rights		1,645	–	1,645
Dividends	27	(28,146)	(76)	(28,222)
Share-based payment transactions	36	(86)	–	(86)
Transfer to retained earnings		(5,438)	5,438	–
Total transactions with owners		(32,157)	5,361	(26,795)
Balance as of December 31, 2018		1,456,143	29,159	1,485,302

The accompanying notes to consolidated financial statements are an integral part of these statements.

v) Consolidated Statement of Cash Flows

For the fiscal year ended	Note	(Millions of yen) December 31, 2017	(Millions of yen) December 31, 2018	(Thousands of U.S. dollars) December 31, 2018
Cash flows from operating activities				
Profit before tax		11,538	9,492	85,586
Depreciation and amortization		29,569	28,512	257,074
Impairment losses		3,810	5,430	48,962
Interest and dividend income		(1,330)	(1,123)	(10,127)
Interest expenses		2,397	2,368	21,351
Share of loss (profit) of investments accounted for using equity method		(19)	(19)	(171)
Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets		719	(659)	(5,942)
Decrease (increase) in trade and other receivables		(1,136)	4,209	37,952
Decrease (increase) in inventories		333	70	635
Increase (decrease) in trade and other payables		(2,337)	(830)	(7,479)
Increase (decrease) in accrued alcohol tax		132	(1,950)	(17,583)
Other		(4,253)	(2,968)	(26,762)
Subtotal		39,422	42,533	383,495
Interest and dividends received		1,383	1,150	10,368
Interest paid		(2,315)	(2,197)	(19,809)
Income taxes paid		(4,696)	(10,657)	(96,085)
Net cash provided by (used in) operating activities		33,794	30,830	277,970
Cash flows from investing activities				
Purchase of property, plant and equipment		(10,598)	(13,581)	(122,446)
Proceeds from sale of property, plant and equipment		3,086	1,729	15,590
Purchase of investment property		(2,499)	(4,712)	(42,489)
Purchase of intangible assets		(2,197)	(2,220)	(20,017)
Purchase of investment securities		(1,020)	(6,345)	(57,206)
Proceeds from sale of investment securities		8,278	1,455	13,119
Purchase of investments in subsidiaries resulting in change in scope of consolidation	34	(11,623)	–	–
Purchase of trust beneficiary right (investment property)		–	(2,523)	(22,748)
Proceeds from sale of trust beneficiary right (investment property)		–	7,239	65,268
Payments for loans receivable		(68)	(139)	(1,253)
Collection of loans receivable		4,267	4,081	36,799
Other		(5,499)	(3,712)	(33,464)
Net cash provided by (used in) investing activities		(17,873)	(18,727)	(168,848)

For the fiscal year ended	Note	(Millions of yen) December 31, 2017	(Millions of yen) December 31, 2018	(Thousands of U.S. dollars) December 31, 2018
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	34	(3,076)	(264)	(2,383)
Net increase (decrease) in commercial papers	34	(1,000)	(3,500)	(31,557)
Proceeds from long-term borrowings	34	12,500	12,000	108,196
Repayments of long-term borrowings	34	(12,603)	(22,524)	(203,079)
Proceeds from issuance of bonds	34	9,960	20,021	180,514
Redemption of bonds	34	(10,083)	(10,068)	(90,778)
Dividends paid		(2,913)	(3,133)	(28,249)
Repayments of lease liabilities	34	(6,686)	(7,038)	(63,455)
Purchase of treasury shares		(17)	(20)	(185)
Other		7	6	52
Net cash provided by (used in) financing activities		(13,911)	(14,521)	(130,924)
Effect of exchange rate changes on cash and cash equivalents		51	(130)	(1,170)
Net increase (decrease) in cash and cash equivalents		2,061	(2,548)	(22,973)
Cash and cash equivalents at beginning of period	8	10,476	12,537	113,035
Cash and cash equivalents at end of period	8	12,537	9,989	90,063

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

Sapporo Holdings Limited (the "Company") is a corporation domiciled in Japan. The location of its registered head office and principal place of business is Shibuya-ku, Tokyo. The consolidated financial statements, for which the reporting date is December 31, 2018, comprise the financial statements of the Company and its subsidiaries (collectively, the "Group") and its interests in associates. The nature of the Group's businesses and the Group's principal activities are disclosed below in "6. Operating Segments."

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board. The Company meets the requirements to qualify as a "Specified Company Complying with Designated International Accounting Standards" in Article 1-2 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements and therefore applies the provisions of Article 93 of said regulation.

The Group first adopted IFRS from the fiscal year that began on January 1, 2018. Its date of transition to IFRS is January 1, 2017 (the "Transition Date"). The impact of transition to IFRS on the Group's financial position, operating results and cash flows on the Transition Date and in the comparable year is disclosed below in "43. First-time Adoption."

(2) Approval of financial statements

The Group's consolidated financial statements presented herein were approved by the Company's Board of Directors on March 28, 2019.

(3) Measurement basis

The Group's consolidated financial statements were prepared on a historical cost basis with certain exceptions, most notably financial instruments as disclosed in "3. Significant Accounting Policies."

(4) Presentation currency

The Group's consolidated financial statements are presented in Japanese yen, the Company's functional currency, with monetary values rounded to the nearest million yen. For the convenience of the reader, the accompanying consolidated financial statements as of and for the fiscal year ended December 31, 2018 have been translated from Japanese yen amounts into U.S. dollar amounts at the rate of ¥110.91=U.S. $1.00, the exchange rate as of December 31, 2018.

3. Significant Accounting Policies

(1) Basis of consolidation

i) Subsidiaries

The Group consolidates entities as subsidiaries if it has control over the entity, meaning that it has the right to directly or indirectly determine the entity's financing and management policies to obtain benefits from the entity's operations.

In preparing its consolidated financial statements, the Group uses its group companies' respective financial statements prepared as of the same reporting date in conformity with uniform accounting policies. When accounting policies applied by a subsidiary differ from the accounting policies applied by the Group, the subsidiary's financial statements are adjusted as needed.

Consolidation of investees begins form the date that the Group obtains control of the investee and ceases when the Group loses control of the investee.

Intra-group transactions and any receivable and payable balances and unrealized profits or losses resulting therefrom are eliminated.

Non-controlling interests in consolidated subsidiaries' net assets are identified separately from the Group's ownership interest.

When the Group partially disposes of an interest in a consolidated subsidiary while retaining control of the subsidiary, it accounts for the disposal as an equity transaction. In such cases, any difference between the resultant adjustment to non-controlling interests and the fair value of the consideration received is directly recognized in equity as equity attributable to owners of parent.

When the Group loses control of a consolidated subsidiary, it remeasures the retained interest in the former consolidated subsidiary at its fair value at the date when control is lost. Any difference between said fair value and the retained interest's carrying amount is recognized in profit or loss.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's interests. Consolidated subsidiaries' comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if such attribution results in the non-controlling interests having a deficit balance.

ii) Associates

Associates are entities over which the Group has significant influence, but not control, with respect to financing and operating policies.

The Group accounts for investments in associates using the equity method.

Under the equity method, investments in associates are recognized at cost at the acquisition date and adjusted thereafter for post-acquisition changes in the Group's share of the associate's net assets, with such adjustments recognized in the Consolidated Statement of Financial Position.

The Group's share of associates' profit or loss is reflected in the Consolidated Statement of Profit or Loss. In the event of a change recognized in an associate's other comprehensive income, the Group recognizes its share of the change in other comprehensive income.

The Group adjusts its consolidated financial statements to eliminate the Group's share in any unrealized gains or losses resulting from transactions between itself and associates.

Associates' financial statements are prepared for the same reporting period as the Group's consolidated financial statements and adjusted to harmonize the associates' accounting policies with the Group's accounting policies.

If the Group loses significant influence over an associate, its retained investment in the associate is remeasured and recognized at fair value. Any difference between the associate's carrying amount at the date when significant influence is lost and the sum of any retained investment's fair value and any proceeds from disposing of an interest in the associate is recognized in profit or loss.

(2) Business combinations

Business combinations are accounted for by applying the acquisition method.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurred, the business combination is accounted for using provisional amounts that are retrospectively adjusted during a measurement period not to exceed one year from the acquisition date.

Cost is measured as the aggregate of the consideration transferred for the acquiree, measured at fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree.

For each business combination, non-controlling interests in acquirees are measured at either fair value or the equivalent of the non-controlling interest's proportionate share in the fair value of the acquiree's identifiable net assets.

Acquisition-related costs associated with business combinations are accounted for as expenses in the periods in which they were incurred.

When the Group acquires a business, it classifies or designates identifiable assets acquired and liabilities assumed on the basis of the contractual terms and economic and other pertinent conditions as of the acquisition date. As a general rule, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values.

In business combinations achieved in stages, the Group remeasures its equity interest in the acquiree held before obtaining control of the acquiree at acquisition-date fair value and recognizes the resulting gain or loss in profit or loss or in other comprehensive income.

Goodwill is measured as the excess of the aggregate of the consideration transferred and any amount recognized as a non-controlling interest over the net amount of identifiable assets acquired and liabilities assumed.

If the aggregate of the consideration transferred and amount recognized as a non-controlling interest is less than the net amount of identifiable assets acquired and liabilities assumed, the resultant gain is recognized in profit.

After initial recognition, goodwill acquired in business combinations is not amortized. It is carried at its cost less any accumulated impairment losses.

(3) Foreign currency translation

i) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, the Company's functional currency. Companies within the Group determine their own respective functional currencies and measure their transactions in their functional currency.

ii) Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency at the applicable spot exchange rate at the transaction date or a rate approximating said spot rate.

Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable spot exchange rate at the end of the reporting period. Any exchange differences arising from said translation or on the settlement of monetary assets/liabilities are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

iii) Translation of foreign operations

Foreign operations' assets and liabilities are translated into Japanese yen at the spot exchange rates at the end of the reporting period. Their income and expenses are translated into Japanese yen at the applicable spot exchange rate at the transaction date or a rate approximating said spot rate. Any exchange differences arising from said translation are recognized in other comprehensive income.
On the disposal of a foreign operation, accumulated exchange differences relating to that foreign operation are recognized in profit or loss in the period in which the disposal occurred.

(4) Financial instruments

i) Financial assets

(i) Initial recognition and measurement

The Group classifies financial assets as financial assets measured at fair value through profit or loss or at fair value through other comprehensive income or as financial assets measured at amortized cost. It determines financial assets' classification at initial recognition.

The Group recognizes a financial asset at the transaction date on which the Group became a party to the contractual provisions of the financial asset.

Financial assets are classified as measured at amortized cost if they meet both of the following conditions. Otherwise they are classified as measured at fair value.

・ The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

・ The financial asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instrument financial assets are classified as measured at fair value through other comprehensive income if they meet both of the following conditions. If not, they are classified as measured at fair value through profit or loss.

・ The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

・ The financial asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Among financial assets measured at fair value, the Group designates equity instruments as measured at fair value through profit or loss or measured at fair value through other comprehensive income on an instrument-by-instrument basis and applies the designation on an ongoing basis.

All financial assets except those classified as measured at fair value through profit or loss are measured at fair value plus transaction costs that are directly attributable to their acquisition.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows in accordance with their classification.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method.

(b) Other financial assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss or in other comprehensive income.

For equity instruments designated as measured at fair value through other comprehensive income, changes in fair value are recognized in other comprehensive income and, when they are derecognized or have decreased significantly in fair value, reclassified to retained earnings. Dividends from equity instruments are recognized in profit or loss for the period.

(iii) Derecognition

Financial assets are derecognized when the rights to the benefits therefrom have expired or been transferred or when substantially all the risks and rewards of ownership have been transferred.

(iv) Impairment

For financial assets measured at amortized cost, the Group recognizes an allowance for doubtful accounts for expected credit losses.

At the end of each reporting period, the Group assesses whether the credit risk on its financial assets has increased significantly since initial recognition. If credit risk has not increased significantly, the Group recognizes an allowance for doubtful accounts at an amount equal to the 12-month expected credit losses. If credit risk has increased significantly since initial recognition, the Group recognizes an allowance for doubtful accounts at an amount equal to the lifetime expected credit losses.

For trade receivables, contract assets and lease receivables, the Group always recognizes an allowance for doubtful accounts at an amount equal to the lifetime expected credit losses.

If an impairment loss previously recognized for a financial asset is reduced by an event subsequent to the impairment loss's recognition, the Group reverses the previously recognized impairment loss and recognizes the reversal in profit or loss.

ii) Compound financial instruments

The liability component of a compound financial instrument is measured at initial recognition at the fair value of a similar liability without an equity conversion option. The equity component is measured at initial recognition at the residual amount after deducting the liability component's fair value from the fair value of the financial instrument as a whole. Direct transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

After initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of compound financial instruments is not remeasured after initial recognition.

Interest relating to the liability component of a compound financial instrument is recognized in profit and loss as a finance cost. On conversion of a convertible instrument, the liability component is reclassified to equity, and no gain or loss is recognized.

iii) Financial liabilities

(i) Initial recognition and measurement

The Group classifies financial liabilities as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost. It determines financial liabilities' classification at initial recognition.

All financial liabilities are initially measured at fair value, but financial liabilities measured at amortized cost are measured at fair value less directly attributable transaction costs.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured as follows in accordance with their classification.

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value. After initial recognition, interest expense and changes in fair value are recognized in other comprehensive income on the Consolidated Statement of Comprehensive Income to the extent that they are attributable to changes in the Group's credit risk. Any remaining interest expense and/or changes in fair value are recognized in profit or loss.

(b) Financial liabilities measured at amortized cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss on the Consolidated Statement of Profit or Loss.

(iii) Derecognition

Financial liabilities are derecognized when the obligation has been discharged or cancelled or has expired.

iv) Offsetting of financial instruments

The Group offsets financial assets and financial liabilities and presents the net amount in its Consolidated Statement of Financial Position only when it currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

v) Derivatives and hedge accounting

The Group uses derivatives such as currency forwards and interest rate swaps to respectively hedge currency risk and interest rate risk. These derivatives are initially measured at fair value at their contract inception date and subsequently remeasured at fair value.

Changes in derivatives' fair value are recognized in profit or loss on the Consolidated Statement of Profit or Loss, except that the effective portion of cash flow hedges is recognized in other comprehensive income on the Consolidated Statement of Comprehensive Income.

At the inception of a hedge, the Group formally designates and documents the hedging relationship to which it plans to apply hedge accounting and its risk management objective and strategy for undertaking the hedge. Said documentation includes the specific hedging instrument, the hedged item or transaction, and the nature of the risk being hedged and the method of assessing effectiveness of changes in the fair value of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group assesses on an ongoing basis whether its hedges are expected to be highly effective in offsetting changes in the hedged item's fair value or cash flows and whether they have actually been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedges that meet stringent hedge accounting requirements are classified and accounted for as follows in accordance with IFRS 9 *Financial Instruments* ("IFRS 9").

(a) Fair value hedges

Changes in derivatives' fair value are recognized in profit or loss on the Consolidated Statement of Profit or Loss. Changes in hedged items' fair value that are attributable to the hedged risk are recognized in profit or loss on the Consolidated Statement of Profit or Loss and the hedged item's carrying amount is adjusted accordingly.

(b) Cash flow hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income on the Consolidated Statement of Comprehensive Income; the ineffective portion is immediately recognized in profit or loss on the Consolidated Statement of Profit or Loss.

The amounts recognized in other comprehensive income in relation to hedging instruments are reclassified to profit or loss when the hedged transaction affects profit or loss. When a hedged transaction results in the recognition of a non-financial asset or non-financial liability, the amount recognized in other comprehensive income is treated as an adjustment to the asset or liability's initial carrying amount.

When a forecast transaction or firm commitment is no longer expected to occur or be fulfilled, the cumulative gain or loss previously recognized in equity through other comprehensive income is reclassified to profit or loss. When a hedging instrument expires or is sold, or is terminated or exercised without being replaced with or rolled over into another hedging instrument, or when a hedge designation is revoked, any amounts previously recognized in equity through other comprehensive income remain in equity until the forecast transaction occurs or the firm commitment is fulfilled.

vi) Financial instruments' fair value

When measuring the fair value of financial instruments traded in an active market as of the reporting date, the Group references publicly quoted market prices and dealer prices.

For financial instruments without an active market, the Group measures the fair value using appropriate valuation techniques.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments maturing within three months of their acquisition date that are readily convertible to cash and subject to an insignificant risk of changes in value.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost and net realizable value. In measuring cost, the Group mainly uses the gross average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, plant and equipment

The Group has adopted the cost model to measure property, plant and equipment.

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes any costs directly related to the asset's acquisition, estimated costs of dismantling and removing the asset and restoring the site on which it is located and any borrowing costs eligible for capitalization.

All property, plant and equipment except land are depreciated on a straight-line basis to systematically allocate their depreciable amount, calculated as cost less residual value as of the reporting date.

Expected useful lives of major classes of property, plant and equipment are as follows.

Buildings and structures	2-65 years
Machinery and vehicles	2-17 years
Tools, furniture and fixtures	2-20 years

Assets' residual values, useful lives and depreciation methods are reviewed at each fiscal year-end. Any changes therein are accounted for as a change in an accounting estimate.

(8) Goodwill and intangible assets

i) Goodwill

Goodwill is measured at initial recognition as disclosed above under "(2) Business combinations."

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. It is not amortized.

Goodwill is derecognized when an operation within the cash-generating unit (or group thereof) to which the goodwill has been allocated is disposed of. When the gain or loss on such a disposal is determined, the goodwill associated with the operation disposed of is included in the carrying amount of the operation.

ii) Intangible assets

The Group has adopted the cost model to measure intangible assets. Intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

Separately acquired intangible assets are measured at cost at initial acquisition. The cost of intangible assets acquired in a business combination is measured at the asset's fair value at the acquisition date. All expenditures on internally generated intangible assets except development costs that meet capitalization criteria are recognized as an expense in the period in which they are incurred.

Intangible assets with finite useful lives are amortized using the straight-line method over their respective useful lives and tested for impairment whenever there is an indication that they may be impaired.

Expected useful lives of and amortization methods for intangible assets with finite useful lives are reviewed at each fiscal year-end. Any changes therein are applied prospectively as a change in an accounting estimate.

Expected useful lives of major classes of intangible assets are as follows.

Software	2-5 years
Customer relationships	2-23 years
Other	2-32 years

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized. They are tested for impairment either separately or as part of a cash-generating unit annually and whenever there is an indication that they may be impaired.

(9) Leases

The Group has early adopted IFRS 16.

(Lessee)

Lease liabilities are measured at the present value of total lease payments that are not paid at the lease commencement date. Right-of-use assets are initially measured at the amount of the initial measurement of the corresponding lease liability, adjusted mainly by any initial direct costs and any prepaid lease payments, plus costs including restoration obligations under the lease agreement. Right-of-use assets are systematically depreciated over the lease term.

Lease payments are allocated between finance costs and the principal portion of the lease liability's remaining balance in a manner that equates the finance costs to a constant periodic rate of interest on the lease liability's remaining balance. Finance costs are presented separately from depreciation charges on right-of-use assets on the Consolidated Statement of Profit or Loss.

The Group determines whether a contract is a lease or contains a lease based on the contract's substance irrespective of whether the contract is in the legal form of a lease.

For leases with an initial term of 12 months or less and leases for which the underlying asset is of low value, associated lease payments are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

(Lessor)

Leases whereby the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. In operating leases, the lease's underlying asset is carried on the Consolidated Statement of Financial Position and lease payments are recognized as income on a straight-line basis over the lease term on the Consolidated Statement of Profit or Loss.

(10) Investment property

For measuring investment property, the Group has adopted the same cost model it uses to measure property, plant and equipment.

Investment property is initially recognized at its cost inclusive of transaction costs. The cost of an investment property includes directly attributable costs, such as professional fees for legal services and property transfer taxes. Costs related to replacing part of an existing investment property are included in the property's cost when incurred if they meet the asset recognition standard. Costs related to an investment property's day-to-day servicing are recognized in profit or loss when incurred.

After initial recognition, investment property is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Property is transferred to, or from, investment property only when there is a change in use.

Investment property is derecognized on disposal or when it is permanently withdrawn from use and no longer expected to yield any future economic benefits. In such cases, the difference between the net disposal proceeds and the asset's carrying amount is recognized in profit or loss in the period in which the asset was derecognized.

