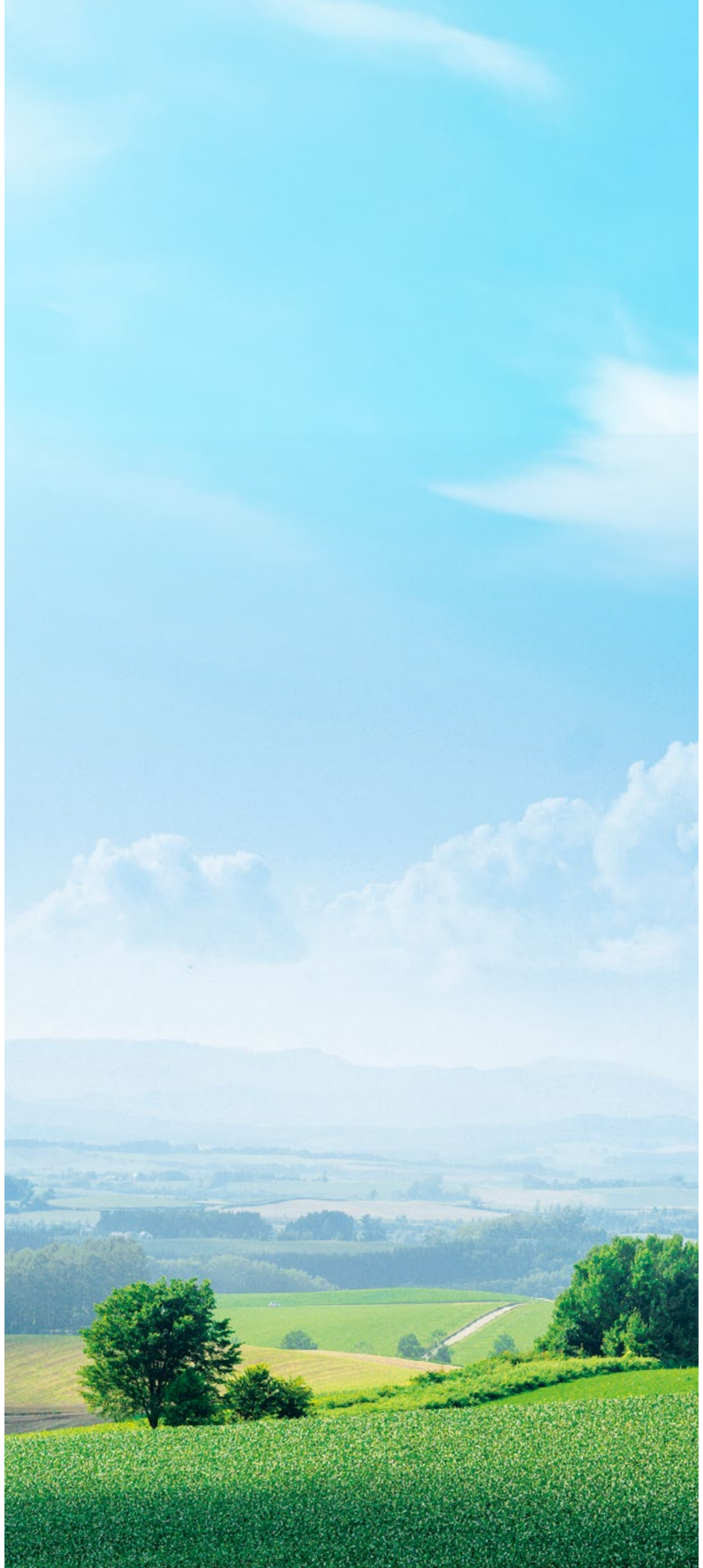
SAPPORO

Integrated Report 2019

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

The Sapporo Group’s Sustainability Policy

With the earth, in harmony with society, from the start, to bring smiles to people.

The Sapporo Group will address global environmental and social issues to make people happy.

The earth, the source of nature's bounty, is our most important partner.

We will strive to collaborate and prosper together with our stakeholders

who share our value to provide products sustainable in the entire lifecycle

from the development of products and services to the delivery to customers.

We will value our founding philosophy and think hard about creating sustainable value,

and bring a smile to the face of people.

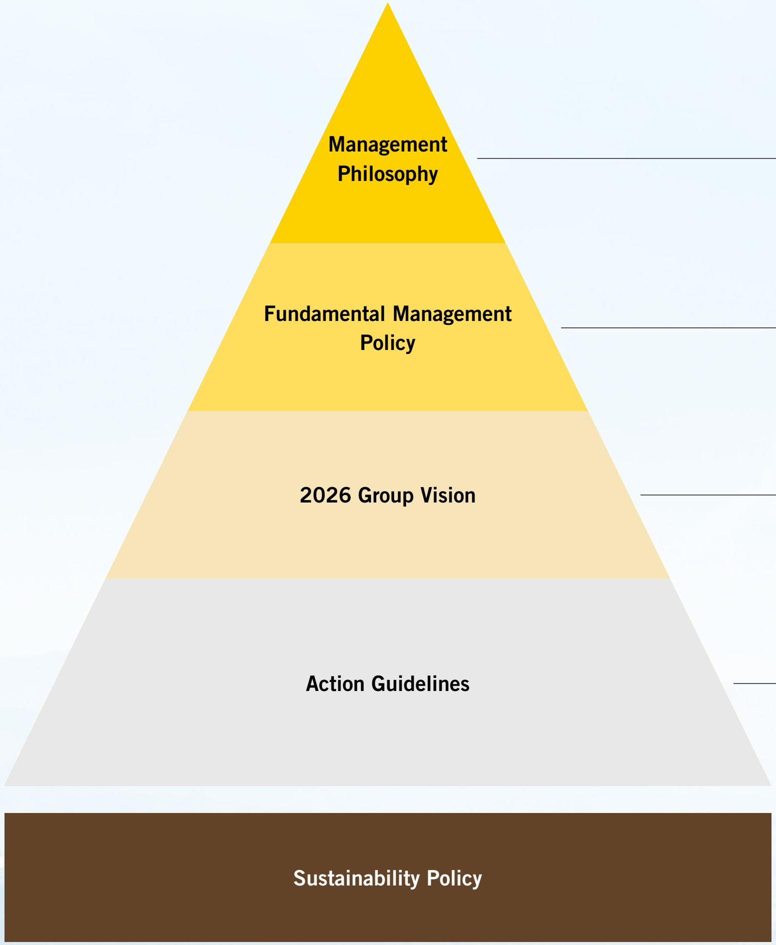
We will try to bring smiles to people all over the world,

with our commitment to professional manufacturing, development of regionally oriented communities,

and with our vows “Be a pioneer of people’s smiles in the world.”