Investment property's useful life is mainly in the 2-65 year range.

Investment property's residual value, useful life and depreciation method are reviewed at each fiscal year-end. Any changes therein are accounted for as a change in an accounting estimate.

(11) Impairment of assets

i) Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that any of its assets may be impaired. If any such indication exists and the asset in question is required to be tested for impairment annually, the Group estimates the asset's recoverable amount. When recoverable amount cannot be estimated for assets individually, the Group estimates the recoverable amount of each cash-generating unit to which the assets respectively belong. If a cash-generating unit's carrying amount exceeds its recoverable amount, the Group recognizes an impairment loss on the cash-generating unit's assets and reduces the assets' carrying amount to their recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of disposal.

Value in use is measured as the present value of estimated future cash flows, calculated using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in question.

Fair value less costs of disposal is measured using an appropriate valuation model backed by available fair-value indicators.

Goodwill acquired in a business combination is allocated, from the acquisition date, to each cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that they may be impaired.

ii) Reversals of impairment losses

At each reporting date, the Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may have decreased or may no longer exist, in cases such as when an assumption used to determine the asset's recoverable amount has changed. If such an indication exists, the Group estimates the recoverable amount of the asset or cash-generating unit in question. If the re-estimated recoverable amount exceeds the asset or cash-generating unit's carrying amount, the impairment loss is reversed up to the lower of the measured recoverable amount and the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior fiscal years. Reversals of impairment losses are recognized in profit or loss.

Impairment losses recognized for goodwill are not reversed.

(12) Employee benefits

i) Retirement benefits

The Group operates defined benefit plans and defined contribution plans as employee retirement benefit plans.

The Group separately determines the present value of its defined benefit obligations and the related current service cost and past service cost on a plan-by-plan basis using the projected unit credit method.

The discount rate is determined by reference to yields at the end of the period on high quality corporate bonds.

Liabilities or assets related to defined benefit plans are determined as the present value of defined benefit obligations less the fair value of plan assets.

Remeasurements of assets (liabilities) related to defined benefit retirement benefit plans are immediately reflected in retained earnings after being fully recognized in other comprehensive income in the period in which they occur. Past service costs are expensed in the period incurred.

Expenses related to defined contribution retirement benefit plans are recognized as expenses in the period in which the contributions occurred.

ii) Short-term employee benefits

Short-term employee benefits are recognized on an undiscounted basis as expenses when employees render the related services. Bonus payments are recognized as liabilities at the amount expected to be paid pursuant to the applicable bonus plan when the Group has a present legal or constructive obligation to make such payments as a result of past labor provided by employees and the amount of the liability can be reliably estimated.

(13) Share-based payments

The Group has adopted an equity-settled share-based payment plan.

Equity-settled share-based payments are accounted for by measuring the services received, and the corresponding increase in equity, at fair value (of the equity instruments) at the grant date, expensing said fair value over the applicable vesting period and recognizing an equal amount as an increase in equity.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. In measuring present value, the Group uses a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(15) Contingencies

When the Group has a potential liability at the end of a reporting period but the potential liability does not constitute a measureable obligation at the reporting date or does not meet the recognition criteria for provisions, the potential liability is disclosed in a note as a contingent liability.

Prospective inflows of economic benefits are disclosed in a note when their realization is probable but uncertain at the reporting date.

(16) Revenue

With the exception of rental income accounted for in accordance with IFRS 16 and certain other income, revenue is recognized in accordance with the following five-step approach at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to the customer.

Step 1: Identify the contract with a customer.

Step 2: Identify performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to each performance obligation in the contract.

Step 5: Recognize revenue when (or as) a performance obligation is satisfied.

Based on the identification of performance obligations in contracts with customers in accordance with the above five-step approach, the portion of sales promotion and other expenses that is consideration paid to customers by the Group is deducted from revenue.

Additionally, alcohol taxes are deducted from revenue from transactions in regions in which the Group is involved in alcoholic beverage sales as an agent. Inflows of economic benefits after alcohol taxes are presented as revenue on the Consolidated Statement of Profit or Loss.

(17) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the attached conditions, and that the grants will be received.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to assets are recognized as deferred income that is recognized in profit or loss on a systematic basis over the related asset’s useful life.

(18) Income taxes

Current taxes for current and prior periods are measured at the amount expected to be paid to (or recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are accounted for using an asset and liability approach to differences between assets and liabilities' carrying amount for accounting purposes and their tax base (temporary differences) at the end of the reporting period.

As a general rule, deferred tax liabilities are recognized for all taxable temporary differences while deferred tax assets are recognized for deductible temporary differences, unused tax credit carryforwards, and tax loss carryforwards to the extent that it is probable that taxable income will be available against which the deferred tax assets can be recovered.

In certain exceptional cases, however, no deferred tax asset or deferred tax liability is recognized for temporary differences.

Deferred tax assets' carrying amounts (including unrecognized deferred tax assets) are reassessed at the end of each reporting period. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting date.

(19) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding (ordinary shares issued less treasury shares) during the period. Diluted earnings per share is calculated by adjusting for the effects of all dilutive potential ordinary shares.

(20) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The requirements for said classification are met only when the Group's management is committed to a plan to sell the asset (or disposal group), its sale is highly probable within one year and the asset (or disposal group) is available for immediate sale in its present condition. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

(21) Equity

i) Ordinary shares

Ordinary shares are carried at their issue price in share capital and capital surplus.

ii) Treasury shares

When the Group acquires treasury shares, the consideration paid for the shares is recognized as a deduction from equity.

When the Group sells treasury shares, any difference between their carrying amount and the consideration received from their sale is recognized in capital surplus.

(22) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the asset's cost. All other borrowing costs are recognized as an expense in the period incurred.

4. Significant Accounting Estimates and Judgments Involving Estimations

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

Estimates and their underlying assumptions are reviewed on an ongoing basis and revised as warranted. Accounting estimate revisions' effects are recognized in the accounting period in which the revision occurred and accounting periods subsequent thereto.

Management judgments and estimates that have a significant effect on amounts reported in the consolidated financial statements are as follows.

(1) Inventory valuation (Significant accounting policy, (6) Inventories)

Inventories are measured at cost, but if their net realizable value at the end of a reporting period has fallen below their cost, inventories are measured at their net realizable value and the difference between their cost and net realizable value is recognized in cost of sales as a general rule. Additionally, inventory held for longer than the normal operating cycle is generally measured at net realizable value that reflects future demand and market trends. If inventories' net realizable value decreases significantly as a result of the market environment deteriorating more than expected, the Group may incur losses.

(2) Impairment of non-financial assets (Significant accounting policy, (11) Impairment of assets)

The Group tests property, plant and equipment and intangible assets, including goodwill, for impairment. In measuring assets' recoverable amount for impairment testing, the Group make certain assumptions regarding variables such as assets' useful lives, future cash flows, pre-tax discount rates and long-term growth rates. These assumptions are determined based on management's best estimates and judgment, but the variables to which they pertain may be affected by the results of uncertain future changes in economic conditions. If the assumptions need to be revised, amounts recognized in the Group's consolidated financial statements, etc. for the next fiscal year and beyond may be significantly affected.

(3) Measurement of defined benefit obligation (Significant accounting policy, (12) Employee benefits)

The Group has various post-employment benefit plans, including defined benefit plans. These plans' respective defined benefit obligation's present value, relevant service costs and other accounting inputs are estimated based on actuarial assumptions. The actuarial assumptions require estimates and judgments regarding a variety of variables, including discount rates, retirement rates and mortality rates. The Group obtains advice from external pension actuaries on the appropriateness of its actuarial assumptions that include the foregoing variables.

The actuarial assumptions are determined based on management's best estimates and judgment, but the variables to which they pertain may be affected by the results of uncertain future changes in economic conditions and/or amendment or promulgation of related laws. If the actuarial assumptions need to be revised, the amounts recognized in the Group's consolidated financial statements for the next fiscal year and beyond may be significantly affected.

(4) Recoverability of deferred tax assets (Significant accounting policy, (18) Income taxes)

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. In assessing the probability of taxable profits being available when recognizing a deferred tax asset, the Group reasonably estimates amounts and timing of the future taxable profits it is capable of earning and measures the deferred tax asset's amount accordingly.

Taxable profits' timing and amounts may be affected by uncertain future changes in economic conditions. If taxable profits' timing and/or amount differs from previous estimates thereof, the amounts recognized in the Group's consolidated financial statements for the next fiscal year and beyond may be significantly affected.

(5) Financial instruments' fair value (Significant accounting policy, (4) Financial instruments)

When measuring certain financial instruments' fair value, the Group uses valuation techniques that utilize inputs that are unobservable in markets. Such unobservable inputs may be affected by the results of uncertain future changes in economic conditions. If they are revised, the Group's consolidated financial statements may be significantly affected.

(6) Contingencies (Significant accounting policy, (15) Contingencies)

The Group discloses contingencies that could significantly affect its future operations, taking into account all evidence available at the reporting date and contingencies' probability of occurrence and monetary impact.

5. New Standards and Interpretations Not Yet Applied

Of the standards and interpretations newly established or revised by the date the consolidated financial statements were authorized for issuance, those not early applied by the Group would not significantly affect the consolidated financial statements.

6. Operating Segments

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to the segments and assess their performance.

Each operating company, under the Company, a pure holding company, proposes business development and strategies for products, services and sales markets in which it is involved and conducts business activities.

Accordingly, the Company's segments have been organized on the basis of the differences in products, services, and sales markets in which each of operating companies and their subsidiaries and associates is involved, and its reportable segments are composed of five businesses: "Japanese Alcoholic Beverages Business," "International Business," "Food & Soft Drinks Business," "Restaurants Business," and "Real Estate Business."

The "Japanese Alcoholic Beverages Business" segment manufactures and sells alcoholic beverages in Japan. The "International Business" segment manufactures and sells alcoholic beverages and soft drinks outside Japan. The "Food & Soft Drinks Business" segment manufactures and sells food and soft drinks. The "Restaurants Business" segment operates various styles of restaurants. The "Real Estate Business" segment's activities include leasing of real estate.

In conjunction with a reorganization effective January 1, 2018, Sapporo International Inc.'s export business, previously part of the "International Business" segment, has been transferred to Sapporo Breweries Ltd. in the "Japanese Alcoholic Beverages Business" segment. Segment information for the fiscal year ended December 31, 2017, was prepared based on the revised segmentation.

(2) Segment revenue and performance

The Company's revenue, operating profit (loss) and selected other items are presented below by reportable segment. The Company monitors segment performance based on operating profit.

For the fiscal year ended December 31, 2017

(Millions of yen)

	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Other	Total	Adjustment	Consolidated
Revenue									
Revenue from external customers	261,489	78,626	132,092	28,639	23,893	11,846	536,585	–	536,585
Intersegment revenue	3,381	108	282	1	2,670	21,002	27,445	(27,445)	–
Total	264,870	78,735	132,374	28,640	26,563	32,848	564,030	(27,445)	536,585
Operating profit (loss)	10,038	(2,728)	2,430	(515)	10,271	(137)	19,359	(6,553)	12,806
Other items									
Depreciation and amortization	9,276	3,908	6,812	2,717	5,050	100	27,865	1,704	29,569
Impairment losses	–	2,686	362	655	–	165	3,868	(58)	3,810
Share of profit of investments accounted for using equity method	19	–	–	–	1	–	19	–	19

For the fiscal year ended December 31, 2018

(Millions of yen)

	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Other	Total	Adjustment	Consolidated
Revenue									
Revenue from external customers	250,867	79,521	127,219	27,569	24,483	12,198	521,856	–	521,856
Intersegment revenue	3,011	500	276	1	2,824	21,169	27,781	(27,781)	–
Total	253,878	80,021	127,494	27,570	27,307	33,368	549,637	(27,781)	521,856
Operating profit (loss)	6,711	(3,397)	2,027	(169)	12,047	59	17,279	(6,451)	10,828
Other items									
Depreciation and amortization	8,841	3,839	6,617	2,423	5,177	101	26,998	1,514	28,512
Impairment losses	227	4,397	450	488	–	–	5,562	(132)	5,430
Share of profit of investments accounted for using equity method	19	–	–	–	0	–	19	–	19

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Other	Total	Adjustment	Consolidated
Revenue									
Revenue from external customers	2,261,895	716,986	1,147,043	248,570	220,743	109,982	4,705,220	–	4,705,220
Intersegment revenue	27,147	4,505	2,485	11	25,463	190,871	250,482	(250,482)	–
Total	2,289,042	721,491	1,149,528	248,582	246,207	300,853	4,955,701	(250,482)	4,705,220
Operating profit (loss)	60,512	(30,628)	18,278	(1,522)	108,618	536	155,793	(58,160)	97,633
Other items									
Depreciation and amortization	79,709	34,617	59,661	21,851	46,674	908	243,419	13,654	257,074
Impairment losses	2,046	39,649	4,055	4,398	–	–	50,149	(1,187)	48,962
Share of profit of investments accounted for using equity method	168	–	–	–	4	–	171	–	171

"Other" is a business segment not included in reportable segments and includes a logistics business. Adjustments include corporate costs not allocated to any reportable segment and intersegment eliminations. Corporate costs consist of general and administrative expenses not attributable to reportable segments.

(3) Information about geographical areas

A geographical breakdown of revenue from external customers and non-current assets is presented below.

Revenue from external customers

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Japan	433,914	419,662	3,783,810
North America	77,287	78,123	704,382
Other	25,384	24,071	217,027
Total	536,585	521,856	4,705,220

(Note) Revenue is disaggregated based on the location of sales destination.

Non-current assets

	(Millions of yen)			(Thousands of U.S. dollars)
As of	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Japan	448,368	439,236	432,210	3,896,939
North America	37,824	51,166	44,782	403,767
Other	11,540	9,573	9,157	82,560
Total	497,733	499,976	486,148	4,383,266

(4) Information about major customers

Customers accounting for 10% or more of the revenue reported on the Consolidated Statement of Profit or Loss are listed below.

Name	Related Segment	(Millions of yen)		(Thousands of U.S. dollars)
		For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2018
KOKUBU GROUP CORP.	Japanese Alcoholic Beverages, Food & Soft Drinks	72,127	61,682	556,142

7. Business Combinations

During the fiscal year ended December 31, 2017

Acquisition of equity in Anchor Brewing Company, LLC

(1) Overview of business combination

i) Name and business description of acquiree

Name: Anchor Brewing Company, LLC (and one other company)

Location: San Francisco, California, USA

Business description: Beer brewing and sales

ii) Primary reasons for business combination

In November 2016, the Group formulated the Sapporo Group Long-Term Management Vision “SPEED150” through 2026, marking its 150th anniversary of establishment. The “SPEED150” sets forth as 2026 Group Vision that the Sapporo Group will be a company with highly unique brands in the fields of “Alcoholic Beverages,” “Food,” and “Soft Drinks” around the world.

Among the three major strategic themes, as for “Promote Global Business Expansion,” a key driver for the Group’s growth strategy, the Group is promoting a unique plan that prioritizes expanding business in “North America,” the Group’s business platform, and booming “Southeast Asia.”

The Group expects further synergies from the equity acquisition that added the strong brand power of Anchor Brewing Company, LLC to the Group’s US beer business portfolio and accelerates the growth of the Group’s US business.

iii) Counterparty to share acquisition

Anchor Brewing Company, LLC

iv) Date of business combination

August 31, 2017

v) Legal form of business combination

Equity shares were acquired for a cash consideration.

vi) Name of acquiree after combination

No change.

vii) Percentage of equity shares acquired

100%

viii) Main basis for determining the acquirer

A consolidated subsidiary of the Company acquired the equity shares for a cash consideration.

(2) Consideration for acquisition

Consideration for the acquisition was 11,914 million yen, paid in cash.

(3) Assets acquired and liabilities assumed

The acquisition-date fair values of assets acquired and liabilities assumed are presented below.

	Amount (Millions of yen)
Fair value of assets acquired and liabilities assumed	
Current assets	1,126
Cash and cash equivalents	232
Trade and other receivables	382
Non-current assets	8,035
Property, plant and equipment	3,942
Intangible assets	4,034
Current liabilities	778
Non-current labilities	2
Fair value of assets acquired and liabilities assumed, net	8,381
Goodwill	3,533

The goodwill mainly reflects excess earnings power due to business merger synergies. The amount of goodwill is deductible for tax purposes.

(4) Acquisition-related costs

Acquisition-related costs were 404 million yen. They are included in “selling, general and administrative expenses” on the Consolidated Statement of Profit or Loss.

(5) Impact on the Group’s operating results

The Group’s Consolidated Statement of Profit or Loss includes 842 million yen of revenue generated and 207 million yen of loss incurred by Anchor Brewing Company, LLC from the acquisition date through December 31, 2017.

If the business combination had hypothetically occurred on January 1, 2017, the Group’s consolidated revenue and profit would have been 539,163 million yen and 6,241 million yen, respectively (unaudited information).

During the fiscal year ended December 31, 2018

The Group acquired trust beneficiary rights in investment and rental property. Details are disclosed under “16. Investment Property, (1) Changes in carrying amounts.”

8. Cash and Cash Equivalents

A breakdown of cash and cash equivalents is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Cash and deposits	10,589	12,718	10,971	98,918
Time deposits maturing over three months	(114)	(181)	(982)	(8,855)
Total	10,476	12,537	9,989	90,063

Cash outflow for leases is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Total cash outflow for leases	13,878	14,298	128,918

9. Trade and Other Receivables

A breakdown of trade and other receivables is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Notes and accounts receivable - trade	96,657	98,428	93,460	842,665
Allowance for doubtful accounts	(82)	(103)	(120)	(1,079)
Total	96,574	98,325	93,340	841,587

Trade and other receivables are classified as financial assets measured at amortized cost.

They are presented net of allowance for doubtful accounts on the Consolidated Statement of Financial Position.

10. Other Financial Assets

(1) Breakdown of other financial assets

A breakdown of other financial assets is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Stocks	67,856	71,818	59,483	536,314
Bonds	–	1,000	5,000	45,082
Derivative assets	3,158	823	217	1,960
Accounts receivable - other	3,938	3,978	3,821	34,455
Loans receivable	9,109	4,698	555	5,008
Guarantee deposits	6,201	5,892	5,985	53,961
Other	179	790	1,193	10,761
Allowance for doubtful accounts	(1,195)	(1,216)	(1,260)	(11,365)
Total	89,246	87,784	74,995	676,175
Current assets	9,967	9,107	4,790	43,188
Non-current assets	79,278	78,677	70,205	632,987
Total	89,246	87,784	74,995	676,175

Other financial assets are presented net of allowance for doubtful accounts on the Consolidated Statement of Financial Position.

Stocks and bonds are classified as financial assets measured at fair value through other comprehensive income, derivative assets (excluding those subject to hedge accounting) as financial assets measured at fair value through profit or loss, and accounts receivable - other, loans receivable and guarantee deposits as financial assets measured at amortized cost.

(2) Financial assets measured at fair value through other comprehensive income

The Group's main holdings classified as financial assets measured at fair value through other comprehensive income and their fair values are presented below.

As of January 1, 2017 (Transition Date)

(Millions of yen)

Issuer	Amount
Resorttrust, Inc.	7,233
Imperial Hotel, Ltd.	5,193
FUJIO FOOD SYSTEM Co., Ltd.	3,081
SHIBUYA CORPORATION	2,378
Keikyu Corporation	2,045
Mizuho Financial Group, Inc.	1,675
TAISEI CORPORATION	1,636
Dai Nippon Printing Co., Ltd.	1,596
Marubeni Corporation	1,547
PALACE HOTEL CO., LTD.	1,405

As of December 31, 2017

(Millions of yen)

Issuer	Amount
Resorttrust, Inc.	8,584
Imperial Hotel, Ltd.	5,475
FUJIO FOOD SYSTEM Co., Ltd.	4,752
SHIBUYA CORPORATION	3,269
PALACE HOTEL CO., LTD.	2,543
TAISEI CORPORATION	2,244
Marubeni Corporation	1,905
Dai Nippon Printing Co., Ltd.	1,736
Keikyu Corporation	1,634
Central Japan Railway Company	1,332

As of December 31, 2018

Issuer	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
FUJIO FOOD SYSTEM Co., Ltd.	5,582	50,332
Resorttrust, Inc.	5,400	48,685
Imperial Hotel, Ltd.	4,678	42,176
SHIBUYA CORPORATION	2,471	22,279
TAISEI CORPORATION	1,882	16,969
Marubeni Corporation	1,803	16,254
Dai Nippon Printing Co., Ltd.	1,587	14,309
Central Japan Railway Company	1,529	13,785
Rengo Co., Ltd.	1,389	12,525
Keikyu Corporation	1,356	12,225

The Group holds stocks mainly to maintain or strengthen commercial, collaborative and/or financial relationships and therefore designates them as financial assets measured at fair value through other comprehensive income.