The Sapporo Group's Management Philosophy Framework

The Sapporo Group is committed to "the realization of a sustainable society" and "sustained growth of the Group" and is therefore working under its Sustainability Policy to create value leading to solutions for global issues. By doing so, it is working to realize its Management Philosophy: "Sapporo will contribute to the evolution of creative, enriching, and rewarding lifestyles."



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.

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 fulfilling 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.

Sustainability Policy: With the earth, in harmony with society, from the start, to bring smiles to people.

The Sapporo Group's Value Creation Process

The Sapporo Group has created a unique brand story and brand assets based on over 140 years of history and dialogue. By keeping our brands at the heart of our three core businesses, we can provide products and services that bring joy to our customers and continued happiness to all of our stakeholders in an ever-increasing cycle.

Continuing as pioneers with a sustainable value creation process and bringing smiles to many

INPUT

1 Brand Assets

Sapporo's Unique Brand Story P.12–13

- Effective Use of Nature's Blessings P.41
- Highly Unique Employees P.40
- Dialogue with Stakeholders P.15
- Innovation That Creates New Value P.46

BUSINESS MODEL

2 Three Businesses with a Brand-Centric Approach

Brands

- Alcoholic Beverages P.20
- Real Estate P.29
- Food & Soft Drinks P.26

Sustainability Policy P.02

Corporate Governance P.55

Risk Management P.63

OUTCOME

4 Value Created by the Sapporo Group

Contributing to invigorating communication among customers by providing products and services

Providing "fun," "joy," and "vitality for tomorrow" to all stakeholders through business expansion

➡ P.71 Ten-Year Summary of Financial and Non-Financial Data

OUTPUT

3 Brands Close to the Hearts of Customers

(Products and Services)

Contents

Investor Relations https://www.sapporoholdings.jp/en/
Sustainability https://www.sapporoholdings.jp/en/csr/

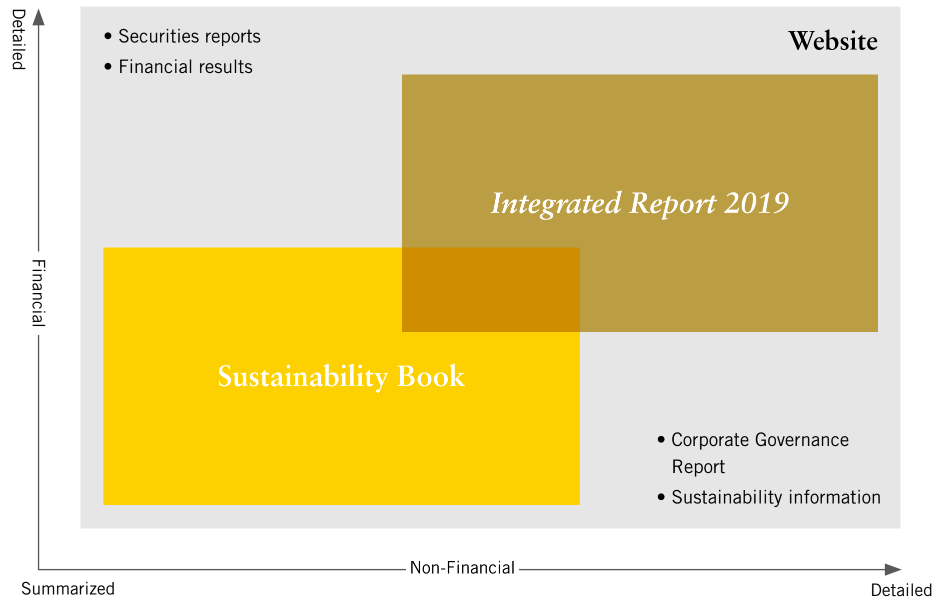
Editorial Policy

Integrated Report 2019 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 in society. This integrated report is intended to facilitate understanding of the Group's economic and social value creation as accomplished through our business activities, based on our management strategy and Sustainability Policy, and to inform readers on the state and progress of our initiatives. Our editorial policy is to provide information regarding the changes that will take place moving forward in a clear and straightforward manner. In doing so, we hope that all stakeholders, including shareholders and other investors, will grasp the Sapporo Group's vision toward sustainable growth.

July 2020

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 2019 (Jan. 1, 2019–Dec. 31, 2019). However, it may refer to events before or after this period as necessary.

Organizations Covered
Sapporo Holdings Limited 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*

Environment Social Governance Guidance for Collaborative Value Creation

Supported Initiatives
- UN Global Compact
  Sapporo Holdings has signed the United Nations Global Compact.
- The SDGs (Sustainable Development Goals)
- The TCFD (The FSB's Task Force on Climate-related Financial Disclosures)

WE SUPPORT UN GLOBAL COMPACT

SUSTAINABLE DEVELOPMENT GOALS

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Masaki Oga
President and
Representative Director

To bring joyful smiles to people around the world, we will continue to take on new challenges, making use of our strengths as a brand company, our commitment to craftsmanship, and urban development rooted in the community.

Message from the President

Our Response to COVID-19

To begin, I would like to express my deepest sympathies to those who have contracted or have been otherwise affected by the spread of COVID-19.

This virus has wreaked havoc on a global scale, taking a heavy toll on the social economy of each country it has touched. Amid these circumstances, the Sapporo Group is dedicated to fulfilling its social responsibilities based on the tenets of its Sustainability Policy, which is described later in this message.*1

*1 For information concerning the Group's policies and initiatives regarding COVID-19, please refer to the following notice (Japanese only)
https://www.sapporoholdings.jp/announce/dit/?id=8643

As it stands, there is no clear end to the situation, so we can expect this difficult management environment to continue going forward. However, being ensconced in the manufacturing of alcoholic beverages, food, and soft drinks and operation of restaurants, we will work to reduce the risk of spreading infectious diseases and continue production and logistics operations in Japan and overseas, in order to fulfill our responsibility to supply our customers. I am particularly appreciative that we have been able to put forward a solid response during this time, especially in terms of our business management system. On the infrastructure side of this response, we were able to establish a basic Groupwide work-from-home initiative relatively smoothly. This is partly due to having a teleworking system already in place. What is more, we have learned that most of what we consider "work" can be done without being on the actual premises. I believe it is important that we use this new understanding to point out and eliminate inefficiencies in our duties and promote greater efficiency by doing so.

That said, this has once again confirmed the importance of communication with our fellow members of the human race. For example, new employees were originally supposed to acquire the basics as members of society while creating a sense of solidarity with their colleagues through group training in their first month. Unfortunately, this opportunity was lost to them. However, it is also true that new initiatives such as online training can provide a unique experience and bring new awareness to the Company. More important than anything is to not dwell on the negative effects of what has taken place, but rather to think of how to leverage this experience going forward.

Shift from the First Medium-Term Management Plan 2020 to Group Management Plan 2024

To mark 150 years since our founding in 2026, the Sapporo Group formulated its Long-Term Management Vision "SPEED150." In fiscal 2017, we went forward with the four-year First Medium-Term Management Plan 2020. The plan was focused on growth or expansion of scale through vigorous M&A and other measures, but it unfortunately became clear that we had deviated from our road map amid a sharp decline in the domestic and overseas markets.

This decline was brought on in part by diversifying consumer behavior in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks." To address the new needs of consumers, which include a quality-over-quantity approach to alcohol and health-consciousness, it is more important to highlight which business fields to concentrate on, as opposed to expanding in every direction.

Because of this, we positioned fiscal 2019 as the "Year of Change," and worked to rethink our pressing issues. As a result, we ended the First Medium-Term Management Plan 2020 one year ahead of schedule and formulated the new Group Management Plan 2024 (hereinafter, the "New Medium-Term Plan") in order to make a fresh start.

> To address diversifying consumer behavior in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks," it is more important to highlight which business fields to concentrate on, as opposed to expanding in every direction.

Goals of the New Medium-Term Plan

The New Medium-Term Plan, a five-year plan starting from fiscal 2020, focuses on two specific goals aimed at becoming "a Company with Highly Unique Brands"—one aspect of our Long-Term Management Vision. These goals are 1) achieve record profits and 2) build stable portfolios in our three core business segments.

We will concentrate management resources on growth fields such as beer, our core business, to match our highest-ever core operating profit.

For the former, we have set a quantitative goal of ¥30.0 billion core operating profit*2 by fiscal 2024. This is equal to our highest-ever operating profit under JGAAP. We will focus on profit levels and transition toward leaner management while still remaining cognizant of capital efficiency.

The latter refers to the stable functioning of our three core business segments while allowing them to put their individual merits on display. Currently, the Real Estate business segment is generating stable profits based on office rentals, but the Alcoholic Beverages and Food & Soft Drinks business segments are subject to large fluctuations in profits. We as management see this as an issue.

In light of this situation, the New Medium-Term Plan will concentrate management resources on growth fields such as beer, our core business. Meanwhile, when it comes to unprofitable sectors, we will focus our efforts on those that we believe we can return to profitability over the plan's duration, or on those businesses that we are confident will be relevant from a long-term perspective.

*2 Core operating profit = Revenue – Cost of sales – SG&A expenses

Alcoholic Beverages: Expand Beer Sales

While demand for domestic beer has been on the decline, beer is likely to continue being the most consumed form of alcoholic beverage in the future. Moreover, the unification of liquor taxes in the fall of 2020 will be a major opportunity for the Company, which has two major brands, *Sapporo Draft Beer Black Label* and *YEBISU*. We intend to further expand sales by utilizing our strengths, which include an abundant product lineup and a unique procurement system for raw materials—the Collaborative Contract Farming System—and through marketing-related measures.

Food & Soft Drinks: Accelerate Shift toward "Food" Field

Revenue for the Food & Soft Drinks business segment under POKKA SAPPORO Food & Beverage comprises almost 70% soft drinks, half of which is from vending machine sales. To increase our profit levels, we believe it is important for us to increase vending machine profitability and expand business in the "Food" field. We will strategically reorganize our business portfolio to specialize in genres where we possess particular strength, such as lemons, and to increase the sales ratio in the "Food" field.

The "Food" field plays a large part in people's lives and, even in a state of emergency like the one we are in now, the sales of some products have significantly increased. Our policy going forward will be to strategically control soy milk yogurt and other genres and to cultivate our soups and lemon products as future pillars of profits.

Real Estate: Generate Stable Cash Flows

The Real Estate business segment has made steady growth as a pillar of stable profits. Amid an increasingly murky economic outlook coupled with high sensitivity to changes in the operating environment, we expect this growth to continue as a result of urban development in favorable areas—including those where the Company has close ties—and integrated business operations. From a long-term perspective, we aim to increase profitability further and provide new value through strategic rearrangements of our property portfolio and growth investments, including equity investments and private placement funds.

Accelerate Global Development

Running parallel with the efforts I mentioned previously, we will also strengthen overseas expansion centered on the Alcoholic Beverages business segment. We will develop a consistent brand strategy in North America and Asia in an effort to accelerate growth and therefore accelerate profitability.

In North America, we will optimize our logistics and distribution network as well as our sales system from a comprehensive perspective of "where we make it, how we make it, and how we move it."

In Vietnam and other areas of Southeast Asia, we will make use of our sales agent network while implementing steady initiatives. Although the large number of small family-owned shops and local customs act as hurdles for expanding sales channels, we also believe that modernized distribution spurred by IT and other factors may make rapid leaps going forward.

Regarding M&A, we will continue to seek opportunities in North America, especially in the United States. Our policy is to reach a conclusion after carefully checking the content and timing of an M&A-related decision while also factoring in the impact of COVID-19.

Reorganize around Operating Companies

In order to move forward with these initiatives, we have reorganized our organization around our operating companies. Organization around a head office tends to become bloated, despite the head office not generating profits in and of itself. Moreover, the Sapporo Group has to this point kept the North American Alcoholic Beverages business under the direct control of the holding company.

In response, we have slimmed down the holding company by moving two-thirds of its employees to the operating companies, and have unified control of the Alcoholic Beverages business segment in Japan and overseas under Sapporo Breweries. Going forward, all business promotion functions will be left to the operating companies, while the holding company will focus on internal control systems, the allocation of management resources, engagement with the capital market, and similar matters.

In general, a head office-based organization serves to streamline operations as a whole by working across departments. This updated structure, however, does not minimize this function, but instead transfers it to the operating companies and their respective human resources. Looking at Sapporo Breweries in particular, we expect that establishing footholds in new overseas growth markets will raise morale on location and invigorate the organization.