(3) Derecognition of financial assets measured at fair value through other comprehensive income

Certain financial assets measured at fair value through other comprehensive income were sold (derecognized), mainly as a result of business strategy revisions. Their fair value at the date of the sale and the cumulative gains or losses associated with their sale are presented below.

Cumulative gains or losses (net of tax) that had been recognized in equity through other comprehensive income were reclassified to retained earnings upon the assets' sale.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Fair value	8,278	1,452	13,089
Cumulative gains (losses)	4,836	822	7,413

Recognized dividend income from financial assets measured at fair value through other comprehensive income is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Derecognized financial assets	273	9	85
Financial assets held at fiscal year-end	889	968	8,731

11. Inventories

A breakdown of inventories is presented below.

	(Millions of yen)			(Thousands of U.S. dollars)
As of	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Merchandise and finished goods	21,238	22,476	22,876	206,260
Raw materials and supplies	16,381	15,397	14,233	128,329
Total	37,619	37,873	37,109	334,589

The amount of inventories recognized in cost of sales in the fiscal years ended December 31, 2017, and December 31, 2018, was 350,799 million yen and 340,196 million yen (3,067,319 thousand U.S. dollars), respectively.

The amount of inventory valuation losses recognized as an expense in the fiscal years ended December 31, 2017, and December 31, 2018, was 883 million yen and 1,069 million yen (9,636 thousand U.S. dollars), respectively.

12. Other Assets

A breakdown of other current assets and other non-current assets is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Prepaid expenses	4,954	5,141	4,942	44,558
Income taxes receivable	798	410	2,236	20,156
Long-term prepaid expenses	5,098	5,619	4,530	40,841
Other investments	3,199	3,126	3,010	27,136
Other	2,258	1,927	2,125	19,163
Total	16,308	16,223	16,842	151,854
Current assets	7,386	6,914	8,316	74,977
Non-current assets	8,921	9,309	8,526	76,877
Total	16,308	16,223	16,842	151,854

13. Assets Held for Sale

A breakdown of assets held for sale and liabilities directly associated therewith is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Property, plant and equipment	359	–	–	–
Total assets	359	–	–	–

The assets held for sale at the Transition Date were mainly land holdings of the Food & Soft Drinks Business segment. The Group decided to divest them to refocus its operations on selected business domains. The asset sales were completed in the fiscal year ended December 31, 2017.

14. Property, Plant and Equipment

(1) Changes in property, plant and equipment

Changes in the carrying amount, cost and accumulated depreciation and impairment losses of property, plant and equipment are presented below.

(Millions of yen)

Carrying amount	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of January 1, 2017 (Transition Date)	55,628	31,803	2,543	25,769	33,131	2,728	151,602
Acquisitions	583	904	169	7,127	–	10,293	19,076
Transfer from construction in progress	2,599	4,411	1,007	–	32	(8,049)	–
Acquisitions through business combinations	1,018	855	16	–	1,935	118	3,942
Depreciation	(4,037)	(6,237)	(893)	(6,833)	–	–	(18,001)
Impairment losses	(1,176)	(2,284)	(58)	(272)	(16)	–	(3,806)
Sales and disposals	(378)	(75)	(59)	(36)	(184)	–	(732)
Exchange differences on translation of foreign operations	97	388	16	106	(10)	(14)	583
Other changes	(8)	155	–	(522)	(38)	(919)	(1,332)
As of December 31, 2017	54,326	29,920	2,742	25,340	34,849	4,158	151,334
Acquisitions	948	1,338	204	8,557	–	15,142	26,189
Transfer from construction in progress	3,650	7,521	850	–	26	(12,047)	–
Depreciation	(3,922)	(5,730)	(871)	(6,490)	–	–	(17,013)
Impairment losses	(332)	(72)	(40)	(486)	(117)	–	(1,047)
Sales and disposals	(844)	(522)	(22)	(189)	(693)	–	(2,270)
Exchange differences on translation of foreign operations	(439)	(1,382)	(42)	(360)	(99)	(47)	(2,369)
Other changes	(40)	(15)	(36)	(1,119)	(210)	(728)	(2,147)
As of December 31, 2018	53,348	31,058	2,785	25,254	33,755	6,477	152,676

(Thousands of U.S. dollars)

Carrying amount	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of December 31, 2017	489,820	269,767	24,721	228,471	314,209	37,487	1,364,475
Acquisitions	8,551	12,066	1,835	77,156	–	136,522	236,130
Transfer from construction in progress	32,910	67,810	7,662	–	236	(108,618)	–
Depreciation	(35,362)	(51,668)	(7,849)	(58,513)	–	–	(153,392)
Impairment losses	(2,994)	(649)	(363)	(4,379)	(1,058)	–	(9,443)
Sales and disposals	(7,607)	(4,707)	(201)	(1,702)	(6,251)	–	(20,468)
Exchange differences on translation of foreign operations	(3,960)	(12,457)	(374)	(3,247)	(896)	(426)	(21,362)
Other changes	(359)	(131)	(321)	(10,092)	(1,895)	(6,564)	(19,361)
As of December 31, 2018	480,999	280,031	25,109	227,694	304,345	58,401	1,376,578

(Millions of yen)

Cost	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of January 1, 2017 (Transition Date)	178,698	227,264	15,363	34,895	34,091	2,728	493,040
As of December 31, 2017	180,226	228,444	15,431	37,618	35,825	4,158	501,703
As of December 31, 2018	179,992	230,617	15,294	40,661	34,731	6,477	507,773

(Thousands of U.S. dollars)

Cost	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of December 31, 2018	1,622,864	2,079,320	137,900	366,608	313,149	58,401	4,578,242

(Millions of yen)

Accumulated depreciation and impairment losses	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of January 1, 2017 (Transition Date)	123,070	195,461	12,819	9,127	960	–	341,437
As of December 31, 2017	125,900	198,525	12,690	12,278	976	–	350,369
As of December 31, 2018	126,644	199,559	12,510	15,407	976	–	355,097

(Thousands of U.S. dollars)

Accumulated depreciation and impairment losses	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
As of December 31, 2018	1,141,865	1,799,289	112,791	138,915	8,804	–	3,201,664

Depreciation of property, plant and equipment is mainly included in “cost of sales” and “selling, general and administrative expenses” on the Consolidated Statement of Profit or Loss.

(2) Right-of-use assets

A breakdown of right-of-use assets is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Right-of-use assets for which buildings and structures are the underlying asset	14,595	15,534	16,266	146,660
Right-of-use assets for which machinery and vehicles are the underlying asset	2,947	2,625	2,971	26,787
Right-of-use assets for which tools, furniture and fixtures are the underlying asset	6,567	5,589	4,833	43,579
Right-of-use assets for which land is the underlying asset	1,661	1,592	1,183	10,668
Total right-of-use assets	25,769	25,340	25,254	227,694

(3) Borrowing costs

In the fiscal year ended December 31, 2017, no borrowing costs were capitalized as part of the cost of a qualifying asset. In the fiscal year ended December 31, 2018, 12 million yen (109 thousand U.S. dollars) of borrowing costs were capitalized. The capitalization rate applied was 0.6%.

15. Goodwill and Intangible Assets

(1) Changes in goodwill and intangible assets

Changes in carrying amount, cost and accumulated amortization and impairment losses of goodwill and intangible assets are presented below.

(Millions of yen)

Carrying amount	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of January 1, 2017 (Transition Date)	21,483	4,052	3,638	2,615	31,788
Acquisitions	–	1,803	–	60	1,864
Acquisitions through business combinations	3,533	28	–	4,006	7,566
Amortization	–	(1,865)	(294)	(330)	(2,489)
Impairment losses	–	(0)	–	(4)	(5)
Sales and disposals	–	(154)	–	(115)	(269)
Exchange differences on translation of foreign operations	(73)	5	(111)	(16)	(195)
Other changes	–	(1)	(10)	33	22
As of December 31, 2017	24,942	3,868	3,223	6,248	38,281
Acquisitions	–	2,116	–	130	2,245
Amortization	–	(1,609)	(281)	(375)	(2,265)
Impairment losses	(3,461)	(3)	–	(919)	(4,383)
Sales and disposals	–	(14)	–	(0)	(14)
Exchange differences on translation of foreign operations	(253)	(11)	(62)	(142)	(468)
Other changes	–	2	–	(113)	(112)
As of December 31, 2018	21,229	4,348	2,880	4,828	33,285

(Thousands of U.S. dollars)

Carrying amount	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2017	224,887	34,872	29,063	56,336	345,158
Acquisitions	–	19,076	–	1,168	20,243
Amortization	–	(14,507)	(2,534)	(3,385)	(20,426)
Impairment losses	(31,205)	(25)	–	(8,288)	(39,518)
Sales and disposals	–	(126)	–	(1)	(127)
Exchange differences on translation of foreign operations	(2,277)	(101)	(561)	(1,280)	(4,219)
Other changes	–	16	–	(1,022)	(1,006)
As of December 31, 2018	191,405	39,204	25,969	43,527	300,105

(Millions of yen)

Cost	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of January 1, 2017 (Transition Date)	21,483	23,716	4,172	9,075	58,445
As of December 31, 2017	24,942	23,593	4,047	13,137	65,719
As of December 31, 2018	24,690	24,001	3,971	12,283	64,944

(Thousands of U.S. dollars)

Cost	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2018	222,610	216,403	35,800	110,747	585,559

(Millions of yen)

Accumulated amortization and impairment losses	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of January 1, 2017 (Transition Date)	–	19,664	534	6,460	26,657
As of December 31, 2017	–	19,725	824	6,889	27,438
As of December 31, 2018	3,461	19,653	1,090	7,455	31,660

(Thousands of U.S. dollars)

Accumulated amortization and impairment losses	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2018	31,205	177,199	9,831	67,219	285,454

Internally generated intangible assets are mainly software. Their cost at January 1, 2017 (Transition Date), December 31, 2017, and December 31, 2018, was 11,874 million yen, 11,994 million yen and 12,358 million yen (111,422 thousand U.S. dollars), respectively and their accumulated amortization and impairment losses at January 1, 2017 (Transition Date), December 31, 2017, and December 31, 2018, totaled 10,664 million yen, 11,218 million yen and 11,621 million yen (104,778 thousand U.S. dollars), respectively.

Amortization is included in “cost of sales” and “selling, general and administrative expenses” on the Consolidated Statement of Profit or Loss.

Of the above intangible assets, those with indefinite useful lives had an aggregate carrying amount at January 1, 2017 (Transition Date), December 31, 2017, and December 31, 2018, of 824 million yen, 800 million yen and 785 million yen (7,075 thousand U.S. dollars), respectively. Said intangible assets are trademarks, most of which were recognized when the Group acquired a North American soft drink company. The Group deems the trademarks to be intangible assets with indefinite useful lives because they are basically perpetual as long as said company continues to exist.

(2) Significant intangible assets

Significant intangible assets carried on the Consolidated Statement of Financial Position are mainly trademarks recognized in conjunction with the 2017 acquisition of Anchor Brewing Company, LLC, and customer relationships recognized in conjunction with the 2015 acquisition of a North American soft drink company.

The carrying amount at December 31, 2018, of the trademarks recognized in conjunction with Anchor Brewing Company’s acquisition was 2,864 million yen (25,821 thousand U.S. dollars) (December 31, 2017: 3,975 million yen). The carrying amount at December 31, 2018, of the customer relationships recognized in conjunction with the North American soft drink company’s acquisition was 2,880 million yen (25,969 thousand U.S. dollars) (January 1, 2017 (Transition Date): 3,638 million yen, December 31, 2017: 3,223 million yen).

The trademarks are being amortized using the straight-line method; their remaining amortization period is 31 years. The customer relationships are being amortized mainly using the straight-line method; their remaining amortization periods range from one to 19 years.

(3) Impairment test of intangible assets with indefinite useful lives

Major intangible assets with indefinite useful lives were tested for impairment as follows in the fiscal year ended December 31, 2018.

When tested for impairment, the North American soft drink company's trademarks recognized upon the Company's acquisition had a carrying amount of 776 million yen (7,000 thousand U.S. dollars) (January 1, 2017 (Transition Date): 816 million yen, December 31, 2017: 791 million yen).

Their recoverable amount was measured based on value in use for each cash-generating unit. Value in use was measured by discounting future cash flows at a 10.0% discount rate (December 31, 2017: 9.5%). Said discount rate was determined in reference to the weighted-average cost of capital.

Future cash flows are based on a growth rate of 3.0% (December 31, 2017: 3.0%) and management-approved business plans prepared to reflect past experience and external information with planning horizons generally no longer than five years. Said growth rate was determined in light of conditions in the market(s) to which the cash-generating units are dedicated.

If the key assumptions used to test for impairment were to change, the change would pose a risk of impairment loss, but the Group concluded that value in use exceeds the tested cash-generating units' carrying amount and is unlikely to fall below their carrying amount even if said key assumptions change within a reasonably foreseeable range.

16. Investment Property

(1) Changes in investment property

Changes in carrying amount, cost and accumulated depreciation and impairment losses of investment property are presented below.

Carrying amount	(Millions of yen)		(Thousands of U.S. dollars)
	During the fiscal year ended December 31, 2017	During the fiscal year ended December 31, 2018	During the fiscal year ended December 31, 2018
Balance at beginning of period	223,595	219,658	1,980,503
Acquisitions	2,693	4,178	37,669
Acquisitions through business combination (Note)	–	2,520	22,721
Sales and disposals	(2,037)	(6,204)	(55,938)
Depreciation	(4,593)	(4,629)	(41,737)
Balance at end of period	219,658	215,522	1,943,218

(Note) "Acquisitions through business combination" refers to a November 30, 2018, acquisition of all trust beneficiary rights in investment and rental property in Shibuya-ku, Tokyo, the objective of which was to further increase revenue through property value appreciation, community development and property portfolio restructuring in the Ebisu District of Shibuya-ku. The transaction was accounted for as a business acquisition. The assets acquired in the transaction consist solely of investment property. No liabilities were assumed. The assets' acquisition-date fair value was 2,520 million yen 22,721 thousand U.S. dollars). The consideration paid was 2,520 million yen (22,721 thousand U.S. dollars) in cash. Acquisition-related costs, and information on revenue and profit or loss of the acquiree from the acquisition date onward and revenue and profit or loss if the transaction had hypothetically occurred on January 1, 2018 (unaudited information), are omitted because the transaction's effects on the Consolidated Statement of Profit or Loss were insignificant.

Cost	(Millions of yen)		(Thousands of U.S. dollars)
	During the fiscal year ended December 31, 2017	During the fiscal year ended December 31, 2018	During the fiscal year ended December 31, 2018
Balance at beginning of period	367,476	367,154	3,310,381
Balance at end of period	367,154	366,480	3,304,301

Accumulated depreciation and impairment losses	(Millions of yen)		(Thousands of U.S. dollars)
	During the fiscal year ended December 31, 2017	During the fiscal year ended December 31, 2018	During the fiscal year ended December 31, 2018
Balance at beginning of period	143,881	147,497	1,329,878
Balance at end of period	147,497	150,958	1,361,083

(2) Fair value

Investment property's fair value is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Investment property	365,406	372,753	385,992	3,480,230

Fair value is measured mainly based on discounted cash flow valuations provided by external real estate appraisers or similar properties' market prices.

Investment property's fair values in the fiscal years ended December 31, 2017, and December 31, 2018, are recognized in Level 3 of the fair value hierarchy.

The fair value hierarchy is disclosed under "37. Financial Instruments, (8) Financial instruments' fair value."

(3) Income from and expenses arising from investment property

Rental income from investment property and direct operating expenses incurred in the generation thereof are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Rental income	22,647	23,174	208,947
Direct operating expenses	12,681	12,957	116,825

The direct operating expenses do not include expenses arising from investment property that did not generate rental income.

17. Impairment Losses

(1) Breakdown of recognized impairment losses by main asset class and segment

For the fiscal year ended December 31, 2017

Segment	Cash-generating unit	Impairment losses (Millions of yen)	Class of assets
International Business	Alcoholic Beverages (Japan & Asia)	2,686	Machinery and equipment and other

The carrying amount of beer brewing facilities owned by Sapporo Vietnam Ltd. was reduced to its recoverable amount because recovery of the investment in the facilities is no longer probable, largely as a result of a decrease in income. The impairment losses consisted of a 627 million yen impairment loss on buildings and structures, a 2,058 million yen impairment loss on machinery and vehicles and a 2 million yen impairment loss on tools, furniture and fixtures.

The recoverable amount was measured at 988 million yen based on fair value less costs of disposal.

Fair value was measured by multiplying replacement value by a liquidation value ratio. It is in Level 3 of the fair value hierarchy.

For the fiscal year ended December 31, 2018

Segment	Cash-generating unit	Impairment losses (Millions of yen)	Impairment losses (Thousands of U.S. dollars)	Class of assets
International Business	Alcoholic Beverages (North America)	4,377	39,466	Goodwill and other

The carrying amount of the goodwill and a portion of the intangible assets recognized upon acquisition of equity in Anchor Brewing Company, LLC, was reduced to their recoverable amount because attainment of initial income projections is no longer probable as a result of weak overall demand on the U.S. West Coast, a key geographic market. The impairment losses consisted of a 3,461 million yen (31,205 thousand U.S. dollars) impairment loss on goodwill and a 916 million yen (8,261 thousand U.S. dollars) impairment loss on intangible assets.

The recoverable amount was measured at 6,544 million yen (59,000 thousand U.S. dollars) based on fair value less costs of disposal.

Fair value was measured by discounting future cash flows at 8.0%. It is in Level 3 of the fair value hierarchy.

(2) Goodwill impairment test

Carrying amounts of goodwill allocated to cash-generating units (groups of cash-generating units) are presented below.

Cash-generating unit (group of cash-generating units)	(Millions of yen)			(Thousands of U.S. dollars)
	As of January 1, 2017 (Transition Date)	As of December 31, 2017	As of December 31, 2018	As of December 31, 2018
Alcoholic Beverages (North America)	6,784	10,366	6,728	60,659
Soft Drinks (North America)	4,111	3,989	3,913	35,281
Food & Soft Drinks (Japan & Asia)	10,208	10,208	10,208	92,040
Restaurants	380	380	380	3,424
Total	21,483	24,942	21,229	191,405

Goodwill was tested for impairment mainly as follows.

Alcoholic Beverages (North America)

Recoverable amounts were measured based on value in use.

Value in use was measured by discounting future cash flows at 9.0% (December 31, 2017: 9.0%). Said discount rate was determined in reference to the cash-generating unit’s weighted average cost of capital.

Future cash flows are based on a growth rate of 2.5% (December 31, 2017: 2.5%) and management-approved business plans prepared to reflect past experience and external information with planning horizons generally no longer than five years. Said growth rate was determined in light of conditions in the market(s) to which the cash-generating unit is dedicated.

Goodwill’s carrying amount at December 31, 2017, included 3,542 million yen of goodwill recognized in conjunction with the acquisition of Anchor Brewing Company, LLC, a separate cash-generating unit. Said goodwill was measured at fair value less costs of disposal.

Fair value less costs of disposal was measured by estimating future cash flows based on an assumed growth rate of 2.5% and management-approved business plans prepared to reflect past experience and external information with planning horizons generally no longer than five years and then discounting the cash flows to present value using an adjusted discount rate based on weighted average cost of capital (8.0% discount rate in the fiscal year ended December 31, 2017).

The resultant fair value is in Level 3 of the fair value hierarchy.

Soft Drinks (North America)

Recoverable amounts were measured based on value in use.

Value in use was measured by discounting future cash flows at 10.0% (December 31, 2017: 9.5%). Said discount rate was determined in reference to the cash-generating unit’s weighted average cost of capital.