By reorganizing around our operating companies, we will raise morale and invigorate the organization.

Transition to a Company with an Audit & Supervisory Committee

To go hand in hand with our structural reorganization, we have changed the institutional design of the holding company and transitioned to a Company with an Audit & Supervisory Committee. The goals of this action are to further enhance governance functions and make a clear distinction between management supervision and business execution. By delegating a certain amount of authority to the business execution side, the Board of Directors can focus on deliberating over important matters, and management processes speed up as a whole.

In the same vein, the composition of the Board of Directors has been adjusted so that one-half of its members are independent outside directors to ensure a greater sense of accountability in management.

Promote Sustainability Management

For the Sapporo Group to continue drawing demand from society in the future, it must strive to incorporate social and economic value creation in its business activities while communicating its big picture in an easy-to-understand manner. This effort is not something to be left to a specific department. Instead, the Company as a whole must communicate that the day-to-day duties of each and every employee are connected to social and environmental issues.

Message from the President

From this viewpoint, the Sapporo Group formulated its Sustainability Policy in December 2019. Furthermore, one of the basic policies highlighted in Group Management Plan 2024 is to "promote sustainability management." Our aim in doing so is to help achieve the United Nations Sustainable Development Goals (SDGs) and realize both a sustainable society and sustainable growth.

Also, in September 2019, we formulated the Sapporo Group's Environmental Vision 2050 to tackle environmental issues, and rolled out a plan for achieving zero CO_2 emissions at Company bases by 2050. This is a long-term commitment, but we as management have set this goal because it is the message we have received from our young employees, and it is they who will be central to realizing the Company's vision for the future.

We will provide a variety of value in order to "bring smiles to people," as highlighted in our Sustainability Policy.

On the social end, our first duty as a manufacturer is providing high-quality products and developing new ones to enrich our customers' lives. Furthermore, in addition to urban development through our Real Estate business segment, the Sapporo Group has several contact points in communities where our factories and offices are located. We intend to conclude comprehensive partnership agreements with local governments and conduct exchanges with residents to develop business activities that are deeply rooted in various regions.

Each employee has a role in this series of efforts, and human resources are the very foundation of sustainability management. We will work to acquire and nurture global human resources and support the success of women. At the same time, we will design a system that supports a variety of human resources in the pursuit of a variety of challenges and build an environment where motivated employees can enjoy performing their duties. We will also continue to promote diversity and inclusion. These efforts constitute our policy to raise the value of the Group's human resources to a new level.

Bring Smiles to People

Characteristic of the Sapporo Group is its lineup of highly recognized brands. The Company has multiple brands that make up the core of its business, such as *Sapporo Draft Beer Black Label* and *YEBISU* in the Alcoholic Beverages business segment and *Kireto Lemon* and *Jikkuri Kotokoto* in the Food & Soft Drinks business segment.

The Real Estate business segment is centered on high-value-added projects linked to the redevelopment of prime locations with connections to the Group. As symbolized by Yebisu Garden Place and Sapporo Factory—which were erected on the same sites as our old breweries—all of our businesses are organically linked by our brand and are closely tied to one another. I would like for more people to experience the superiority of our unique business portfolio, which comprises "Alcoholic Beverages," "Food," and "Soft Drinks" as well as real estate.

For a brand to truly make it, it has to be three things: unique, unwavering, and timeless. We have been around for a long time as a company, but have remained fresh by always taking on new challenges. As such a company, we will provide a variety of value in order to "bring smiles to people," as highlighted in our Sustainability Policy. Going forward, I would like to ask for the continued support of all our stakeholders in this pursuit.

June 2020

Masaki Oga
President and Representative Director

A History of Brand Creation

Alcoholic Beverages

1876
Established the *Kaitakushi* Brewery in Sapporo, Hokkaido

1877
Launched *Sapporo Lager Beer*, the Company's first product

1956
Revival of *Sapporo Beer*

1964
Company name changed to SAPPORO BREWERIES LIMITED

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

2020
130th anniversary of *YEBISU*

1887
Established Japan Beer Brewery Company in Ginza, Tokyo

1890
Launched *YEBISU*

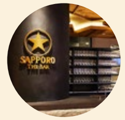
Space to experience the Sapporo brand —Entered the Restaurants business

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

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

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

2019
Opened *Sapporo Draft Beer Black Label THE BAR* at GINZA PLACE B1



2015
Opened *GRANDE POLAIRE WINEBAR TOKYO* in the Ginza Corridor District

1964
Began exporting beer to the United States

2006
Entry into Canada

2010
Entry into Vietnam

Food & Soft Drinks

Entered the Soft Drinks business —Utilization of carbon dioxide gas 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.

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

Real Estate

Entered the Real Estate business by reviving former brewery sites

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

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

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

2016
Completed construction of GINZA PLACE

For over 140 years of Company history, Sapporo has helped bring smiles to people through an accumulation of dialogues with all of its stakeholders in the pursuit of innovation and quality. Emerging from these dialogues have been ideas shared among all stakeholders, and these "crystals" have become the Sapporo Group brand. It is this brand and our many brand assets that are the most important factors in achieving growth.

The Sapporo Group's Brand Story from Then to Now

BRAND

1890 –	1896 –	1914 –	1949 –	1957 –	1963 –	1974 –	1976 –
YEBISU	*Anchor*	*Ribbon*	*Ginza Lion*	*POKKA Lemon*	*Shinsyu-ichi Miso Miko-chan*	*Mascot*	*BLUE SEAL*

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

Our Businesses (Fiscal year ended December 2019)

OVERVIEW

Revenue ¥491.9 billion

Core Operating Profit ¥11.7 billion

Alcoholic Beverages P.20

Domestically, we further developed the Alcoholic Beverages segment, which centers on our beer products, drawing from the Company slogan, "Bringing more cheer to your 'Cheers!'" Overseas, we continued to promote our growth strategy with a focus on North America and Southeast Asia, basing it on the characteristics of each region. Our beer halls, such as *GINZA LION* and *YEBISU BAR*, 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.

- **Main Brands:** Beer and beer-type beverages: *Sapporo Draft Beer Black Label, YEBISU, Mugi to Hop, GOLD STAR* 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 Pacific (Vietnam, Korea, Singapore, China, Australia, etc.), North America (Canada, U.S.), Europe

Revenue
¥324.4 billion

Core Operating Profit
¥8.7 billion

Food & Soft Drinks P.26

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.