Future cash flows are based on a growth rate of 3.0% (December 31, 2017: 3.0%) and management-approved business plans prepared to reflect past experience and external information with planning horizons generally no longer than five years. Said growth rate was determined in light of conditions in the market(s) to which the cash-generating unit is dedicated.

If the key assumptions used to test for impairment were to change, the change would pose a risk of impairment loss, but the Group concluded that value in use exceeds the cash-generating unit's carrying amount and is unlikely to fall below its carrying amount even if said key assumptions change within a reasonably foreseeable range.

Food & Soft Drinks (Japan & Asia)

Recoverable amounts were measured based on value in use.

Value in use was measured by discounting future cash flows at 5.8% (December 31, 2017: 5.6%). Said discount rate was determined in reference to the cash-generating unit's weighted average cost of capital.

Future cash flows are based on management-approved business plans prepared to reflect past experience and external information with planning horizons generally no longer than five years. The growth rate used for impairment testing is set at 0% (December 31, 2017: 0%) as a practical expedient.

If the key assumptions used to test for impairment were to change, the change would pose a risk of impairment loss, but the Group concluded that value in use exceeds the cash-generating unit's carrying amount and is unlikely to fall below its carrying amount even if said key assumptions change within a reasonably foreseeable range.

18. Investments Accounted for Using Equity Method

Carrying amounts of investments accounted for using the equity method are presented below.

	(Millions of yen)			(Thousands of U.S. dollars)
As of	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Carrying amount of investments in associates	372	391	410	3,700

The Group's share of profit and other comprehensive income of associates accounted for using the equity method is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Group's share of profit of associates accounted for using equity method	19	19	171
Total	19	19	171

19. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities, and changes therein are presented below broken down by main source of the deferred tax assets/liabilities.

For the fiscal year ended December 31, 2017

(Millions of yen)

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	December 31, 2017
Deferred tax assets					
Fixed assets	4,847	300	–	9	5,156
Retirement benefit liability	3,816	(506)	(239)	–	3,071
Accrued expenses	2,214	65	–	4	2,283
Gift coupon gains or losses	1,405	(161)	–	–	1,244
Tax loss carryforwards	692	112	–	129	933
Provision for bonuses	798	(7)	–	1	792
Marketable securities	47	(27)	–	–	20
Other	1,197	604	–	102	1,903
Total	15,016	380	(239)	245	15,402
Deferred tax liabilities					
Fixed assets	20,105	(1,828)	–	108	18,385
Valuation differences	11,360	–	3,602	12	14,974
Reserve for advanced depreciation of fixed assets	6,212	440	–	–	6,652
Other	1,617	(1,091)	71	340	937
Total	39,294	(2,479)	3,673	460	40,948
Net deferred tax assets (liabilities)	(24,278)	2,859	(3,912)	(215)	(25,546)

For the fiscal year ended December 31, 2018

(Millions of yen)

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	December 31, 2018
Deferred tax assets					
Fixed assets	5,156	(545)	–	(1)	4,610
Retirement benefit liability	3,071	645	1,646	–	5,362
Accrued expenses	2,283	6	–	(6)	2,283
Gift coupon gains or losses	1,244	(134)	–	–	1,110
Tax loss carryforwards	933	77	–	(12)	998
Provision for bonuses	792	(279)	–	–	513
Marketable securities	20	2,961	–	–	2,981
Other	1,903	(89)	–	187	2,001
Total	15,402	2,642	1,646	168	19,860
Deferred tax liabilities					
Fixed assets	18,385	(35)	–	(313)	18,037
Valuation differences	14,974	–	(4,082)	(19)	10,873
Reserve for advanced depreciation of fixed assets	6,652	(1,418)	–	–	5,234
Other	937	550	26	(372)	1,141
Total	40,948	(903)	(4,056)	(704)	35,286
Net deferred tax assets (liabilities)	(25,546)	3,545	5,702	2,449	(15,426)

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	December 31, 2018
Deferred tax assets					
Fixed assets	46,488	(4,914)	–	(9)	41,565
Retirement benefit liability	27,689	5,816	14,841	–	48,346
Accrued expenses	20,584	54	–	(54)	20,584
Gift coupon gains or losses	11,216	(1,208)	–	–	10,008
Tax loss carryforwards	8,412	694	–	(108)	8,998
Provision for bonuses	7,141	(2,516)	–	–	4,625
Marketable securities	180	26,697	–	–	26,878
Other	17,158	(802)	–	1,686	18,042
Total	138,869	23,821	14,841	1,515	179,064
Deferred tax liabilities					
Fixed assets	165,765	(316)	–	(2,822)	162,627
Valuation differences	135,010	–	(36,805)	(171)	98,034
Reserve for advanced depreciation of fixed assets	59,977	(12,785)	–	–	47,191
Other	8,448	4,959	234	(3,354)	10,288
Total	369,200	(8,142)	(36,570)	(6,347)	318,150
Net deferred tax assets (liabilities)	(230,331)	31,963	51,411	22,078	(139,086)

(Note) "Other" mainly includes deferred tax assets/liabilities recognized in conjunction with acquisition of subsidiaries through business combinations and exchange differences on translation of foreign operations.

(2) Deductible temporary differences and tax loss carryforwards for which no deferred tax asset has been recognized

In recognizing deferred tax assets, the Group takes into account the probability that deductible temporary differences or tax loss carryforwards can be fully or partially utilized against future taxable profits. In assessing deferred tax assets' recoverability, the Group takes into account scheduled reversals of deferred tax liabilities, projected future taxable profits and tax planning. The Group deems recognized deferred tax assets to have a high probability of being recovered based on past taxable profit levels and projections of future taxable profits over the periods in which the deferred tax assets are deductible.

Deductible temporary differences and tax loss carryforwards for which no deferred tax asset has been recognized are presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Deductible temporary differences	14,727	15,871	12,567	113,309
Tax loss carryforwards	2,708	3,260	3,810	34,349

The following table summarizes the amounts of tax loss carryforwards for which no deferred tax asset has been recognized and their expiry dates.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
1st year	69	120	187	1,683
2nd year	144	165	497	4,484
3rd year	175	485	493	4,441
4th year	496	507	724	6,530
After 5th year	1,825	1,983	1,909	17,212
Total	2,708	3,260	3,810	34,349

(3) Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized

With the exception of temporary differences arising from undistributed profits scheduled to be distributed as dividends as of the end of the reporting period, the Company does not recognize deferred tax liabilities related to taxable temporary differences associated with investments in subsidiaries when the Group is able to control the timing of the temporary differences' reversal and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and interests in joint arrangements not recognized as deferred tax liabilities at January 1, 2017 (Transition Date), December 31, 2017 and December 31, 2018, were 45,773 million yen, 45,690 million yen and 54,080 million yen (487,607 thousand U.S. dollars), respectively.

(4) Income tax expense

A breakdown of income tax expense is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Current income tax expense	8,030	5,317	47,937
Deferred income tax expense	(2,859)	(3,545)	(31,961)
Total	5,170	1,772	15,975

On December 22, 2017 (local time), the U.S. enacted a tax reform law lowering federal corporate tax rates effective from January 1, 2018. In conjunction with the law's enactment, US subsidiaries' deferred tax assets and deferred tax liabilities were measured using an effective statutory tax rate based on amended tax rates.

As a result, income tax expense in the fiscal year ended December 31, 2017, was 366 million yen lower than it otherwise would have been.

(5) Reconciliation between effective statutory tax rate and actual tax rate

The taxes to which the Group is subject are mainly corporation tax, inhabitants tax, and enterprise tax. Based on said taxes, its effective statutory tax rate in the fiscal years ended December 31, 2017, and December 31, 2018, was 30.9%. Overseas subsidiaries are subject to the corporate tax and other taxes in the tax jurisdictions in which they are respectively located.

Major causes of differences between the Group's effective statutory tax rate and actual tax rate are presented below.

For the fiscal year ended	December 31, 2017	December 31, 2018
Effective statutory tax rate	30.9%	30.9%
Effect of nontaxable income and nondeductible expenses in determining taxable profit	7.1%	5.9%
Unrecognized deferred tax assets	8.0%	(28.3)%
Tax credits	(2.6)%	(3.7)%
Effect of changes in tax rates	(3.4)%	0.3%
Impairment of goodwill	–	10.2%
Overseas consolidated subsidiaries' tax rate differences	1.8%	2.9%
Income taxes for prior periods	1.7%	(0.6)%
Other	1.4%	1.2%
Actual tax rate	44.8%	18.7%

20. Bonds and Borrowings

(1) Breakdown of bonds and borrowings

A breakdown of bonds and borrowings is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Current portion of bonds payable	10,081	10,066	10,006	90,213
Bonds payable	49,967	49,905	59,826	539,414
Short-term borrowings	18,506	15,356	14,936	134,664
Commercial papers	33,000	32,000	28,500	256,965
Current portion of long-term borrowings	13,992	23,294	20,422	184,133
Long-term borrowings	115,268	103,279	94,657	853,454
Total	240,815	233,900	228,346	2,058,844
Current liabilities	75,580	80,716	73,863	665,976
Non-current labilities	165,235	153,184	154,483	1,392,868
Total	240,815	233,900	228,346	2,058,844

Bonds and borrowings are classified as financial liabilities measured at amortized cost.

Short-term borrowings and long-term borrowings' average interest rates at January 1, 2017, (Transition Date) were 0.57% and 0.67%, respectively.

Short-term borrowings and long-term borrowings' average interest rates at December 31, 2017, were 0.79% and 0.70%, respectively.

Short-term borrowings and long-term borrowings' average interest rates at December 31, 2018, were 1.16% and 0.63%, respectively.

Long-term borrowings' maturity dates range from 2019 to 2028.

(2) Details of bond issues

Details of bond issues are presented below.

Company name	Issue	Date of issuance	Maturity date	Interest rate (%)	Collateral	(Millions of yen)			(Thousands of U.S. dollars)
						As of January 1, 2017 (Transition Date)	As of December 31, 2017	As of December 31, 2018	As of December 31, 2018
Sapporo Holdings Limited (the Company)	26th Series of Unsecured Straight Corporate Bonds	March 2, 2012	March 2, 2017	0.64	None	9,998 (9,998)	–	–	–
	27th Series of Unsecured Straight Corporate Bonds	March 14, 2013	March 14, 2018	0.39	None	9,987	9,998 (9,998)	–	–
	28th Series of Unsecured Straight Corporate Bonds	December 5, 2013	December 4, 2020	0.61	None	9,968	9,976	9,984	90,023
	29th Series of Unsecured Straight Corporate Bonds	September 12, 2014	September 12, 2019	0.31	None	9,970	9,981	9,992 (9,992)	90,094 (90,094)
	30th Series of Unsecured Straight Corporate Bonds	September 10, 2015	September 10, 2020	0.33	None	9,960	9,970	9,981	89,996
	31st Series of Unsecured Straight Corporate Bonds	March 22, 2016	March 22, 2021	0.25	None	9,953	9,964	9,975	89,942
	32nd Series of Unsecured Straight Corporate Bonds	June 1, 2017	June 1, 2022	0.15	None	–	9,952	9,963	89,826
	Euro-yen Convertible Bonds with Share Acquisition Rights due 2021	April 27, 2018	April 27, 2021	–	None	–	–	19,875	179,200
MARU-SHINKA-WAMURA INC. (Note 2)	Subsidiary's straight corporate bonds	October 2, 2012 to March 14, 2016	September 25, 2017 to February 28, 2029	0.47 to 0.65	None	212 (83)	129 (68)	61 (13)	546 (119)
Total	–	–	–	–	–	60,049 (10,081)	59,971 (10,066)	69,832 (10,006)	629,628 (90,213)

(Notes) 1 Amounts in parentheses are bonds scheduled to mature within one year.
2 All outstanding bonds issued by subsidiary MARUSHINKAWAMURA INC. are aggregated together.

(3) Assets pledged as collateral

Assets pledged as collateral and secured liabilities are presented below.

Assets pledged as collateral

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Land	2,051	2,051	2,051	18,490
Investment securities	7,498	8,693	7,490	67,532
Other	1,076	1,090	1,250	11,270
Total	10,625	11,833	10,791	97,292

Secured liabilities

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Short-term borrowings	5,902	5,610	5,430	48,959
Long-term borrowings	15,309	14,471	12,749	114,951
Total	21,211	20,081	18,179	163,910

In addition to the above, Pokka International Pte. Ltd.'s cash and deposits (27 million yen at January 1, 2017 (Transition Date); 28 million yen at December 31, 2017; 27 million yen (242 thousand U.S. dollars) at December 31, 2018) were pledged as collateral for a line of credit (871 million yen at January 1, 2017 (Transition Date); 913 million yen at December 31, 2017; 874 million yen (7,880 thousand U.S. dollars) at December 31, 2018). Short-term borrowings were outstanding under the line of credit (9 million yen at January 1, 2017 (Transition Date); 8 million yen at December 31, 2017; 4 million yen (33 thousand U.S. dollars) at December 31, 2018).

21. Leases

(1) Income and expense items related to right-of-use assets

Income and expense items related to right-of-use assets are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Depreciation of right-of-use assets			
Right-of-use assets for which buildings and structures are the underlying asset	3,872	3,631	32,738
Right-of-use assets for which machinery and vehicles are the underlying asset	519	814	7,336
Right-of-use assets for which tools, furniture and fixtures are the underlying asset	2,285	2,023	18,242
Right-of-use assets for which land is the underlying asset	157	22	196
Total depreciation	6,833	6,490	58,513
Expense relating to short-term leases under recognition exemptions	1,697	1,708	15,401
Expense relating to leases of low-value assets under recognition exemptions	4,728	4,671	42,111
Expense relating to variable lease payments	767	882	7,951
Income from subleasing right-of-use assets	365	399	3,597

(2) Variable lease payments (Lessee)

Some real estate leases within the Group include payment terms that vary as a function of the amount of sales generated by the restaurants or cafés occupying the leased premises. Such variable payment terms are used to link lease payments to cash flows of restaurants or cafés and minimize fixed costs.

Fixed and variable lease payments (mainly for properties leased from external lessors) by restaurant brand are presented below.

For the fiscal year ended December 31, 2017

(Millions of yen)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Ltd.	2,058	447	2,505
Pokka Create Co., Ltd.	1,358	152	1,510
Total	3,417	599	4,016

For the fiscal year ended December 31, 2018

(Millions of yen)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Ltd.	1,865	466	2,332
Pokka Create Co., Ltd.	1,420	149	1,568
Total	3,285	615	3,900

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Ltd.	16,817	4,205	21,023
Pokka Create Co., Ltd.	12,801	1,341	14,142
Total	29,618	5,546	35,164

(3) Extension options and termination options (Lessee)

Each Group subsidiary assumes responsibility for lease management. Accordingly, the lease terms and conditions are negotiated on a case-by-case basis, and the resultant leases contain widely differing contractual terms.

Extension options and termination options are included mainly in real estate leases pertaining to restaurants and warehouses. Most such leases provide an option to extend the lease for one year or a period equivalent to the original lease term and an option to terminate the lease early by furnishing six months' advance notice in writing to the other party.

These options are used by lessees as needed in utilizing real estate in their businesses.

(4) Residual value guarantees (Lessee)

The Group leases vending machines and plant facilities. In these leases, it guarantees the residual value of the right-of-use assets at the end of the contractual lease term.

Amounts scheduled to be payable pursuant to the residual value guarantees are presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Amounts scheduled to be payable under residual value guarantees	1,645	1,759	1,669	15,044

(5) Sale and leaseback transactions (Lessee)

From the standpoint of effective utilization of assets held, the Group monetized land and buildings at its Japanese Alcoholic Beverages segment's Gunma Plant (Kizaki) site in the fiscal year ended December 31, 2018, by selling them and leasing back a portion of the land for 10-50 years and the buildings for 10 years. The Group has no option to repurchase the assets at the end of the contractual leaseback term. The impact arising from the sale and leaseback transaction was insignificant.

(6) Finance leases (Lessor)

Finance income on net investments in leases and income relating to variable lease payments are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Finance income on net investments in leases	4	4	35
Income relating to variable lease payments	14	18	158

(7) Maturity analysis (Lessor)

The Group mainly leases real estate.

Lease payments receivable balances and lease payments under operating leases are disaggregated below by due date.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Lease payments receivable	233	193	111	57	17	13	624
Lease payments	9,457	5,805	4,152	2,773	2,228	8,025	32,441

As of December 31, 2017

(Millions of yen)

	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Lease payments receivable	286	158	71	30	6	12	564
Lease payments	10,839	8,942	4,517	3,095	2,619	9,714	39,725

As of December 31, 2018

(Millions of yen)

	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Lease payments receivable	306	204	119	74	60	220	983
Lease payments	10,849	5,725	3,379	2,857	2,572	7,334	32,715

As of December 31, 2018

(Thousands of U.S. dollars)

	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Lease payments receivable	2,758	1,836	1,075	666	539	1,985	8,860
Lease payments	97,818	51,615	30,465	25,755	23,187	66,129	294,970

(8) Risk management strategy (Lessor)

The Group collects leasehold deposits to ensure that it recovers any expenses incurred to restore leased properties to their status quo ante.

22. Trade and Other Payables

A breakdown of trade and other payables is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Notes and accounts payable - trade	38,460	36,488	35,292	318,203

Trade and other payables are classified as financial liabilities measured at amortized cost.

23. Retirement Benefits

(1) Defined benefit plans

The Company and some of its consolidated subsidiaries have set up corporate pension fund plans and lump-sum payment plans as defined benefit plans. Certain consolidated subsidiaries have joined the Smaller Enterprise Retirement Allowance Mutual Aid System. Certain consolidated subsidiaries have established retirement benefit trusts. Additionally, the Company and some consolidated subsidiaries have established defined contribution plans and retirement benefit prepayment plans.

Benefit amounts under defined benefit plans are calculated based on points awarded for length of service, a payment rate that varies as a function of length of service and other conditions. In some cases, additional amounts are paid to early retirees.

The defined benefit plans are mainly operated by corporate pension funds legally separate from the Group in accord with the Defined-Benefit Corporate Pension Act. The pension funds' governing bodies and pension management trustees are legally required to act in the best interests of plan members. They have assumed responsibility for managing plan assets in accordance with prescribed policies.

The Group's retirement benefit plans are exposed to multiple risks, including investment risk associated with plan assets and interest rate risk associated with defined benefit plans.

Defined benefit plan amounts carried on the Consolidated Statement of Financial Position are presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Present value of defined benefit obligations	51,563	51,352	51,056	460,333
Fair value of plan assets	(42,567)	(45,069)	(39,340)	(354,706)
Net defined benefit liability	8,996	6,283	11,715	105,627
Retirement benefit asset	–	–	–	–
Retirement benefit liability	8,996	6,283	11,715	105,627
Net defined benefit liability	8,996	6,283	11,715	105,627

Amounts recognized as expenses on the Consolidated Statement of Profit or Loss in relation to defined benefit plans are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Current service cost	1,651	1,593	14,361
Interest expenses and interest income	25	33	298
Total	1,676	1,626	14,659

Changes in the present value of defined benefit obligations are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Balance at beginning of period	51,563	51,352	463,008
Current service cost	1,651	1,593	14,361
Interest expenses	197	334	3,011
Remeasurements	880	506	4,562
Actuarial gains and losses arising from changes in demographic assumptions	3,271	306	2,757
Actuarial gains and losses arising from changes in financial assumptions	(1,828)	103	930
Other	(564)	97	875
Benefits paid	(2,938)	(2,729)	(24,609)
Balance at end of period	51,352	51,056	460,333

Changes in the fair value of plan assets are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Balance at beginning of period	42,567	45,069	406,357
Interest income	962	1,034	9,327
Remeasurements			
Return on plan assets	865	(6,229)	(56,166)
Company contributions	3,013	1,925	17,358
Benefits paid	(2,339)	(2,459)	(22,169)
Balance at end of period	45,069	39,340	354,706

The values of the key actuarial assumption used to determine the present value of defined benefit obligations are presented below.