- **Main Brands:** *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 brand: *POKKA*
- **Main Sales Areas:** Japan and Asia (Singapore), North America

Revenue
¥136.9 billion

Core Operating Loss
¥(0.5) billion

Real Estate P.29

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."

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

Revenue
¥24.7 billion

Core Operating Profit
¥10.7 billion

Revenue

Number of Employees (As of December 31, 2019)
7,736 (Consolidated) 305 (Parent company)

Consolidated Subsidiaries and Equity-Method Affiliates (As of December 31, 2019)
47 (Consolidated subsidiaries) 2 (Equity-method affiliates)

Stakeholder Engagement

As a business practice done in earnest and in accordance with its Sustainability 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 help us achieve “stronger corporate communications,” one of the pillars of the Group’s 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 holds half-day events centered on Company headquarters where employees can experience working at the customer service center, as well as events at breweries and sales locations for employees to listen to customer feedback. By always keeping the customer’s perspective in mind, Sapporo Breweries is focused on realizing its corporate philosophy and “To pursue the craftsman’s spirit – For our consumers to discover a new enjoyment and enrichment.”

Shareholders / Investors

Adhering to the Corporate Governance Code and implementing appropriate shareholder returns

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

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 sustainability perspective, etc.

The Sapporo Group is carrying out sustainability 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 sustainability and SDG initiatives.

Community / Society

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

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

As of February 2020, the Sapporo Group has formed 63 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.

Message from the Officer in Charge of Strategy

Turbulent times of rapid change are especially rife with opportunity, and we will use these times to turn the organization into one that can respond quickly to customers. We are trimming away all the fat from our current bloated and complicated organizational system to construct a simple, compact, and business-centric framework that will allow us to increase our responsiveness. We fully recognize that each and every employee is the main source of change, and we will make a complete transformation toward a system that leads to value creation for the customer.

Yasuyuki Oohira
Director (Member of the Board)

Review of the First Medium-Term Management Plan 2020

While our transition toward a growth stage in line with the theme "transform with unprecedented speed" met with a certain degree of success, there were still several issues remaining. It was decided that it would be difficult to address these issues sufficiently by continuing with the existing plan.

Themes	Results	Issues
Transformation of the Group's management platform	• Shifted to three-segment management format based on three core businesses • Withdrew from unprofitable North American soft drinks business	• Transition to streamlined head office operations
Continued growth of existing businesses	• Achieved steady growth of *Sapporo Draft Beer Black Label* and expanded sales of ready-to-drink (RTD) products • Maintained stable revenue from Real Estate business segment	• Reinforcement of Japanese Alcoholic Beverages and Soft Drinks businesses
Results from investment businesses	• Made Vietnam business profitable	• Rebuilding and expansion of North American Alcoholic Beverages business
Capturing of growth opportunities	• Started operations at new soup, soybeans, and chilled products facility • Acquired Yasuma Co., Ltd. • Established Sapporo Europe B.V.	• Expansion of food business • Nurturing of global human resources

Basic Policy

P.21, 27

1 Focus on Core Businesses and Build Resilience

- Focus management resources on beer business
- Scale down or withdraw from low-return businesses and shift to "Food" and other growth fields

P.21, 50

2 Accelerate Global Expansion

- Transfer all overseas business operations to operating companies, and deploy a consistent global brand strategy
- Strengthen earnings capacity with focus on North America and Asia Pacific and simultaneously accelerate growth
- Nurture global human resources

P.10

3 Establish Simple and Compact Organizational Structure

- Restructure to realize downsized head office operations and easy-to-understand organizational structure and pursue business process re-engineering and digital transformation
- Designate governance, operating company support, and management resource allocation functions to Sapporo Holdings
- Fully transfer business promotion functions to operating companies to increase responsiveness

P.31

4 Promote Sustainability Management

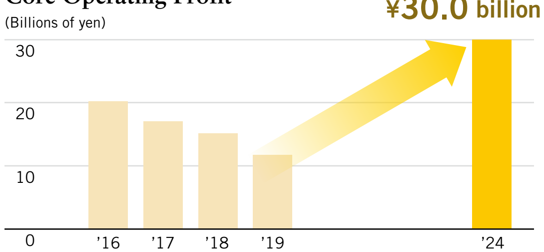
- Balance social and economic value creation, primarily through measures such as producing our own high-quality raw materials
- Promote urban development in locations with connections to the Company, such as Ebisu, Sapporo, and Ginza
- Raise level of management transparency and fairness to meet the demands of the times

Financial Targets

Reach **¥30.0 billion** in core operating profit by fiscal 2024

Core Operating Profit

(Billions of yen)



Note: Core operating profit margin is calculated as revenue – cost of sales – selling, general and administrative expenses.

Key Indicators

P.18

Revenue growth rate	2% or more (annual average)
Core operating profit to revenue ratio	5% or more
Annual overseas revenue growth rate	1.6 times (compared with fiscal 2019)

Financial Policy

Place emphasis on profitability versus invested capital while maintaining current financial condition and stability, and pursue continuation of stable dividend payments as the policy for shareholder returns

Cash flows from operating activities ≈ Investments

Key Indicators

P.19

EBITDA to interest-bearing debt ratio	5.9
Net debt-to-equity (D/E) ratio	1.2

Note: Fiscal 2019 results

Financial Strategy

Message from the Director of Corporate Finance

We will achieve sustainable growth and capital efficiency through the pursuit of a high-quality business strategy and a consistent investment strategy that tell the story of the Company.

Yoshihiro Iwata
Managing Director (Member of the Board)

Reviewing the First Medium-Term Management Plan 2020

Under the First Medium-Term Management Plan 2020 (hereinafter, the "Previous Medium-Term Plan"), we completed our withdrawal from the North American soft drinks business, a low-profit sector that had been an ongoing issue in the past. I should also acknowledge some of the achievements made as part of measures that will help build a future foundation, such as bringing our Vietnam business to profitability through steady growth investments. However, while we did see a slight improvement in the net debt-to-equity (D/E) ratio, profitability fell below expectations in the Alcoholic Beverages and Food & Soft Drinks business segments, both of which are undergoing major changes in the operating environment. As a result, we were unable to increase our credit rating. It is important that we continue to work toward resolving these issues.

Looking from an organizational perspective, we shifted from our previous five business segments to three in order to better select and concentrate management resources under a simpler and more compact corporate structure. We have also been conducting a drastic review of our vision as a holding company.

With the promotion of our newly formulated Group Management Plan 2024 (hereinafter, the "New Medium-Term Plan"), we are confident that the foundation for full-scale development is in place.

Expanding Top-Line Growth

Our financial target under the New Medium-Term Plan is to achieve ¥30.0 billion in core operating profit by fiscal 2024. To reach this target, we are ramping up efforts on three fronts. The first front is steady top-line growth, with an average annual revenue growth rate of 2% or more positioned as a key indicator.

Specifically, we will first consolidate the Group's management resources into the beer business and thoroughly improve brand management and production system efficiency through consistent global efforts. In Japan, we expect a beer revival among consumers taking advantage of revisions to the Liquor Tax Act, and plan to appeal to these consumers with our two major brands, *Sapporo Draft Beer Black Label* and *YEBISU*. In the robust North American market, we aim to further expand our market share under the jurisdiction of Sapporo Breweries. As for ready-to-drink (RTD) products, we will expand sales of products that leverage both the lemon-related knowledge of POKKA SAPPORO Food & Beverage and the Group's insight with regard to market expansion to develop a strategy for expansion in the global market.

Highlighting "Food" out of "Alcoholic Beverages," "Food," and "Soft Drinks," we will amass concrete results centered on soy milk yogurts and soups, which were both the target of major investments in the Previous Medium-Term Plan.

In the Real Estate business segment, we will continue to focus on urban development in the Ebisu, Ginza, and Sapporo areas and are taking steps to acquire necessary properties. At the same time, we will strategically rearrange the assets we hold to further increase value and consider new business models that generate profits without the need to hold assets.

Carrying Out Cost Structural Reform Centered on the Supply Chain

The second front in our move to increase profitability is to reform the cost structure of our supply chain, with a particular focus on improving production and logistics efficiency. As a key indicator, we are aiming for a core operating profit to revenue ratio of 5% or more. As a result of this structural reform, which revolves around operating companies, the Domestic Logistics Department has transitioned from being under direct control of the Company to a department managed jointly by Sapporo Breweries and POKKA SAPPORO. Going forward, we will build a stable and efficient distribution network that extends beyond the boundaries of our business.

For individual business fields, we will enact detailed measures based on the progress of our reforms and in relation to our competition. In the Real Estate business segment and others with high profit margins, we plan to further increase efficiency, whereas in the Food & Soft Drinks business segment, we intend to move forward with measures to improve profitability, such as structural reforms of the domestic vending machine business.

Enhancing Overseas Development through Integrated Management

Our third front is based on a policy to take global development to the next level, for which we have established, as a key indicator, an annual overseas revenue growth rate of 1.6 times that of fiscal 2019. The world is facing several problems, including the COVID-19 pandemic, which sits right on our doorstep, but there are also potential high-growth opportunities in overseas markets.

Sapporo has long established itself as the No. 1 Asian brand in North America. As part of our structural reforms, we transferred Sleeman Breweries and other North American alcoholic beverage subsidiaries to Sapporo Breweries in order to implement consistent global measures. To expand our market share further, we will promote integrated management, encompassing brands, technologies, people, and products.

In addition, in both the vast North American market and the intricately bordered Asian market, the logistical efficiency mentioned earlier is a theme that holds great sway over profits. We will thus establish an optimal supply chain for each region, looking from a comprehensive perspective of “where we make it, how we make it, and how we move it.”

Creating an Optimal Business Portfolio

In our New Medium-Term Plan, we intend to invest an amount commensurate with our cash flows from operating activities toward strengthening profitability while maintaining a focus on capital efficiency. At the same time, we will endeavor to maintain our current credit rating by focusing on our net D/E ratio and EBITDA to interest-bearing debt ratio. We also consider the appropriate return of profits to our shareholders as a priority and will continue providing stable dividend payments.

When making an investment, we will make strict checks on cash output and the profitability of the invested capital. Going forward, we will create an optimal business portfolio that is not only dedicated to total profits. It will also emphasize investment efficiency and how investments fit in the Company’s story; contain businesses that require us to hold assets; include businesses acquired through carve-outs and outsourcing; and comprise businesses newly acquired through M&A or other actions.

For the Real Estate business segment, it is particularly important for the Company to be clear as to the underlying meaning when promoting business. We must constantly return to the origin of comprehensive value creation unique to the Company, such as the urban development of the Ebisu, Ginza, and Sapporo areas, which in turn enhances the brand power of the Alcoholic Beverages and Food & Soft Drinks business segments while contributing to the comfortable lives of local residents.

As a finance officer at a holding company with a small headquarters, I will strive to engage in strategic risk control in order to build an optimal business portfolio and increase the expectations for success in uncertain situations. Moreover, I would like to present a clear story of increased corporate value aimed at reaching our financial targets while enhancing growth and profitability. I would also like to increase investors’ understanding of this bigger picture as part of our communication activities. We look forward to gathering more frank opinions going forward, as well as to your continued support and understanding, as we work to do so.

Alcoholic Beverages

To pursue the craftsman's spirit – For our consumers to discover a new enjoyment and enrichment

Revenue (Fiscal year ended December 2019)

¥324.4 billion

Core Operating Profit / Core Operating Profit Margin
(Fiscal year ended December 2019)

¥8.7 billion / 2.7%

Note: Fiscal 2020 forecasts for the Alcoholic Beverages business segment have not been presented in light of current difficulties in making reasonable calculations stemming from the spread of COVID-19.

Risks and Growth Opportunities

- Unification of liquor taxes affecting domestic beer
- Increasing populations and economic development of emerging Asian countries, appearance of new middle-class consumers
- Stronger regulations for alcoholic beverages worldwide
- Prolonged stagnation of the world economy due to the spread of COVID-19, coupled with a drop in inbound tourism
- Decline in overall demand caused by Japan's falling birth rate and aging population
- Sharp increase in distribution and labor costs

Strengths

- Strong standard and premium brands in the domestic market
- 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 among customers, including 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
- No. 1 share for Asian beer in the U.S market (No. 1 Asian beer for 33 consecutive years)

Fiscal 2019 Achievements and Issues

Major Achievements

- Continued aggressive investments in the beer business, in line with the policy of "continuation of strengthening the beer business" for Japan. As a result, sales of *Sapporo Draft Beer Black Label*-brand canned products saw fifth consecutive year of growth
- Continued increase in revenue centered on the ready-to-drink (RTD) item *Sapporo Chu-hi 99.99 (Four Nines)*, launched in August 2018
- Return to profitability in Vietnam in fiscal 2018, with further profitability realized in fiscal 2019
- Continued increase in revenue for North American brand *SAPPORO PREMIUM*

Major Issues

- Growing competitiveness of new-genre market and accelerating shift toward RTD products in Japan
- In North America, steep rise in distribution costs similar to Japan, with adverse effects on revenue
- Difficulty in revitalizing *Anchor* brand in the U.S. amid growing number of new craft beer brands.