As of	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018
Discount rate (%)	0.3 to 0.5%	0.5 to 0.7%	0.4 to 0.7%

The effects on the defined benefit obligations of a hypothetical 0.5 percentage point increase or 0.5 percentage point decrease in the discount rate, the key actuarial assumption, are presented below. This sensitivity analysis assumes that all actuarial assumptions other than the one subject to the analysis remain constant.

		(Millions of yen)		(Thousands of U.S. dollars)
As of		December 31, 2017	December 31, 2018	December 31, 2018
Discount rate	0.5 percentage point increase	(3,063)	(3,042)	(27,425)
	0.5 percentage point decrease	3,339	3,315	29,888

The following table presents the fair value of plan assets by major category.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Cash and cash equivalents	927	–	927
Equity instruments	11,853	–	11,853
Domestic stocks	4,184	–	4,184
Foreign stocks	7,668	–	7,668
Debt instruments	16,090	–	16,078
Domestic bonds	12,438	–	12,426
Foreign bonds	3,652	–	3,652
Life insurance general accounts	–	10,017	10,017
Other	–	3,693	3,693
Total	28,870	13,710	42,567

As of December 31, 2017

(Millions of yen)

	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Cash and cash equivalents	412	–	412
Equity instruments	13,703	–	13,703
Domestic stocks	4,972	–	4,972
Foreign stocks	8,730	–	8,730
Debt instruments	16,932	–	16,932
Domestic bonds	13,326	–	13,326
Foreign bonds	3,605	–	3,605
Life insurance general accounts	–	10,595	10,595
Other	–	3,428	3,428
Total	31,046	14,023	45,069

As of December 31, 2018

(Millions of yen)

	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Cash and cash equivalents	988	–	988
Equity instruments	10,128	–	10,128
Domestic stocks	3,511	–	3,511
Foreign stocks	6,617	–	6,617
Debt instruments	15,586	–	15,586
Domestic bonds	12,717	–	12,717
Foreign bonds	2,869	–	2,869
Life insurance general accounts	–	9,686	9,686
Other	–	2,951	2,951
Total	26,703	12,637	39,340

As of December 31, 2018

(Thousands of U.S. dollars)

	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market in an active market	Total
Cash and cash equivalents	8,913	–	8,913
Equity instruments	91,321	–	91,321
Domestic stocks	31,660	–	31,660
Foreign stocks	59,661	–	59,661
Debt instruments	140,529	–	140,529
Domestic bonds	114,660	–	114,660
Foreign bonds	25,869	–	25,869
Life insurance general accounts	–	87,336	87,336
Other	–	26,608	26,608
Total	240,762	113,944	354,706

The Group's plan asset management policy aims to earn on a long-term basis overall returns required to ensure that benefits payable under defined benefit plans are paid into the future while staying within the plans' risk tolerance.

To achieve this objective, the plans conduct pension ALM (asset-liability management) with the assistance of external entities and have formulated policy asset mixes that optimally combine asset classes from a forward-looking perspective. In the policy asset mixes, the plans set risk levels, expected rates of return and asset allocations by investable asset class and manage their assets by maintaining those allocations.

In the fiscal year ending December 31, 2019, the Group plans to contribute 1,851 million yen (16,693 thousand U.S. dollars) to the plans.

The weighted-average durations for the defined benefit obligations at January 1, 2017 (Transition Date), December 31, 2017, and December 31, 2018, were 10.2 to 14.8 years, 9.7 to 13.4 years and 9.1 to 13.5 years, respectively.

(2) Defined contribution plans and public plans

Amounts recognized as expenses in relation to defined contribution plans in the fiscal years ended December 31, 2017, and December 31, 2018, were 4,041 million yen and 3,963 million (35,733 thousand U.S. dollars), respectively.

The above amounts include amounts recognized as expenses in relation to public plans.

24. Other Financial Liabilities

A breakdown of other financial liabilities is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Derivative liabilities	539	511	650	5,861
Accounts payable - other	23,028	23,899	24,337	219,434
Deposits received	8,031	7,687	7,226	65,151
Guarantee deposits received	47,497	45,405	45,573	410,903
Other	2,139	1,732	1,852	16,698
Total	81,233	79,233	79,639	718,046
Current liabilities	33,108	33,277	33,905	305,703
Non-current labilities	48,125	45,956	45,733	412,344
Total	81,233	79,233	79,639	718,046

Derivative liabilities (except those subject to hedge accounting) are classified as financial liabilities measured at fair value through profit or loss. Accounts payable - other, deposits received, and guarantee deposits received are classified as financial liabilities measured at amortized cost.

25. Other Liabilities

A breakdown of other liabilities is presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Accrued expenses	18,354	18,284	18,330	165,267
Accrued alcohol tax	34,228	34,408	32,363	291,798
Accrued consumption taxes	4,616	4,668	4,946	44,594
Employees’ bonuses	2,980	3,090	2,180	19,658
Employee compensated absence liabilities, etc.	999	968	973	8,776
Other	7,934	7,793	7,458	67,248
Total	69,112	69,211	66,251	597,341
Current liabilities	66,424	66,590	63,260	570,376
Non-current labilities	2,689	2,621	2,991	26,965
Total	69,112	69,211	66,251	597,341

26. Equity

The number of shares authorized and shares issued are presented below.

(Thousands of shares)

For the fiscal year ended	December 31, 2017	December 31, 2018
Number of authorized shares	200,000	200,000
Number of shares issued		
At beginning of period	78,794	78,794
Changes during period	–	–
At end of period	78,794	78,794

All shares have no par value. Issued shares are fully paid-up.

Additions to and reductions in treasury share holdings during the fiscal year are presented below.

(Thousands of shares)

For the fiscal year ended	December 31, 2017	December 31, 2018
At beginning of period	899	902
Additions	5	8
Reductions	(2)	(2)
At end of period	902	908

The additions to treasury share holdings were odd-lot share purchases of 5,000 shares in the fiscal year ended December 31, 2017, and 8,000 shares in the fiscal year ended December 31, 2018. The reductions in treasury share holdings in the fiscal year ended December 31, 2017, consisted of odd-lot share sales of 1,000 shares and disposal of 2,000 shares in conjunction with rights exercised by the Board Benefit Trust (BBT). In the fiscal year ended December 31, 2018, the reductions consisted of odd-lot share sales of 1,000 shares and disposal of 1,000 shares in conjunction with rights exercised by the BBT.

Capital surplus consists of legal capital surplus and other capital surplus. Japan’s Companies Act (the “Companies Act”) stipulates that when shares are issued, at least half of the amount paid or the amount of properties delivered in consideration for the shares must be credited to share capital and the remainder must be credited to legal capital surplus.

Additionally, retained earnings consist of legal retained earnings and other retained earnings. The Companies Act stipulates that one-tenth of any amounts paid from retained earnings or other surplus as dividends must be accumulated in legal capital surplus or legal retained earnings until legal capital surplus and legal retained earnings’ sum total equals one-quarter of share capital.

27. Dividends

Dividends paid are presented below.

For the fiscal year ended December 31, 2017

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 30, 2017	Ordinary shares	2,888	37.00	December 31, 2016	March 31, 2017

For the fiscal year ended December 31, 2018

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 29, 2018	Ordinary shares	3,122	28,146	40.00	0.36	December 31, 2017	March 30, 2018

Dividends whose effective date falls in the following fiscal year are presented below.

For the fiscal year ended December 31, 2017

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 29, 2018	Ordinary shares	3,122	40.00	December 31, 2017	March 30, 2018

For the fiscal year ended December 31, 2018

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 28, 2019	Ordinary shares	3,277	29,550	42.00	0.38	December 31, 2018	March 29, 2019

28. Revenue

(1) Disaggregation of revenue

i) Revenue recognized from contracts with customers and other sources

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Revenue recognized from contracts with customers	513,041	497,713	4,487,537
Revenue recognized from other sources	23,545	24,143	217,683
Total	536,585	521,856	4,705,220

Revenue recognized from other sources is mostly rental income recognized pursuant to IFRS 16. Said rental income included 565 million yen and 570 million yen (5,137 thousand U.S. dollars) of income relating to variable lease payments in the fiscal years ended December 31, 2017, and December 31, 2018, respectively.

ii) Revenue disaggregated by geographical area and segment

For the fiscal year ended December 31, 2017

(Millions of yen)

	Japan	North America	Other	Total
Japanese Alcoholic Beverages Business	258,941	–	2,547	261,489
International Business	–	77,211	1,415	78,626
Food & Soft Drinks Business	111,803	59	20,231	132,092
Restaurants Business	27,655	–	984	28,639
Real Estate Business	23,893	–	–	23,893
Other	11,622	17	207	11,846
Total	433,914	77,287	25,384	536,585
Revenue recognized from contracts with customers	410,370	77,287	25,384	513,041
Revenue recognized from other sources	23,545	–	–	23,545

The above revenues are presented net of internal transactions between Group companies.

Revenue recognized from other sources is mostly rental income recognized pursuant to IFRS 16.

For the fiscal year ended December 31, 2018

(Millions of yen)

	Japan	North America	Other	Total
Japanese Alcoholic Beverages Business	248,620	–	2,247	250,867
International Business	–	78,005	1,516	79,521
Food & Soft Drinks Business	107,600	81	19,538	127,219
Restaurants Business	26,996	–	573	27,569
Real Estate Business	24,483	–	–	24,483
Other	11,964	37	197	12,198
Total	419,662	78,123	24,071	521,856
Revenue recognized from contracts with customers	395,519	78,123	24,071	497,713
Revenue recognized from other sources	24,143	–	–	24,143

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	Japan	North America	Other	Total
Japanese Alcoholic Beverages Business	2,241,636	–	20,258	2,261,895
International Business	–	703,318	13,668	716,986
Food & Soft Drinks Business	970,153	729	176,160	1,147,043
Restaurants Business	243,404	–	5,166	248,570
Real Estate Business	220,743	–	–	220,743
Other	107,873	335	1,775	109,982
Total	3,783,810	704,382	217,027	4,705,220
Revenue recognized from contracts with customers	3,566,127	704,382	217,027	4,487,537
Revenue recognized from other sources	217,683	–	–	217,683

The above revenues are presented net of internal transactions between Group companies.

Revenue recognized from other sources is mostly rental income recognized pursuant to IFRS 16.

The Group comprises Japanese Alcoholic Beverages Business, International Business, Food & Soft Drinks Business, Restaurants Business, Real Estate Business and Other Business segments as the basis of its organization. The segments' operating results are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to the segments and assess their performance. The Group therefore presents revenues earned by these segments as revenue. Additionally, revenue is geographically disaggregated based on customers' locations.

Revenue generated by these segments is recognized in accordance with contracts with customers. Revenue that includes variable or other such consideration is insignificant in amount. Additionally, promised amounts of the consideration do not include a significant financing component.

Japanese Alcoholic Beverages Business

In the Japanese Alcoholic Beverages Business segment, Sapporo Breweries Ltd. manufactures and sells beer, low-malt beer (*happoshu*), domestic wine and other alcoholic beverages while Yebisu Winemart Co., Ltd., sells wine, Western liquor and other alcoholic beverages through both in-store and online channels.

Sapporo Breweries' customers are mainly retailers and wholesalers. Sapporo Breweries recognizes revenue when it transfers control of its products to the customer (i.e., when the products are delivered to the location designated by the customer) because that is the point in time at which legal title to and physical possession of the products, and the significant risks and rewards of ownership of the products are transferred to the customer and the customer gains the right to set sales prices and determine how to sell the products. Sapporo Breweries generally receives payment within three months of products' delivery, the point in time at which its performance obligations are satisfied.

Yebisu Winemart's customers are mainly consumers who use its stores. For such sales, Yebisu Winemart recognizes revenue when it transfers control of merchandise to the customer (i.e., when the merchandise is provided to the customer) because that is the point in time at which legal title to and physical possession of the merchandise, and the significant risks and rewards of ownership of the merchandise are transferred to the customer. Yebisu Winemart generally receives payment of consideration upon satisfaction of its performance obligations.

International Business

In the International Business segment, Sapporo International Inc. operates in administrative and supervisory capacities as the segment's nucleus, Sapporo U.S.A., Inc. sells beer in the U.S., Sleeman Breweries Ltd. manufactures and sells beer in Canada, and Sapporo Vietnam Ltd. manufactures and sells beer in Vietnam.

Overseas customers to which the Group sells beer are mainly retailers and wholesalers. Revenue from such sales is recognized when control of the products is transferred to the customer (i.e., when the products are delivered to the location designated by the customer) because that is the point in time at which legal title to and physical possession of the products, and the significant risks and rewards of ownership of the products are transferred to the customer and the customer gains the right to set sales prices and determine how to sell the products. Payment is generally received within three months of products' delivery, the point in time at which performance obligations are satisfied.

Food & Soft Drinks Business

In the Food & Soft Drinks Business segment, Pokka Sapporo Food & Beverage Ltd. manufactures and sells soft drinks, bottled water and food while Pokka Create Co., Ltd. operates cafés. Overseas, Pokka Corporation (Singapore) PTE. LTD. manufactures and sells soft drinks and food in Singapore; Pokka Ace (Malaysia) Sdn. Bhd. and Pokka (Malaysia) Sdn. Bhd. manufacture and sell soft drinks and food in Malaysia; and PT. Pokka Dima International manufactures and sells soft drinks in Indonesia.

Customers to which the Group sells food and soft drinks are mainly retailers and wholesalers. Revenue from such sales is recognized when control of the products is transferred to the customer (i.e., when the products are delivered to the location designated by the customer) because that is the point in time at which legal title to and physical possession of the products, and the significant risks and rewards of ownership of the products are transferred to the customer and the customer gains the right to set sales prices and determine how to sell the products. Payment is generally received within three months of products' delivery, the point in time at which performance obligations are satisfied.

The café customers are mainly consumers who use the cafés. Revenue from such sales is recognized when control of merchandise is transferred to the customer (i.e., when the merchandise is served to the customer) because that is the point in time at which legal title to and physical possession of the merchandise, and the significant risks and rewards of ownership of the merchandise are transferred to the customer. Payment of the consideration is generally received upon satisfaction of performance obligations.

Restaurants Business

In the Restaurants Business segment, Sapporo Lion Ltd. operates eating and drinking establishments in various formats, most notably the Lion chain of beer halls and restaurants. Overseas, Sapporo Lion (Singapore) Pte. Ltd. operates an eating and drinking establishment in Singapore

The various eating and drinking establishment customers are mainly consumers who use the eating and drinking establishments. Revenue from such sales is recognized when control of merchandise is transferred to the customer (i.e., when the merchandise is served to the customer) because that is the point in time at which legal title to and physical possession of the merchandise, and the significant risks and rewards of ownership of the merchandise are transferred to the customer. Payment of the consideration is generally received upon satisfaction of performance obligations.

Real Estate Business

In the Real Estate Business segment, Sapporo Real Estate Co., Ltd. manages and operates Yebisu Garden Place complex that includes office space, residential units, retail stores, restaurants and cultural facilities (Shibuya-ku and Meguro-ku, Tokyo); and Sapporo Factory, a shopping and entertainment complex (Chuo-ku, Sapporo). Tokyo Energy Service Co., Ltd. supplies energy to the Yebisu Garden Place properties.

Rental income from management and operation of real estate is recognized in the period earned, in accordance with IFRS 16.

Other Business

In the Other Business segment, Shinsyu-ichi Miso Co., Ltd. manufactures and sells food.

The customers to which it sells food are mainly retailers and wholesalers. Revenue from such sales is recognized when control of the products is transferred to the customer (i.e., when the products are delivered to the location designated by the customer) because that is the point in time at which legal title to and physical possession of the products, and the significant risks and rewards of ownership of the products are transferred to the customer and the customer gains the right to set sales prices and determine how to sell the products. Shinsyu-ichi Miso generally receives payment within three months of products' delivery, the point in time at which its performance obligations are satisfied.

The Japanese Alcoholic Beverages Business, International Business and Food & Soft Drinks Business segments' products are sometimes sold subject to special terms, including rebates contingent on achievement of a certain target such as a sales volume or sales revenue target ("target rebates"). In such cases, the transaction price is measured at the promised consideration in the contract with the customer less the estimated target rebate or other amount contingently payable to the customer. Target rebates and other amounts contingently payable to customers are estimated using the most likely amount method based on historical data and other relevant information. Revenue is recognized net of estimated rebates only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

When the Group pays sales promotion incentives or other such consideration to customers, revenue is measured by deducting the consideration from the transaction price if the consideration is a payment for a distinct good or service from the customer and the good or service's fair value cannot be reasonably estimated.

(2) Contract balances

Balances of receivables, contract assets and contract liabilities from contracts with customers are presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
Receivables from contracts with customers				
Notes and accounts receivable - trade	96,574	98,325	93,340	841,587
Total	96,574	98,325	93,340	841,587

(3) Transaction price allocated to the remaining performance obligations

The Group has no significant individual transactions with an expected contract term longer than one year. Additionally, the transaction price allocated to the remaining performance obligations does not include consideration that has been excluded from the transaction price.

(4) Assets recognized from the costs to obtain or fulfill a contract with a customer

Of incremental costs of obtaining contracts with customers and costs incurred to fulfill contracts with customers, any amounts expected to be recovered are recognized as assets and carried on the Consolidated Statement of Financial Position as “other assets.” Incremental costs of obtaining a contract are costs incurred to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

The Group has no incremental costs of obtaining contracts that are recognized as assets.

29. Employee Benefit Expenses

A breakdown of employee benefit expenses is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Wages and salaries	60,987	60,274	543,451
Social security expenses	7,641	7,627	68,768
Retirement benefit expenses	2,765	2,679	24,158
Total	71,392	70,581	636,377

30. Research and Development Expenditures

Research and development expenditures recognized as expenses in the fiscal years ended December 31, 2017, and December 31, 2018, were 2,791 million yen and 2,901 million yen (26,155 thousand U.S. dollars), respectively.

31. Other Operating Income and Other Operating Expenses

A breakdown of other operating income is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Gain on sale of fixed assets	275	1,279	11,529
Valuation gain on exchange of production equipment	–	709	6,391
Other	755	1,021	9,210
Total	1,029	3,009	27,129

A breakdown of other operating expenses is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Loss on sale and retirement of property, plant and equipment, and intangible assets	994	620	5,587
Impairment losses	3,810	5,430	48,962
Compensation expenses	307	–	–
Other	558	540	4,868
Total	5,669	6,590	59,416

32. Finance Income and Finance Costs

A breakdown of finance income and finance costs is presented below.

(1) Finance income

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Interest income			
Financial assets measured at amortized cost	168	145	1,311
Dividend income			
Financial assets measured at fair value through other comprehensive income	1,162	978	8,816
Other	8	16	145
Total	1,338	1,139	10,271

(2) Finance costs

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Interest expenses			
Financial liabilities measured at amortized cost	1,750	1,716	15,475
Lease liabilities	646	652	5,877
Foreign exchange loss	87	126	1,138
Other	142	–	–
Total	2,626	2,494	22,489

33. Other Comprehensive Income

Changes in items of other comprehensive income during each year are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Financial assets measured at fair value through other comprehensive income			
Amount arising during period	11,804	(13,283)	(119,766)
Tax effect	(3,602)	4,082	36,803
Net amount	8,202	(9,201)	(82,963)
Remeasurements of defined benefit plans			
Amount arising during period	776	(5,334)	(48,097)
Tax effect	(239)	1,646	14,840
Net amount	537	(3,688)	(33,257)
Exchange differences on translation of foreign operations			
Amount arising during period	1,032	(2,765)	(24,928)
Reclassification adjustments	–	–	–
Tax effect	–	–	–
Net amount	1,032	(2,765)	(24,928)
Effective portion of net change in fair value of cash flow hedges			
Amount arising during period	159	244	2,204
Reclassification adjustments	26	(288)	(2,594)
Tax effect	(71)	(26)	(234)
Net amount	114	(69)	(624)
Total other comprehensive income	9,884	(15,724)	(141,772)

34. Cash Flows

(1) Changes in liabilities arising from financing activities

During the fiscal year ended December 31, 2017

(Millions of yen)

Item	January 1, 2017	Changes from financing cash flows	Non-cash changes				December 31, 2017
			Acquisition of right-of-use assets	Currency translation gains (losses)	Changes in fair values	Other	
Short-term borrowings	18,506	(3,076)	–	39	–	(113)	15,356
Commercial papers	33,000	(1,000)	–	–	–	–	32,000
Long-term borrowings (Note)	129,260	(103)	–	(2,697)	–	113	126,573
Bonds payable (Note)	60,049	(123)	–	–	–	45	59,971
Lease liabilities	31,231	(6,686)	7,127	121	–	(965)	30,828
Derivative liabilities (assets) held to hedge liabilities	(2,560)	–	–	–	1,749	–	(811)
Total	269,486	(10,989)	7,127	(2,538)	1,749	(920)	263,916

(Note) Includes current portion of long-term borrowings and current portion of bonds payable.

During the fiscal year ended December 31, 2018

(Millions of yen)

Item	January 1, 2018	Changes from financing cash flows	Non-cash changes				December 31, 2018
			Acquisition of right-of-use assets	Currency translation gains (losses)	Changes in fair values	Other	
Short-term borrowings	15,356	(264)	–	(156)	–	–	14,936
Commercial papers	32,000	(3,500)	–	–	–	–	28,500
Long-term borrowings (Note)	126,573	(10,524)	–	(970)	–	–	115,079
Bonds payable (Note)	59,971	9,953	–	–	–	(92)	69,832
Lease liabilities	30,828	(7,038)	8,557	(391)	–	(718)	31,238
Derivative liabilities (assets) held to hedge liabilities	(811)	–	–	–	936	–	125
Total	263,916	(11,373)	8,557	(1,518)	936	(809)	259,710

During the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

Item	January 1, 2018	Changes from financing cash flows	Non-cash changes				December 31, 2018
			Acquisition of right-of-use assets	Currency translation gains (losses)	Changes in fair values	Other	
Short-term borrowings	138,454	(2,383)	–	(1,407)	–	–	134,664
Commercial papers	288,522	(31,557)	–	–	–	–	256,965
Long-term borrowings (Note)	1,141,219	(94,883)	–	(8,749)	–	–	1,037,587
Bonds payable (Note)	540,717	89,736	–	–	–	(825)	629,628
Lease liabilities	277,952	(63,455)	77,156	(3,526)	–	(6,473)	281,654
Derivative liabilities (assets) held to hedge liabilities	(7,311)	–	–	–	8,439	–	1,129
Total	2,379,554	(102,543)	77,156	(13,683)	8,439	(7,298)	2,341,626

(Note) Includes current portion of long-term borrowings and current portion of bonds payable.

(2) Changes in ownership interests in subsidiaries

During the fiscal year ended December 31, 2017

The Group acquired Anchor Brewing Company, LLC. Details are disclosed under "7. Business Combinations, (3) Assets acquired and liabilities assumed."

During the fiscal year ended December 31, 2018

The Group acquired trust beneficiary rights in investment and rental property. Details are disclosed under "16. Investment Property, (1) Changes in carrying amounts."

35. Earnings per Share

Basic earnings per share, diluted earnings per share and the basis of their calculation are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Profit attributable to owners of parent	7,187	8,521	76,830
Adjustment	–	13	118
Profit used to calculate diluted earnings per share	7,187	8,534	76,948

Weighted average number of ordinary shares outstanding during period (Thousands of shares)	77,894	77,891
Effects of dilutive potential ordinary shares (Thousands of shares)		
Convertible bonds with share acquisition rights	–	3,783
Board Benefit Trust (BBT)	12	25
Diluted weighted average number of ordinary shares outstanding during period (Thousands of shares)	77,906	81,699

	(Yen)		(U.S. dollars)
Basic earnings per share	92.27	109.40	0.99
Diluted earnings per share	92.25	104.46	0.94

(Note) The number of the Company's own shares held by Trust & Custody Services Bank, Ltd. (Trust Account E) in association with the "Board Benefit Trust (BBT)" plan is included in the number of treasury shares that are deducted in the calculation of the weighted average number of ordinary shares outstanding during the period for the purpose of calculating earnings per share.
The weighted average number of such treasury shares for calculating earnings per share for the fiscal years ended December 31, 2017 and 2018 was 150,253 shares and 148,386 shares, respectively.

36. Share-based Payment

(1) Overview of performance-based share-based payment plan

Effective May 31, 2016, the Company adopted a Board Benefit Trust plan (the "BBT Plan") as a compensation plan for corporate officers pursuant to a resolution approved at the 92nd Ordinary General Meeting of Shareholders on March 30, 2016.

The BBT Plan is a share-based payment plan where Company shares are acquired through a trust, using funds contributed by the Company, and compensation is paid through the trust to eligible corporate officers of the Group in the form of Company shares and cash in an amount equivalent to the market value of Company shares at end of the recipient's tenure as an eligible corporate officer in accordance with Corporate Officer Share-Based Payment Regulations prescribed by the Company and its subsidiaries that participate in the BBT Plan. As a general rule, eligible corporate officers of the Group receive Company shares as compensation upon completion of their tenure as eligible corporate officers.

The BBT Plan's trustee, Mizuho Trust & Banking Co., Ltd., acquired 754,600 shares by purchasing them from the Company's treasury share holdings using money in an amount of 445 million yen, which had been entrusted by the Company on May 31, 2016. Future share acquisition plans have yet to be determined. Even after being deposited to the trust, the shares held in trust are still accounted for as treasury shares. Compensation paid by the share-based payment plan is accounted for as equity-settled share-based payments.

Effective July 1, 2016, the Company implemented a five-for-one reverse split of its ordinary shares. The number of treasury shares held by the BBT trust account at December 31, 2018 was 147,920 shares.

(2) Amounts recognized on Consolidated Statement of Profit or Loss

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Total expenses recognized due to performance-based share-based compensation plan	120	3	29

Share-based payment expenses are included in “selling, general and administrative expenses.”

37. Financial Instruments

(1) Capital management

The Group’s basic policy is to endeavor to increase its profitability and expand its growth businesses while appropriately allocating the resources it obtains from its operations to growth investments and solidification of its financial foundations in accord with its Medium-Term Management Plan. In terms of financial strategy, the Group plans to proactively make growth investments in pursuit of corporate value accretion and to become more stable by strengthening its financial foundations.

The key performance indicator that the Group uses for capital management is the net debt/equity ratio. The Group will scrutinize its capital efficiency more rigorously, further increase financial discipline across all of its businesses, proactively migrate to an asset-light model and manage its cash flows with an emphasis on efficiency. It will allocate capital by striving to maintain a proper balance among investment, shareholder returns and improvement in its financial condition. It aims to reduce its net debt/equity ratio to below 1.0.

The Group’s net debt/equity ratio is presented below.

	As of January 1, 2017 (Transition Date)	As of December 31, 2017	As of December 31, 2018
Net debt/equity ratio (Note)	1.7	1.5	1.5

(Note) Net interest-bearing debt ÷ equity attributable to owners of parent
Net interest-bearing debt = interest-bearing debt − (cash and cash equivalents + liquid investments)

(2) Matters pertaining to risk management

The Group is exposed to financial risks in the course of its business activities across a broad range of sectors in various regions and countries. To mitigate and avert these risks, the Group conducts risk management based on certain policies. With respect to derivatives, the Group’s policy is to limit its positions within the range of its actual demand for the underlying instrument or commodity and to never engage in speculative trading. Derivatives’ contract balances, fair value and other particulars are regularly reported to the corporate officer in charge of monitoring derivative exposures, in accord with internal regulations on trading authority, position limits and other such matters.

(3) Credit risk

Trade and other receivables that arise from the Group’s business activities are exposed to customers’ credit risk. Additionally, the Group’s securities holdings are exposed to the issuers’ credit risk. Moreover, derivative trades in which the Group engages to hedge financial risks are exposed to the credit risk of the financial institutions that are counterparties to the trades.

The Group regularly monitors the status of its debtors with significant trade receivable or long-term loan receivable balances in accordance with its Receivable Management Regulations. In addition to managing due dates and balances on a debtor-by-debtor basis, the Group is committed to early detection and mitigation of collection concerns due to deterioration in debtors’ financial condition. The Group’s bond holdings consist mainly of bonds issued by customers. The Group regularly checks the state of the issuers’ operations. When using derivatives, the Group trades only with highly creditworthy counterparties, mostly financial institutions, to minimize credit risk associated with contractual nonperformance by a counterparty. The Group does not have any excessive credit risk concentrations with special controls.

At the end of each fiscal year, the Group uses allowances for doubtful accounts to recognize impairment losses. For individually significant financial assets, it recognizes the impairment losses at an amount based on unrecoverable amount. For individually insignificant financial assets, it recognizes the impairment losses at an amount based on historical credit losses experience and other relevant information. Allowances for doubtful accounts associated with said financial assets are included in “trade receivables” and “other financial assets” on the Consolidated Statement of Financial Position.

Changes in allowances for doubtful accounts measured at an amount equal to the lifetime expected credit losses are presented below.

For loans receivable, 12-month expected credit losses and lifetime expected credit losses do not differ significantly from each other.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Balance at beginning of period	1,277	1,319	11,895
Increase during period	196	154	1,384
Decrease during period (utilization)	(82)	(106)	(956)
Decrease during period (reversal)	(79)	(83)	(750)
Other changes	6	97	870
Balance at end of period	1,319	1,380	12,443

The Group’s maximum exposure to credit risk on financial assets is their post-impairment carrying amount presented on the Consolidated Statement of Financial Position.

(4) Liquidity risk

Trade payables, borrowings and other liabilities are exposed to liquidity risk, the risk of inability to pay the liabilities when due as a result of changes in the financial environment or other such events.

The Group has adopted a cash management system in the aim of reducing consolidated interest-bearing debt and ensuring on-hand availability of sufficient liquidity through unified management of both its own funds and major consolidated subsidiaries' funds. Finance staff manage liquidity risk by preparing funding and cash deployment plans, continually monitoring budgeted and actual cash flows and arranging overdraft facilities and other similar facilities on an ongoing basis.

Financial liability (including derivative financial instruments) balances are presented below by maturity or due date.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	38,460	38,460	38,460	–	–	–	–	–
Short-term borrowings	18,506	18,506	18,506	–	–	–	–	–
Commercial papers	33,000	33,000	33,000	–	–	–	–	–
Long-term borrowings	129,260	129,477	13,993	23,492	20,518	19,732	17,468	34,274
Bonds payable	60,049	60,212	10,083	10,068	10,013	20,013	10,008	26
Lease liabilities	31,231	31,231	6,609	5,179	3,553	2,843	2,091	10,956
Accounts payable - other	23,028	23,028	22,579	179	124	80	49	17
Other (Note)	57,688	57,688	10,528	–	–	–	–	47,160
Derivative liabilities								
Commodity futures	2	2	2	–	–	–	–	–
Interest rate swaps	438	438	1	16	144	55	148	75
Cross-currency interest rate swaps	79	79	–	–	–	79	–	–

(Note) "Other" mainly consists of deposits received and guarantee deposits received. Guarantee deposits received are classified in the "over 5 years" column because, as a general rule, they are not scheduled to be refunded as long as the business transactions that they secure are ongoing.

As of December 31, 2017

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	36,488	36,488	36,488	–	–	–	–	–
Short-term borrowings	15,356	15,356	15,356	–	–	–	–	–
Commercial papers	32,000	32,000	32,000	–	–	–	–	–
Long-term borrowings	126,573	126,764	23,297	20,455	19,400	19,543	14,540	29,528
Bonds payable	59,971	60,129	10,068	10,013	20,013	10,008	10,003	23
Lease liabilities	30,828	30,828	6,533	4,651	3,530	2,738	2,621	10,756
Accounts payable - other	23,899	23,899	23,456	194	142	77	29	0
Other (Note)	54,923	54,923	9,817	–	–	–	–	45,106
Derivative liabilities								
Commodity futures	17	17	17	–	–	–	–	–
Interest rate swaps	293	293	3	78	36	115	60	–
Cross-currency interest rate swaps	119	119	–	–	119	–	–	–

(Note) “Other” mainly consists of deposits received and guarantee deposits received. Guarantee deposits received are classified in the “over 5 years” column because, as a general rule, they are not scheduled to be refunded as long as the business transactions that they secure are ongoing.

As of December 31, 2018

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	35,292	35,292	35,292	–	–	–	–	–
Short-term borrowings	14,936	14,936	14,936	–	–	–	–	–
Commercial papers	28,500	28,500	28,500	–	–	–	–	–
Long-term borrowings	115,079	115,236	20,424	20,205	19,539	14,540	21,523	19,006
Bonds payable	69,832	70,061	10,013	20,013	30,008	10,003	23	–
Lease liabilities	31,238	31,238	6,743	4,660	3,500	3,239	1,714	11,382
Accounts payable - other	24,337	24,337	23,998	167	103	57	12	–
Other (Note)	54,956	54,956	9,890	–	–	–	–	45,066
Derivative liabilities								
Currency forwards	8	8	8	–	–	–	–	–
Commodity futures	172	172	172	–	–	–	–	–
Interest rate swaps	204	204	18	24	104	58	–	–
Cross-currency interest rate swaps	142	142	–	142	–	–	–	–

As of December 31, 2018

(Thousands of U.S. dollars)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	318,203	318,203	318,203	–	–	–	–	–
Short-term borrowings	134,664	134,664	134,664	–	–	–	–	–
Commercial papers	256,965	256,965	256,965	–	–	–	–	–
Long-term borrowings	1,037,587	1,039,008	184,148	182,172	176,170	131,101	194,055	171,362
Bonds payable	629,628	631,689	90,282	180,445	270,564	90,192	206	–
Lease liabilities	281,654	281,654	60,798	42,015	31,558	29,203	15,453	102,626
Accounts payable - other	219,434	219,434	216,374	1,508	933	510	109	–
Other (Note)	495,497	495,497	89,170	–	–	–	–	406,327
Derivative liabilities								
Currency forwards	75	75	75	–	–	–	–	–
Commodity futures	1,550	1,550	1,550	–	–	–	–	–
Interest rate swaps	1,838	1,838	159	217	936	527	–	–
Cross-currency interest rate swaps	1,277	1,277	–	1,277	–	–	–	–

(Note) "Other" mainly consists of deposits received and guarantee deposits received. Guarantee deposits received are classified in the "over 5 years" column because, as a general rule, they are not scheduled to be refunded as long as the business transactions that they secure are ongoing.

(5) Currency risk

Foreign currency receivables and payables arising from the Group's Global business operations are exposed to currency risk.

The Group hedges foreign currency trade receivables and payables, borrowings and loans receivable as necessary, using instruments such as currency forwards and currency swaps.

Exchange rate sensitivity analysis

If the yen had hypothetically been worth 1% more against the U.S. dollar than it actually was at fiscal year-end, the resultant effects on the Group's foreign currency financial instrument holdings' carrying amounts at fiscal year-end would have affected profit before tax on the Consolidated Statement of Profit or Loss as shown below.

In this analysis, the effect on profit before tax was calculated by multiplying each currency risk exposure by 1% while assuming that exchange rate movements have no effect on other variables (e.g., other currencies' exchange rates, interest rates).

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2017	December 31, 2018	December 31, 2018
U.S. dollar (1% yen appreciation)	(0)	0	3

(6) Interest rate risk

The Group's interest rate risk arises from its interest-bearing debt net of cash equivalents and the like.

Loans borrowed and bonds issued by the Group are intended to raise required working capital and funding for capital investments. A portion of Group's borrowings and bonds payable are floating-rate instruments and therefore exposed to interest rate risk.

The Group hedges interest rate risk using derivatives (interest rate swaps).

Interest rate sensitivity analysis

If interest rates had hypothetically been 100 basis points higher than they actually were at fiscal year-end, the resultant effects on the Group's financial instrument holdings' carrying amounts at fiscal year-end would have affected profit before tax on the Consolidated Statement of Profit or Loss as shown below.

This analysis applies the hypothetical increase only to financial instruments affected by interest rate movements and assumes that other factors (e.g., effects of exchange rate movements) remain constant.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2017	December 31, 2018	December 31, 2018
Profit before tax	(112)	(62)	(558)

(7) Market risk

The Group's holdings of marketable securities and certain other financial instruments are exposed to market risk.

The Group regularly checks marketable securities and certain other financial instruments' fair value and assesses the financial condition of and other relevant matters concerning issuers (customers/counterparties) and reviews the status of its holdings of marketable securities and other financial instruments on an ongoing basis in light of its relationships with customers and other counterparties.

(8) Financial instruments' fair value

Financial instruments are classified into the following three-level fair value hierarchy.

Level 1: Fair value measured based on unadjusted, publicly quoted prices in an active market for the identical asset or liability

Level 2: Fair value measured using observable prices other than Level 1 quoted prices, either directly or indirectly

Level 3: Fair value measured with valuation techniques that include inputs not based on significant observable market data

At the end of each period, the Group assesses whether any significant transfers of financial instruments between levels have occurred. No significant financial instruments were transferred between levels in the fiscal year ended December 31, 2017, or the fiscal year ended December 31, 2018.

i) Financial instruments measured at fair value on a recurring basis

Financial assets and financial liabilities measured at fair value are presented below.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	3,158	–	3,158
Stocks	52,318	–	15,538	67,856
Total	52,318	3,158	15,538	71,015
Financial liabilities				
Derivative liabilities	–	539	–	539
Total	–	539	–	539

As of December 31, 2017

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	823	–	823
Stocks	54,429	–	17,389	71,818
Total	54,429	823	17,389	72,642
Financial liabilities				
Derivative liabilities	–	511	–	511
Total	–	511	–	511

As of December 31, 2018

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	217	–	217
Stocks	45,006	–	14,477	59,483
Total	45,006	217	14,477	59,701
Financial liabilities				
Derivative liabilities	–	650	–	650
Total	–	650	–	650

As of December 31, 2018

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	1,960	–	1,960
Stocks	405,789	–	130,531	536,320
Total	405,789	1,960	130,531	538,280
Financial liabilities				
Derivative liabilities	–	5,861	–	5,861
Total	–	5,861	–	5,861

Stocks

Stocks are included in “other financial assets” on the Consolidated Statement of Financial Position.

Fair values of marketable stocks classified in Level 1 of the fair value hierarchy are based on unadjusted, publicly quoted prices in an active market for the identical asset or liability.

For unlisted stocks and other equity interests for which publicly quoted prices in an active market are not available and that are classified in Level 3, fair value is measured using the comparable company analysis or other appropriate valuation technique based on inputs such as comparisons with reasonably available comparable companies’ price-to-earnings and price-to-book value ratios.

Fair value is assumed to change as a function of comparisons with comparable companies' price-to-earnings ratios and/or other valuation metrics. If unobservable inputs were changed to reflect reasonably possible alternative assumptions, fair values would not change significantly.

For financial instruments classified in Level 3, fair value is measured using a valuation method selected for the financial instrument in question by the appraiser, in accordance with valuation policies and procedures (including valuation techniques used to measure fair value) approved by qualified authorized personnel. Fair value measurement results are reviewed and approved by qualified authorized personnel.

Derivative assets and derivative liabilities

Derivative assets and derivative liabilities are respectively included in "other financial assets" and "other financial liabilities" on the Consolidated Statement of Financial Position and classified as financial assets and financial liabilities measured at fair value through profit or loss. They include currency forwards, currency swaps and interest rate swaps. Their fair value is measured mainly based on models that use observable inputs such as foreign currency exchange rates and interest rates.

Changes in financial instruments classified in Level 3 are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2017	December 31, 2018	December 31, 2018
Balance at beginning of period	15,538	17,389	156,789
Other comprehensive income (Note)	1,791	(3,283)	(29,604)
Purchase	305	500	4,511
Sale	(100)	(94)	(849)
Other changes	(144)	(35)	(316)
Balance at end of period	17,389	14,477	130,531

(Note) Included in "financial assets measured at fair value through other comprehensive income" on the Consolidated Statement of Comprehensive Income.

ii) Financial instruments measured at amortized cost

Carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost are presented below.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	9,103	–	9,103	–	9,103
Total	9,103	–	9,103	–	9,103
Liabilities					
Long-term borrowings	129,260	–	127,078	–	127,078
Bonds payable	60,049	–	60,617	–	60,617
Total	189,309	–	187,698	–	187,698

As of December 31, 2017

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	4,694	–	4,696	–	4,696
Bonds	1,000	–	1,041	–	1,041
Total	5,694	–	5,736	–	5,736
Liabilities					
Long-term borrowings	126,573	–	127,018	–	127,018
Bonds payable	59,971	–	60,327	–	60,327
Total	186,544	–	187,344	–	187,344

As of December 31, 2018

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	495	–	497	–	497
Bonds	5,000	–	5,201	–	5,201
Total	5,495	–	5,698	–	5,698
Liabilities					
Long-term borrowings	115,079	–	115,662	–	115,662
Bonds payable	69,832	–	70,158	–	70,158
Total	184,911	–	185,820	–	185,820

As of December 31, 2018

(Thousands of U.S. dollars)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	4,462	–	4,480	–	4,480
Bonds	45,082	–	46,891	–	46,891
Total	49,544	–	51,371	–	51,371
Liabilities					
Long-term borrowings	1,037,587	–	1,042,846	–	1,042,846
Bonds payable	629,628	–	632,564	–	632,564
Total	1,667,214	–	1,675,410	–	1,675,410

Instruments whose fair value approximates their carrying amount are omitted from the table above.