Basic Strategy for Alcoholic Beverages

Increase Domestic Beer Market Share	Enhance Presence in North America

Action Plan / **Fiscal 2020 Initiatives**

1 Turn the changes in Japan's beer market caused by unification of liquor taxes into opportunities

Beer: Establish Diverse Portfolio and Strengthen Contact Points

We plan to leverage the strength of our various brands, with a focus on *Sapporo Draft Beer Black Label* (p.23) and *YEBISU* (p.24), in order to increase our brand presence. We will also accelerate the growth of the already growing *Sapporo Classic* beer and *Sapporo Lager Beer* brands and strengthen our efforts in areas where there is room for market expansion. In addition, we launched sales of *Kronenbourg 1664 Blanc* in November 2019, and three products from Anchor Brewing Company, LLC in March 2020. Going forward, we will accommodate a wide spectrum of customers looking for beers with a variety of tastes and characteristics.

2 Redefine the value offered to customers at the reasonable and premium levels

Premium Value

Beer: Increase efforts related to *Sapporo Draft Beer Black Label* (p.23) and *YEBISU* (p.24).

Wine: Strengthen contact points between customers and fine wine brands such as *Taittinger* and *Grande Polaire*.

Reasonable Value

New genre: Undertake a meticulous pursuit of flavor-based value through our two-pillar strategy (p.25).

RTD: Spread brands by associating them with drinking in settings such as the home or restaurants.

Spirits: Leverage *Sapporo Lemon Sour, Kokuimo*-brand blended *imo shochu*, and other products to meet the demand for alcoholic beverages while making them a fixture in the home.

3 Expand share in Canadian market, and acquire manufacturing bases in the U.S. while expanding market share therein

Canadian Market

Strengthen strategic brands held under Sleeman Breweries Ltd. and optimize portfolio. Continue to invest management resources in premium brands while working to enhance RTD products.

U.S. Market

Maximize synergies between Sapporo U.S.A, Inc. and Anchor Brewing Company in both manufacturing and sales, strengthen sales of *SAPPORO PREMIUM* and *Anchor* brands, and improve profit structure.

01 Creating a New Vision

Sapporo Breweries formulated a new vision to coincide with the start of 2020. This vision, introduced as society shifts and changes take place to what customers value, reaffirms our belief in our brands as a source for growth while imparting our brand story in a way that moves the hearts of customers. In doing so, it encapsulates the kind of company we want to be—one that will help create the future.

As we go forward, we will increase the appeal of our brands, meet customer needs, and put forth new ways to enjoy alcoholic beverages.

Corporate Philosophy Framework and Vision

Corporate Philosophy

To pursue the craftsman's spirit – For our consumers to discover a new enjoyment and enrichment.

Vision

To be somebody's first company, somebody's first shining star that enriches the lives of people from around the world, by bringing new and unique connections to them with alcoholic beverages.

Code of Conduct

Be *KAITAKU*: Pioneer Spirit

Be *KAITAKU*, in the creation of ideas that connect with consumers

Be *KAITAKU*, for the future of alcoholic beverages

Be *KAITAKU*, in the building of well-loved brands

Be *KAITAKU*, in resonating with society

02 Sapporo Breweries' Value —Premium & Reasonable—

"Premium & Reasonable" is an important concept for Sapporo Breweries when it comes to providing value. Lifestyles, workstyles, pastimes, and tastes have diversified over time, and as a result the value that customers demand has moved to two ends of a spectrum. This is true even within the same customer, depending on his or her current mood. In times such as these, products with no clear value on either end of the spectrum are largely ignored.

Therefore, it is important that the kind of value provided be clear and communicated properly at contact points between the brand and the customer. Sapporo Breweries offers customers both the utmost premium value and reasonable value.

Two Ends of a Spectrum in a Single Customer

Premium Value	Reasonable Value
Wishing to obtain the best products at any price	Balancing affordability with enjoyment
The best and most beloved brands for the customer	The most affordable-yet-satisfying brands

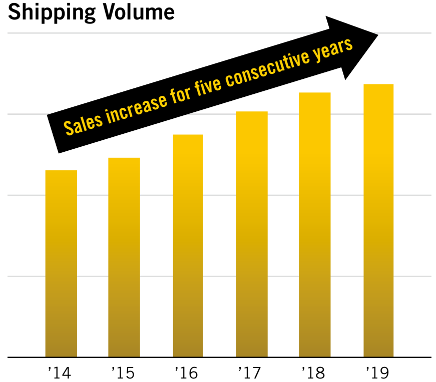
Leverage our brands to deliver our brand story and move the hearts of our customers

03 A Story Delivered through Our Brands

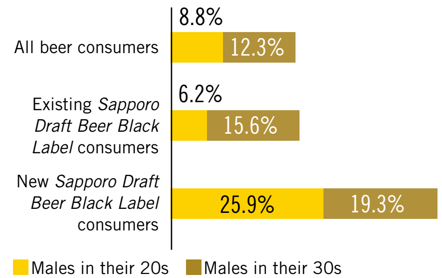
Brand Vision Truly delicious draft beer, even at home; this is the idea that sparked the 1977 launch of *Sapporo Draft Beer Black Label*, a "draft in a bottle" that remains dedicated to delivering the delicious flavor of draft beer to this day. "Perfect" flavor is always the goal. It is the perfect balance between the umami flavor and the refreshing aftertaste. It is the creamy foam that keeps the taste and aroma fresh. *Sapporo Draft Beer Black Label* will continue to evolve, with our goal to produce a beer enjoyed by beer-loving adults, a beer they will never tire of, no matter how many times they say "cheers!" with drinks in hand.

The canned version of *Sapporo Draft Beer Black Label* has seen sales increase for five years consecutively, with growing support particularly among males in their 20s and 30s.