Long-term loans receivable

The fair value of loans receivable classified in Level 2 is measured based on the present value of principal and interest expected to be received, discounted at the interest rate that would hypothetically be charged on an identical newly originated loan.

Bonds

The fair value of bonds classified in Level 2 is measured based on the present value of total principal and interest, discounted using an interest rate that factors in credit risk.

Long-term borrowings

The fair value of long-term borrowings classified in Level 2 is measured based on the present value of total principal and interest, discounted at the interest rate that would hypothetically be charged on an identical newly originated loan.

Bonds payable

The fair value of bonds payable classified in Level 2 is measured based on market prices if available. If market prices are not available, fair value is measured at the present value of total principal and interest, discounted using an interest rate that factors in the bond's residual maturity and credit risk.

(9) Derivatives

i) Derivatives subject to hedge accounting

A maturity analysis of hedging instruments' notional amount is presented below.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Notional amount	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Cash flow hedges							
Currency risk							
Currency forwards	951	951	–	–	–	–	–
Commodity price risk							
Commodity futures	122	122	–	–	–	–	–
Interest rate risk							
Interest rate swaps	37,563	141	4,000	11,515	8,457	8,950	4,500
Interest rate and currency risk							
Cross-currency interest rate swaps	11,806	5,000	5,002	–	1,804	–	–

As of December 31, 2017

(Millions of yen)

	Notional amount	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Cash flow hedges							
Currency risk							
Currency forwards	1,672	1,672	–	–	–	–	–
Commodity price risk							
Commodity futures	413	413	–	–	–	–	–
Interest rate risk							
Interest rate swaps	37,244	4,000	11,470	8,324	8,950	4,500	–
Interest rate and currency risk							
Cross-currency interest rate swaps	6,806	5,002	–	1,804	–	–	–

As of December 31, 2018

(Millions of yen)

	Notional amount	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Cash flow hedges							
Currency risk							
Currency forwards	1,203	1,203	–	–	–	–	–
Commodity price risk							
Commodity futures	1,707	1,707	–	–	–	–	–
Interest rate risk							
Interest rate swaps	33,134	11,442	8,242	8,950	4,500	–	–
Interest rate and currency risk							
Cross-currency interest rate swaps	1,804	–	1,804	–	–	–	–

As of December 31, 2018

(Thousands of U.S. dollars)

	Notional amount	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Cash flow hedges							
Currency risk							
Currency forwards	10,848	10,848	–	–	–	–	–
Commodity price risk							
Commodity futures	15,390	15,390	–	–	–	–	–
Interest rate risk							
Interest rate swaps	298,748	103,163	74,315	80,696	40,573	–	–
Interest rate and currency risk							
Cross-currency interest rate swaps	16,269	–	16,269	–	–	–	–

Currency forwards and currency swaps' main contract rates, commodity futures' main prices and interest rate swaps' main pay rates are presented below.

	As of January 1, 2017 (Transition Date)	As of December 31, 2017	As of December 31, 2018
Cash flow hedges			
Currency risk			
Currency forwards			
USD	101.40 yen to 115.84 yen	101.40 yen to 113.37 yen	108.15 yen to 110.87 yen
EUR	114.80 yen	132.86 yen	126.52 yen to 132.86 yen
Commodity price risk			
Commodity futures			
Frozen concentrated orange juice futures	1.910 to 1.945 dollars/lb.	1.328 to 1.550 dollars/lb.	1.285 to 1.570 dollars/lb.
Interest rate risk			
Interest rate swaps			
Pay fixed, receive floating	0.40% to 2.22%	0.40% to 2.16%	0.40% to 2.16%
Interest rate and currency risk			
Cross-currency interest rate swaps			
Receive JPY, pay USD	81.35 yen to 120.45 yen	97.20 yen to 120.45 yen	120.45 yen
Pay fixed, receive floating	0.13 to 0.45%	0.13 to 0.45%	0.13%

Amounts related to items designated as hedging instruments are presented below.

As of January 1, 2017 (Transition Date)

(Millions of yen)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	951	67	–	Other financial assets
Commodity price risk				
Commodity futures	122	–	2	Other financial liabilities
Interest rate risk				
Interest rate swaps	37,563	15	438	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	11,806	3,036	79	Other financial assets Other financial liabilities

As of December 31, 2017

(Millions of yen)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	1,672	15	–	Other financial assets
Commodity price risk				
Commodity futures	413	–	17	Other financial liabilities
Interest rate risk				
Interest rate swaps	37,244	41	293	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	6,806	765	119	Other financial assets Other financial liabilities

As of December 31, 2018

(Millions of yen)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	1,203	0	8	Other financial assets Other financial liabilities
Commodity price risk				
Commodity futures	1,707	–	172	Other financial liabilities
Interest rate risk				
Interest rate swaps	33,134	70	204	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	1,804	–	142	Other financial liabilities

As of December 31, 2018

(Thousands of U.S. dollars)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	10,848	1	75	Other financial assets Other financial liabilities
Commodity price risk				
Commodity futures	15,390	–	1,550	Other financial liabilities
Interest rate risk				
Interest rate swaps	298,748	628	1,838	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	16,269	–	1,277	Other financial liabilities

Changes in fair value used to measure hedge ineffectiveness are omitted because the amount of hedge ineffectiveness recognized in profit or loss was insignificant.

Amounts related to items designated as hedged items are presented below.

As of	(Millions of yen)			(Thousands of U.S. dollars)
	January 1, 2017 (Transition Date)	December 31, 2017	December 31, 2018	December 31, 2018
	Cash flow hedge reserve	Cash flow hedge reserve	Cash flow hedge reserve	Cash flow hedge reserve
Cash flow hedges				
Currency risk				
Planned purchases	67	15	(8)	(75)
Commodity price risk				
Planned purchases	(2)	(17)	(172)	(1,550)
Interest rate risk				
Interest payable on borrowings	(423)	(252)	(134)	(1,210)
Currency and interest rate risk				
Foreign currency borrowings and interest payable thereon	(95)	(14)	1	11

Changes in fair value used to measure hedge ineffectiveness are omitted because the amount of hedge ineffectiveness recognized in profit or loss was insignificant.

The effects of applying hedge accounting on the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income are presented below.

For the fiscal year ended December 31, 2017

(Millions of yen)

	Changes in hedging instruments' fair value recognized in other comprehensive income	Reclassification adjustments from cash flow hedge reserve to profit or loss	Consolidated Statement of Profit or Loss accounts that include gains or losses due to reclassification adjustments
Cash flow hedges			
Currency risk – Currency forwards	(117)	65	Finance costs
Commodity price risk – Commodity futures	2	(17)	Finance costs
Interest rate risk – Interest rate swaps	23	148	Finance costs
Currency and interest rate risk – Cross-currency interest rate swaps	251	(170)	Finance costs

(Note) The above are amounts before tax effects.

For the fiscal year ended December 31, 2018

(Millions of yen)

	Changes in hedging instruments' fair value recognized in other comprehensive income	Reclassification adjustments from cash flow hedge reserve to profit or loss	Consolidated Statement of Profit or Loss accounts that include gains or losses due to reclassification adjustments
Cash flow hedges			
Currency risk – Currency forwards	(8)	(15)	Finance costs
Commodity price risk – Commodity futures	(135)	(20)	Finance costs
Interest rate risk – Interest rate swaps	204	(86)	Finance costs
Currency and interest rate risk – Cross-currency interest rate swaps	183	(167)	Finance costs

For the fiscal year ended December 31, 2018

(Thousands of U.S. dollars)

	Changes in hedging instruments' fair value recognized in other comprehensive income	Reclassification adjustments from cash flow hedge reserve to profit or loss	Consolidated Statement of Profit or Loss accounts that include gains or losses due to reclassification adjustments
Cash flow hedges			
Currency risk – Currency forwards	(71)	(134)	Finance costs
Commodity price risk – Commodity futures	(1,214)	(179)	Finance costs
Interest rate risk – Interest rate swaps	1,837	(775)	Finance costs
Currency and interest rate risk – Cross-currency interest rate swaps	1,648	(1,507)	Finance costs

(Note) The above are amounts before tax effects.

ii) Derivatives not subject to hedge accounting

Details of derivatives are presented below.

As of	(Millions of yen)									(Thousands of U.S. dollars)		
	January 1, 2017 (Transition Date)			December 31, 2017			As of December 31, 2018			December 31, 2018		
	Notional amount	Over 1 year	Fair value	Notional amount	Over 1 year	Fair value	Notional amount	Over 1 year	Fair value	Notional amount	Over 1 year	Fair value
Currency forwards	1,789	–	23	1,659	–	0	3,693	–	99	33,300	–	894
Currency swaps	116	–	0	–	–	–	–	–	–	–	–	–
Commodity options	13	–	(3)	92	–	(79)	170	–	(76)	1,530	–	(683)
Total	1,919	–	20	1,751	–	(79)	3,863	–	23	34,830	–	211

38. Subsidiaries

The status of major subsidiaries at December 31, 2018, is presented below.

Name	Location	Capital or investments (Millions of yen)	Main business	Ownership ratio (%)	Relationship					
					Interlocking officers, etc.		Financial support	Trade transactions	Facilities leasing	Others
					Company officer (Persons)	Company employee (Persons)				
(Subsidiaries)										
SAPPORO BREWERIES LIMITED	Shibuya-ku, Tokyo	10,000	Japanese Alcoholic Beverages	100.0	0	2	Yes	Contribution for the Group management and others	—	—
SAPPORO INTERNATIONAL INC.	Shibuya-ku, Tokyo	17,503	International	100.0	2	3	Yes	Contribution for the Group management and others	—	—
POKKA SAPPORO FOOD & BEVERAGE LTD.	Naka-ku, Nagoya	5,432	Food & Soft Drinks	100.0	0	0	Yes	Contribution for the Group management and others	—	—
SAPPORO LION LIMITED	Shibuya-ku, Tokyo	4,878	Restaurants	100.0	0	0	None	Contribution for the Group management and others	—	—
SAPPORO REAL ESTATE CO., LTD.	Shibuya-ku, Tokyo	2,080	Real Estate	100.0	1	5	Yes	Contribution for the Group management and others	—	—
SAPPORO GROUP MANAGEMENT LTD.	Shibuya-ku, Tokyo	25	Other	100.0	0	4	Yes	Service contract of indirect operations	Real estate leasing	—
YEBISU WINEMART CO., LTD.	Shibuya-ku, Tokyo	100	Japanese Alcoholic Beverages	100.0 (100.0)	0	1	None	—	—	—
OKINAWA POKKA FOODS CO., LTD.	Kunigami-gun, Okinawa	128	Food & Soft Drinks	100.0 (100.0)	0	1	Yes	—	—	—
POKKA CREATE CO., LTD.	Chiyoda-ku, Tokyo	100	Food & Soft Drinks	100.0 (100.0)	0	1	Yes	—	—	—
FOREMOST BLUE SEAL, LTD.	Urasoe-shi, Okinawa	100	Food & Soft Drinks	99.8 (99.8)	0	1	None	—	—	—
TOKYO ENERGY SERVICE CO., LTD.	Shibuya-ku, Tokyo	490	Real Estate	100.0 (100.0)	0	5	None	—	—	—

Name	Location	Capital or investments (Millions of yen)	Main business	Ownership ratio (%)	Relationship					
					Interlocking officers, etc.		Financial support	Trade transactions	Facilities leasing	Others
					Company officer (Persons)	Company employee (Persons)				
(Subsidiaries) SHINSYU-ICHI MISO CO., LTD.	Higashikurume-shi, Tokyo	72	Other	51.0	1	3	Yes	—	—	—
SAPPORO U.S.A., INC.	New York, New York, USA	7,200 thousand USD	International	100.0 (100.0)	0	3	None	—	—	—
SAPPORO NORTH AMERICA, INC.	New York, New York, USA	0 thousand USD	International	100.0	0	2	None	—	—	—
ANCHOR BREWING COMPANY, LLC	San Francisco, California, USA	105,676 thousand USD	International	100.0 (100.0)	0	3	None	—	—	—
SAPPORO CANADA INC.	Toronto, Ontario, Canada	299,000 thousand CAD	International	100.0 (100.0)	0	4	None	—	—	—
SLEEMAN BREWERIES LTD.	Guelph, Ontario, Canada	50,634 thousand CAD	International	100.0 (100.0)	0	3	None	—	—	—
SAPPORO ASIA PRIVATE LTD	Singapore	97,445 thousand CAD	International	100.0 (100.0)	0	1	None	—	—	—
SAPPORO VIETNAM LTD.	Long An Province, Vietnam	1,912,795 million VND	International	100.0 (100.0)	0	0	None	—	—	—
POKKA CORPORATION (SINGAPORE) PTE. LTD.	Singapore	27 million SGD	Food & Soft Drinks	100.0 (100.0)	0	1	None	—	—	—
POKKA INTERNATIONAL PTE. LTD.	Singapore	5 million SGD	Food & Soft Drinks	100.0 (100.0)	0	1	None	—	—	—
POKKA ACE (MALAYSIA) SDN. BHD.	Selangor, Malaysia	27 million MYR	Food & Soft Drinks	50.0 (50.0)	0	0	None	—	—	—
POKKA (MALAYSIA) SDN. BHD.	Johor, Malaysia	60 million MYR	Food & Soft Drinks	100.0 (100.0)	0	0	None	—	—	—
PT. POKKA DIMA INTERNATIONAL	West Java, Indonesia	200,000 million IDR	Food & Soft Drinks	50.0 (50.0)	0	0	None	—	—	—
SAPPORO LION (SINGAPORE) PTE. LTD.	Singapore	4 million SGD	Restaurants	100.0 (100.0)	0	0	None	—	—	—
Other 46 companies	—	—	—	—	—	—	—	—	—	—

Name	Location	Capital or investments (Millions of yen)	Main business	Ownership ratio (%)	Relationship					
					Interlocking officers, etc.		Financial support	Trade transactions	Facilities leasing	Others
					Company officer (Persons)	Company employee (Persons)				
(Affiliates) KEIYO UTILITY CO., LTD.	Funabashi-shi, Chiba	600	Japanese Alcoholic Beverages	20.0 (20.0)	0	0	None	—	—	—
THE CLUB AT YEBISU GARDEN CO., LTD.	Meguro-ku, Tokyo	200	Real Estate	30.0 (30.0)	0	2	None	—	—	—
Other 7 companies	—	—	—	—	—	—	—	—	—	—

(Notes) 1 The segment names are shown in the "Main business" column.

2 The number in parentheses of ownership ratio indicates the indirect ownership ratio included in the number outside.

3 SAPPORO BREWERIES LIMITED, SAPPORO INTERNATIONAL INC., POKKA SAPPORO FOOD & BEVERAGE LTD., SAPPORO REAL ESTATE CO., LTD., SAPPORO GROUP MANAGEMENT LTD., and SAPPORO CANADA INC. are specified subsidiaries.

4 SAPPORO INTERNATIONAL INC. was merged into SAPPORO BREWERIES LIMITED as of January 1, 2019, and ceased to exist.

5 Revenue (excluding internal revenue from consolidated companies) of SAPPORO BREWERIES LIMITED and POKKA SAPPORO FOOD & BEVERAGE LTD. exceeds 10 percent of consolidated revenue. Their key profit or loss information (based on Japanese GAAP) is presented below.

Key profit or loss information	SAPPORO BREWERIES LIMITED	POKKA SAPPORO FOOD & BEVERAGE LTD.
(1) Net sales	250,463 million yen	81,799 million yen
(2) Ordinary profit	5,808 million yen	818 million yen
(3) Profit	3,406 million yen	696 million yen
(4) Net assets	55,440 million yen	25,120 million yen
(5) Total assets	205,217 million yen	63,703 million yen

39. Related Parties

(1) Related party transactions

No significant related party transactions.

(2) Key executives' compensation

The Group's key executives' compensation is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Short-term employee benefits	307	284	2,556
Share-based payments	30	–	–
Total	337	284	2,556

40. Commitments

Commitments pertaining to expenditures subsequent to the reporting date are presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Acquisition of property, plant and equipment	2,101	3,960	35,702
Acquisition of investment property (Note)		4,127	37,210
Acquisition of intangible assets	–	269	2,430

(Note) The investment property acquisition commitments will become contractual liabilities related to maintaining or developing investment property.

41. Contingent Liabilities

(1) Guarantee liabilities

Guarantees of ordinary customers or suppliers' borrowings from financial institutions are presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2017	December 31, 2018	December 31, 2018
Ordinary customers/suppliers	502	100	902
Employees (home acquisition funding)	272	195	1,761
Total	774	295	2,663

(2) Litigation matters

Not applicable.

42. Significant Events after Reporting Period

At the Board of Directors meeting held on January 31, 2019, the Company resolved to transfer the following investment property (trust beneficiary rights) owned by Sapporo Real Estate Co., Ltd., a consolidated subsidiary of the Company.

1. Reason for transfer

To strategically restructure the property portfolio as well as to diversify funding and enhance business function through real estate securitization.

2. Assets to be transferred

One investment property located in Shibuya-ku, Tokyo

3. Overview of transferee

The transferee is a newly established domestic limited liability company (specified purpose company).

4. Date of purchase and sale agreement

March 20, 2019

5. Closing date

March 20, 2019

6. Transfer price

8,586 million yen (77,414 thousand U.S. dollars)

7. Effect on profit or loss

In conjunction with the transfer, a gain on the sale of the property of 1,880 million yen (16,949 thousand U.S. dollars) is expected to be recognized in other operating income in the fiscal year ending December 31, 2019.

43. First-time Adoption

The Group started to disclose the consolidated financial statements in accordance with IFRS from the first quarter of the fiscal year ended December 31, 2018. The last consolidated financial statements prepared in accordance with generally accepted accounting principles in Japan (“JGAAP”) were as of and for the fiscal year ended December 31, 2017, and the Transition Date is January 1, 2017.

As a general rule, IFRS requires a first-time adopter to apply IFRS retrospectively. IFRS 1, however, provides exemptions under which a first-time adopter may elect not to apply certain other IFRS retrospectively and exceptions that prohibit retrospective application of certain other IFRS.

Exemptions applied by the Group are as follows:

- Business combinations

A first-time adopter may elect not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the date of transition to IFRS. The Group applied such exemption and elected not to apply IFRS 3 retrospectively to business combinations that had occurred before the Transition Date with certain exceptions. As a result, the amount of goodwill in business combinations that had occurred before the Transition Date was presented at its carrying amount in accordance with JGAAP at the Transition Date. Regardless of whether there is any indication that the goodwill may be impaired, the Group tested the goodwill for impairment at the Transition Date.

- Deemed cost

With respect to items of property, plant and equipment and intangible assets, IFRS 1 permits a first-time adopter to use their fair value at the date of transition to IFRS as their deemed cost at that date. For certain items of property, plant and equipment, the Group used their fair value at the Transition Date as their deemed cost at that date.

- Exchange differences on translation of foreign operations

In accordance with IFRS 1, the cumulative translation differences for foreign operations may be deemed to be zero at the date of transition to IFRS. The Group elected to deem the cumulative translation differences for foreign operations to be zero at the Transition Date.

- Designation of financial instruments recognized before the Transition Date

With respect to the classification described in IFRS 9, IFRS 1 permits a first-time adopter to assess financial assets on the basis of the facts and circumstances that exist at the date of transition to IFRS, instead of those that existed at the initial recognition. In addition, a first-time adopter may designate changes in the fair value of equity instruments as financial assets measured at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the date of transition to IFRS. For the classification described in IFRS 9, the Company assessed financial assets on the basis of the facts and circumstances that existed at the Transition Date and designated certain equity instruments as financial assets measured at fair value through other comprehensive income.

- Leases as lessee

When a first-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, for all of its leases, IFRS 1 permits it to measure the lease liabilities and right-of-use assets at the date of transition to IFRS. The Group measured lease liabilities at the Transition Date at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the Transition Date. The Group also measured right-of-use assets at the Transition Date at an amount equal to the lease liabilities. For leases for which the lease term ends within 12 months of the Transition Date and leases for which the underlying asset is of low value, the Group recognizes the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Reconciliations required by IFRS 1 are presented below. “Reclassification” in the following reconciliations includes items that do not affect retained earnings or comprehensive income. “Recognition and measurement difference” includes items that affect retained earnings or comprehensive income.

Reconciliations of equity as of January 1, 2017 (Transition Date)

(Millions of yen)

Account under JGAAP	JGAAP	Reclassification	Recognition and measurement difference	IFRS	Note	Account under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	10,589	(114)	–	10,476		Cash and cash equivalents
Notes and accounts receivable - trade	96,851	(82)	(194)	96,574	i	Trade and other receivables
Merchandise and finished goods	24,657	(24,657)	–	–		
Raw materials and supplies	13,315	(13,315)	–	–		
	–	38,343	(724)	37,619	i	Inventories
	–	7,452	2,516	9,967	vi	Other financial assets
Other	15,213	(7,696)	(131)	7,386		Other current assets
Deferred tax assets	3,640	(3,640)	–	–		
Allowance for doubtful accounts	(82)	82	–	–		
	164,184	(3,627)	1,466	162,022		Subtotal
	–	359	–	359		Assets held for sale
Total current assets	164,184	(3,269)	1,466	162,381		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	345,496	(223,544)	29,651	151,602	iii, iv	Property, plant and equipment
Intangible assets						
Goodwill	27,439	–	(5,956)	21,483	v	Goodwill
Other	10,511	(409)	202	10,305		Intangible assets
	–	223,595	–	223,595		Investment property
Investments and other assets						
Investment securities	59,296	(59,296)	–	–		
	–	372	–	372		Investments accounted for using equity method
	–	68,783	10,495	79,278	vi	Other financial assets
Long-term loans receivable	4,790	(4,790)	–	–		
Other	14,760	(6,265)	426	8,921		Other non-current assets
Deferred tax assets	1,071	(3,308)	4,414	2,176	ii	Deferred tax assets
Allowance for doubtful accounts	(1,195)	1,195	–	–		
Total non-current assets	462,168	(3,666)	39,231	497,733		Total non-current assets
Total assets	626,352	(6,935)	40,697	660,114		Total assets

(Millions of yen)

Account under JGAAP	JGAAP	Reclassification	Recognition and measurement difference	IFRS	Note	Account under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	38,503	–	(43)	38,460		Trade and other payables
Short-term loans payable	30,337	(30,337)	–	–		
Commercial papers	33,000	(33,000)	–	–		
Current portion of bonds	10,083	(10,083)	–	–		
	–	73,421	2,159	75,580	vi	Bonds and borrowings
Lease obligations	3,024	–	3,584	6,609	iv	Lease liabilities
Income taxes payable	1,681	–	(111)	1,570		Income taxes payable
	–	32,988	120	33,108	vi	Other financial liabilities
Provision for bonuses	2,980	(2,980)	–	–		
Accrued alcohol tax	34,228	(34,228)	–	–		
Deposits received	8,215	(8,215)	–	–		
Other	50,072	12,338	4,014	66,424	vii	Other current liabilities
Total current liabilities	212,123	(96)	9,724	221,750		Total current liabilities
Non-current liabilities						Non-current labilities
Bonds payable	50,129	(50,129)	–	–		
Long-term loans payable	114,594	(114,594)	–	–		
	–	164,723	512	165,235	vi	Bonds and borrowings
	–	47,609	517	48,125	vi	Other financial liabilities
Net defined benefit liability	8,996	–	–	8,996		Retirement benefit liability
Lease obligations	6,969	–	17,654	24,623	iv	Lease liabilities
Guarantee deposits received	33,242	(33,242)	–	–		
Other	15,115	(14,367)	1,941	2,689		Other non-current liabilities
Deferred tax liabilities	18,804	(6,839)	14,490	26,455	ii	Deferred tax liabilities
Total non-current liabilities	247,848	(6,839)	35,113	276,122		Total non-current liabilities
Total liabilities	459,971	(6,935)	44,837	497,872		Total liabilities
Net assets						Equity
Capital stock	53,887	–	–	53,887		Share capital
Capital surplus	46,089	–	(5,383)	40,706	v	Capital surplus
Treasury shares	(1,796)	–	–	(1,796)		Treasury shares
Retained earnings	41,932	–	(5,617)	36,315	ix	Retained earnings
Accumulated other comprehensive income	20,574	–	7,941	28,515	viii	Other components of equity
				157,628		Total equity attributable to owners of parent
Non-controlling interests	5,694	–	(1,081)	4,613		Non-controlling interests
Total net assets	166,381	–	(4,140)	162,241		Total equity
Total liabilities and net assets	626,352	(6,935)	40,697	660,114		Total liabilities and equity

Reconciliations of equity as of December 31, 2017

(Millions of yen)

Account under JGAAP	JGAAP	Reclassification	Recognition and measurement difference	IFRS	Note	Account under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	12,718	(181)	–	12,537		Cash and cash equivalents
Notes and accounts receivable - trade	98,605	(103)	(176)	98,325	i	Trade and other receivables
Merchandise and finished goods	24,681	(24,681)	–	–		
Raw materials and supplies	13,638	(13,638)	–	–		
	–	38,718	(846)	37,873	i	Inventories
	–	8,216	892	9,107	vi	Other financial assets
Other	15,413	(8,433)	(66)	6,914		Other current assets
Deferred tax assets	3,900	(3,878)	(22)	–		
Allowance for doubtful accounts	(103)	103	–	–		
Total current assets	168,852	(3,878)	(219)	164,755		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	343,763	(219,266)	26,837	151,334	iii, iv	Property, plant and equipment
Intangible assets						
Goodwill	26,948	–	(2,006)	24,942	v	Goodwill
Other	13,575	(391)	155	13,339		Intangible assets
	–	219,658	–	219,658		Investment property
Investments and other assets						
Investment securities	62,146	(62,146)	–	–		
	–	391	–	391		Investments accounted for using equity method
	–	66,904	11,773	78,677	vi	Other financial assets
Long-term loans receivable	428	(428)	–	–		
Other	14,828	(5,938)	419	9,309		Other non-current assets
Deferred tax assets	1,306	(5,201)	6,220	2,326	ii	Deferred tax assets
Allowance for doubtful accounts	(1,216)	1,216	–	–		
Total non-current assets	461,779	(5,201)	43,398	499,976		Total non-current assets
Total assets	630,631	(9,079)	43,179	664,731		Total assets

(Millions of yen)

Account under JGAAP	JGAAP	Reclassification	Recognition and measurement difference	IFRS	Note	Account under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	36,530	–	(43)	36,488		Trade and other payables
Short-term loans payable	37,882	(37,882)	–	–		
Commercial papers	32,000	(32,000)	–	–		
Current portion of bonds	10,068	(10,068)	–	–		
	–	79,950	765	80,716	vi	Bonds and borrowings
Lease obligations	2,691	–	3,842	6,533	iv	Lease liabilities
Income taxes payable	5,202	–	5	5,207		Income taxes payable
	–	33,060	216	33,277	vi	Other financial liabilities
Provision for bonuses	3,090	(3,090)	–	–		
Accrued alcohol tax	34,408	(34,408)	–	–		
Deposits received	7,817	(7,817)	–	–		
Other	50,484	12,255	3,850	66,590	vii	Other current liabilities
Total current liabilities	220,173	(0)	8,636	228,809		Total current liabilities
Non-current liabilities						Non-current labilities
Bonds payable	50,061	(50,061)	–	–		
Long-term loans payable	103,578	(103,578)	–	–		
	–	153,639	(455)	153,184	vi	Bonds and borrowings
	–	45,548	408	45,956	vi	Other financial liabilities
Net defined benefit liability	5,493	–	790	6,283		Retirement benefit liability
Lease obligations	5,960	–	18,335	24,295	iv	Lease liabilities
Guarantee deposits received	31,086	(31,086)	–	–		
Other	15,324	(14,462)	1,759	2,621		Other non-current liabilities
Deferred tax liabilities	21,292	(9,079)	15,658	27,872	ii	Deferred tax liabilities
Total non-current liabilities	232,795	(9,079)	36,496	260,212		Total non-current liabilities
Total liabilities	452,968	(9,079)	45,132	489,021		Total liabilities
Net assets						Equity
Capital stock	53,887	–	–	53,887		Share capital
Capital surplus	46,091	–	(5,266)	40,825	v	Capital surplus
Treasury shares	(1,807)	–	–	(1,807)		Treasury shares
Retained earnings	50,023	–	(5,532)	44,491	ix	Retained earnings
Accumulated other comprehensive income	25,274	–	9,385	34,659	viii	Other components of equity
				172,055		Total equity attributable to owners of parent
Non-controlling interests	4,195	–	(539)	3,655		Non-controlling interests
Total net assets	177,663	–	(1,952)	175,710		Total equity
Total liabilities and net assets	630,631	(9,079)	43,179	664,731		Total liabilities and equity

Notes to reconciliations of equity

(1) Reclassification

A. Trade and other receivables

"Notes and accounts receivable - trade" and "allowance for doubtful accounts," which were presented separately under JGAAP, are presented as "trade and other receivables" under IFRS.

B. Inventories

"Merchandise and finished goods" and "raw materials and supplies," which were presented separately, and work in process included in "other," under JGAAP, are presented as "inventories" under IFRS.

C. Other financial assets and other financial liabilities

In accordance with presentation requirements of IFRS, "other financial assets" and "other financial liabilities" are presented separately.

"Investment securities" and "long-term loans receivable," which were presented separately, and lease and guarantee deposits included in "other," within non-current assets under JGAAP, are included in "other financial assets" under IFRS.

In addition, "deposits received" presented separately within current liabilities under JGAAP is included in "other financial liabilities" under IFRS.

D. Deferred tax assets and deferred tax liabilities

"Deferred tax assets" and "deferred tax liabilities," which were presented separately within current assets and current liabilities, respectively, under JGAAP, are reclassified to non-current since they all shall be classified as non-current under IFRS.

E. Assets held for sale

In accordance with IFRS 5, "assets held for sale" is presented separately.

F. Investment property

Under JGAAP, non-current assets that meet the definition of investment property was included in "property, plant and equipment" within non-current assets. Under IFRS, they are presented as "investment property."

(2) Recognition and measurement difference

i. Trade and other receivables and inventories

Under JGAAP, revenue for certain transactions was recognized at the point of shipment. Under IFRS, revenue is mainly recognized upon delivery.

In addition, under JGAAP, goods mainly held for advertisement and promotion purposes were recognized as inventories. Under IFRS, they are recognized as expenses when purchased.

ii. Deferred tax assets, deferred tax liabilities

Amounts of deferred tax assets and deferred tax liabilities have been adjusted for reasons such as temporary differences arising from adjustments from JGAAP to IFRS.

iii. Property, plant and equipment

In line with adoption of IFRS, the Group changed the depreciation method and other details of property, plant and equipment, and the carrying amount was reduced accordingly. In addition, for certain property, plant and equipment items, the Group applied the exemption that a first-time adopter may elect to use fair value at the date of transition to IFRS as deemed cost. The carrying amount of those property, plant and equipment items before the use of their fair value at the Transition Date as their deemed cost was 39,044 million yen, and their total fair value was 71,253 million yen.

iv. Lease liabilities

Under JGAAP, leases as lessee were classified into finance leases and operating leases. Operating leases were accounted for in a manner similar to accounting treatment for ordinary rental transactions. Under IFRS, leases as lessee are not classified into finance leases and operating leases, so the Group records both lease assets (right-of-use assets) and lease obligations (lease liabilities) for leases.

v. Goodwill

Under JGAAP, goodwill was amortized on a straight-line basis over a reasonable period up to 20 years. Under IFRS, the Group ceased to amortize goodwill at the Transition Date and tests goodwill for impairment at the end of each reporting period.

In addition, under JGAAP, changes in ownership interests in a subsidiary that do not result in a loss of control (additional acquisition) were accounted for as adjustments to goodwill as external transactions. Under IFRS, such changes are accounted for as equity transactions, so “capital surplus” changes with no adjustment to goodwill.

vi. Bonds payable, borrowings, other financial assets, other financial liabilities

Under JGAAP, the Group accounted for an unlisted equity security at cost and, if necessary, recognized impairment losses according to deterioration in the financial position of the issuer. Under IFRS, the Group has elected to measure unlisted equity securities at fair value through other comprehensive income.

In addition, under JGAAP, the Group applied the exceptional treatment to interest rate swaps that meet certain criteria. Under IFRS, the Group has applied hedge accounting to them, recorded bonds payable, borrowings, and derivative assets and derivative liabilities, and recognized valuation differences in other comprehensive income.

vii. Other current liabilities

Unused paid absences, which were not required to be accounted for under JGAAP, are recognized as liabilities under IFRS.

viii. Other components of equity

Cumulative translation differences for all foreign operations under JGAAP were transferred to “retained earnings” at the Transition Date.

Under JGAAP, the Group accounted for an unlisted equity security at cost and, if necessary, recognized impairment losses according to deterioration in the financial position of the issuer. Under IFRS, the Group has elected to measure unlisted equity securities at fair value through other comprehensive income.

Under JGAAP, past service cost was recognized in net assets through other comprehensive income when it arose and was expensed over a certain number of years within the average remaining years of service of the employees. Under IFRS, past service cost is recognized in full in profit or loss when it arises.

ix. Retained earnings

The effect on retained earnings of adjustments concomitant with adoption of IFRS is presented below. The amounts in the table below are adjusted for related tax effects and non-controlling interests.

(Millions of yen)

	As of January 1, 2017 (Transition Date)	As of December 31, 2017
Trade and other receivables and inventories (see i)	(418)	(510)
Property, plant and equipment (see iii)	(1,610)	(4,851)
Lease liabilities (see iv)	252	217
Goodwill (see v)	–	3,904
Other financial assets, other financial liabilities (see vi)	263	275
Other current liabilities (see vii)	(2,739)	(2,643)
Other components of equity (see viii)	(1,382)	(1,739)
Other	16	(185)
Total adjustments to retained earnings	(5,617)	(5,532)

Reconciliations of profit or loss and comprehensive income for the fiscal year ended December 31, 2017

(Millions of yen)

Account under JGAAP	JGAAP	Reclassification	Recognition and measurement difference	IFRS	Note	Account under IFRS
Net sales	551,549	–	(14,963)	536,585	i	Revenue
Cost of sales	358,573	–	14,576	373,148	i, ii, iv	Cost of sales
Gross profit	192,976	–	(29,539)	163,437		Gross profit
Selling, general and administrative expenses	175,944	–	(29,952)	145,991	i, ii, iii, iv	Selling, general and administrative expenses
	–	2,716	(1,687)	1,029		Other operating income
	–	5,813	(144)	5,669		Other operating expenses
Operating profit	17,033	(3,097)	(1,130)	12,806		Operating profit
Non-operating income	2,093	(2,093)	–	–		
Non-operating expenses	2,715	(2,715)	–	–		
Extraordinary income	6,814	(6,814)	–	–		
Extraordinary losses	5,423	(5,423)	–	–		
	–	6,171	(4,833)	1,338	v	Finance income
	–	2,324	302	2,626		Finance costs
	–	19	(0)	19		Share of profit of investments accounted for using equity method
Profit before income taxes	17,802	–	(6,264)	11,538		Profit before tax
Income taxes	8,182	–	(3,012)	5,170	v	Income tax expense
Profit	9,619	–	(3,252)	6,367		Profit
Other comprehensive income						Other comprehensive income
Valuation difference on other securities	3,416	–	4,785	8,202	v	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	189	–	348	537	iv	Remeasurements of defined benefit plans
Foreign currency translation adjustment	1,019	–	13	1,032		Exchange differences on translation of foreign operations
Deferred gains or losses on hedges	(60)	–	174	114		Effective portion of net change in fair value of cash flow hedges
Comprehensive income	14,184	–	2,068	16,252		Comprehensive income

Notes to reconciliations of profit or loss and comprehensive income

(1) Reclassification

A. Other operating income, other operating expenses, finance income, finance costs, and share of profit of investments accounted for using equity method

With respect to items presented in “non-operating income,” “non-operating expenses,” “extraordinary income” and “extraordinary losses” under JGAAP, the Group has reclassified financial items into “finance income” or “finance costs” and other items into “other operating income,” “other operating expenses” or “share of profit of investments accounted for using equity method” in accordance with IFRS.

(2) Recognition and measurement difference

i. Revenue, cost of sales, and selling, general and administrative expenses

Under JGAAP, some rebates and other related costs were presented in “selling, general and administrative expenses.” Under IFRS, these costs are deducted from “revenue.”

Under JGAAP, revenue for certain transactions was recognized at the point of shipment. Under IFRS, revenue is mainly recognized upon delivery.

ii. Cost of sales and selling, general and administrative expenses

As the Group changed the depreciation method and other details of property, plant and equipment in line with adoption of IFRS, depreciation included in cost of sales and selling, general and administrative expenses has been changed.

iii. Selling, general and administrative expenses

Under JGAAP, the Group estimated a period during which goodwill would have an effect and amortized it over the period. Under IFRS, the Group ceased to amortize goodwill at the Transition Date.

iv. Cost of sales, selling, general and administrative expenses, and remeasurements of defined benefit plans

Under JGAAP, past service cost was recognized in net assets through “other comprehensive income” when it arose and was expensed using the straight-line method over a certain number of years within the average remaining years of service of the employees. Under IFRS, past service cost is recognized in full in profit or loss when it arises.

v. Income tax expense, financial assets measured at fair value through other comprehensive income

Under JGAAP, the Group recognized gain on sales of investment securities and tax on the gain in “extraordinary income” and “income taxes - current,” respectively. Under IFRS, an entity may designate equity instruments as financial assets measured at fair value through other comprehensive income, and the Group has recognized gain on sales of designated equity instruments as “other comprehensive income.”

Adjustments to cash flows for the fiscal year ended December 31, 2017

The main difference between the JGAAP-basis consolidated statement of cash flows and IFRS-basis consolidated statement of cash flows is that lease payments from operating leases, which are cash flows from operating activities under JGAAP, have become cash flows from financing activities as repayments of lease obligations as a result of adoption of IFRS 16.

(2) Other information

Quarterly information in the fiscal year ended December 31, 2018 and other information

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Full year
Revenue (Millions of yen)	111,342	241,740	381,044	521,856
Profit (loss) before tax (Millions of yen)	(6,053)	(3,641)	5,712	9,492
Profit (loss) attributable to owners of parent (Millions of yen)	(4,286)	(2,516)	4,209	8,521
Basic earnings (loss) per share (Yen)	(55.03)	(32.30)	54.04	109.40

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (loss) per share (Yen)	(55.03)	22.73	86.34	55.37

Quarterly information in the fiscal year ended December 31, 2018 and other information

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Full year
Revenue (Thousands of U.S. dollars)	1,003,895	2,179,609	3,435,616	4,705,220
Profit (loss) before tax (Thousands of U.S. dollars)	(54,573)	(32,828)	51,500	85,586
Profit (loss) attributable to owners of parent (Thousands of U.S. dollars)	(38,646)	(22,684)	37,949	76,830
Basic earnings (loss) per share (U.S. dollars)	(0.50)	(0.29)	0.49	0.99

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (loss) per share (U.S. dollars)	(0.50)	0.20	0.78	0.50

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Building a better working world

Independent Auditor's Report

The Board of Directors
SAPPORO HOLDINGS LIMITED

We have audited the accompanying consolidated financial statements of SAPPORO HOLDINGS LIMITED and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAPPORO HOLDINGS LIMITED and its consolidated subsidiaries as at December 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

March 28, 2019
Tokyo, Japan