Sapporo Draft Beer Black Label (Can) Shipping Volume



Proportion of Males in Their 20s and 30s among *Sapporo Draft Beer Black Label* Consumers



"All beer consumers" includes existing consumers and new consumers.
• Existing consumers have been consumers for three years or longer.
• New consumers began consuming within the last year.
Source: Survey by Sapporo Breweries (conducted in March 2019)

03 A Story Delivered through Our Brands

The Perfect Time and Space to Experience Draft Beer —*Sapporo Draft Beer Black Label THE BAR*

In July 2019, the Company opened *Sapporo Draft Beer Black Label THE BAR* in Ginza, a new contact point where customers can experience and enjoy the flavor and brand of *Sapporo Draft Beer Black Label*.

Number of Visitors (2019)
31,000

The bar gives customers the chance to try high-quality drinks while getting a sense of our brand worldview, and it is helping draw the attention of new fans, particularly those in their 20s and 30s.

Perfect Black Label

Sapporo Draft Beer Black Label continues to be dedicated to preserving the deliciousness of a good draft. Only *Sapporo Draft Beer Black Label* from a barrel that clears the "three Cs" can be recognized and offered up as *Perfect Black Label*.

- **Creamy** Perfect, creamy foam
- **Clear** Perfect, clear beer
- **Cold** Perfect, cold temperature

Premium YEBISU

Brand Vision *YEBISU* is brewed based on the German Beer Purity Law and is a trailblazer in genuine beer. Since its creation, we have continued to refine its flavor and polish our techniques, and, throughout its history to the present day, it has been a driving force of Japanese beer. Sticking to the particulars for barley, hops, and yeast—as dictated by the German Beer Purity Law—allows for a higher-quality, delicious beer with a full body. Going forward, *YEBISU* will continue to progress as a genuine beer backed by history.

おいしくて、
ありがたくて、
エビス。
130th Anniversary

130 Years of *YEBISU*

On February 25, 2020, *YEBISU* celebrated its 130th anniversary. Since that day in 1890, when we began sales, we have worked with the aspiration of ensuring that beer in Japan is the most delicious in the world, and we will continue to polish its flavor and perfect our techniques.

03 A Story Delivered through Our Brands

Brand-Related Actions to Mark 130 Years of *YEBISU*

In light of the anniversary of *YEBISU*, we are working on brand-related actions, so that customers can newly appreciate *YEBISU* for not only its variety of flavors but also its worldview and a body that has been polished for 130 years.

We will go forward with efforts to bring *YEBISU* back into the spotlight, and will do so by increasing the number of contact points for customers and making sure that each point expresses the appeal of *YEBISU*.

Communication

Proclaim the appealing points of *YEBISU*

Limited-edition products

YEBISU Ginjou

YEBISU THE HOP

Off-premises

Gold tumblers

Over-the-counter promotional products

Gift items

On-premises

YEBISU, committed to providing the highest quality

YEBISU BAR

New-Genre Products

Mugi to Hop

GOLD STAR

Maximization of Customer Satisfaction with Flavor through Our Two-Pillar Strategy

In 2003, Sapporo Breweries launched *Draft One*, creating a “new-genre,” or “third-category beer” as it is also known, and since then this category has grown in leaps and bounds.

The expectations put upon this new genre are on the rise again, and now products need to provide a full-fledged flavor experience in addition to being affordable.

To respond to these expectations, Sapporo Breweries is leveraging two brands to promote a two-pillar strategy.

Two-Pillar Strategy Based on Different Technical Approaches

***Mugi to Hop*—Bringing New-Genre Products Closer and Closer to Beer**

In addition to giving thorough attention to quality, from selection of raw materials to manufacturing methods—a given for us—we are always mindful about bringing smiles to those who enjoy beer and pursuing a flavor that comes close to matching that of beer made with 100% barley. These efforts, in a product delivered at an affordable price, make lives more enjoyable and enriching.

***GOLD STAR*—Made with the Full Confidence of Sapporo Breweries**

We want to make new-genre products that satisfy customers down to the bottom of their hearts. Out of that desire, we use the delicious, flavor-retaining malt used in *Sapporo Draft Beer Black Label* along with the German aroma hops used in *YEBISU* as raw materi-als. As such, it is Sapporo Breweries’ “gold star,” created with its outstanding beer-brew-ing techniques.

Food & Soft Drinks

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

Risks and Growth Opportunities

- Growing demand for health foods with emphasis on foods high in vegetable-based protein
- Expanding demand for convenience and trend toward time-saving
- Changing taxation laws and regulations in Japan and overseas (sugar taxes, etc.)
- Prolonged stagnation of the world economy due to the spread of COVID-19, coupled with a drop in inbound tourism
- Decline in overall demand caused by Japan's falling birth rate and aging population
- Increasing costs for distribution and labor

Strengths

- Expertise in both food and soft drinks 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.

Revenue (Fiscal year ended December 2019)

¥136.9 billion

Core Operating Loss (Fiscal year ended December 2019)

¥(0.5) billion

Note: Fiscal 2020 forecasts for the Food & Soft Drinks business segment have not been presented in light of current difficulties in making reasonable calculations stemming from the spread of COVID-19.

Fiscal 2019 Achievements and Issues

Major Achievements

- In domestic soft drinks, lemon-based drinks and *Kaga Bo-Hojicha Roasted Green Tea* 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 bean and chilled products, soy milk yogurt product *SOYBIO* and other items 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
- Newly consolidated Yasuma Co., Ltd. contributed to revenue and profits

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 among beverage manufacturers

Basic Strategy for Food & Soft Drinks

Create next-generation business fields using plant-based materials	Strengthen soy bean and chilled products, as well as soup and lemon businesses	Restructure low-return businesses

Action Plan	Fiscal 2020 Initiatives

1 Create new categories of next-generation, plant-based materials

Soy Bean and Chilled Products Business

Improve awareness of soy milk yogurts, expand customer contact points, and accelerate growth in the "Food" field.

2 Ensure profit generation in lemon and soup businesses

Lemon Business

Put forth scenarios that involve lemon use and disseminate health value and encourage activities that further increase demand for *POKKA Lemon 100* (p.28) and lemon vinegar products.

Soup Business

Permeate the solid cup soup market by launching new products suitable to the times, in addition to revitalizing our flagship brand, *Jikkuri Kotokoto*.

3 Carry out structural reforms of domestic vending machine management and reallocation of management resources

Increase Profitability of Domestic Vending Machine Business through Structural Reforms

Raise area efficiency by shifting to an efficiency-focused strategy, withdrawing from unprofitable locations, and enacting other measures to improve operations.

Business Strategy —— Food & Soft Drinks

TOPICS

Becoming a Company That Can Communicate Everything about Lemons

Expanding the Domestic Lemon Market by Growing the Lineup of Lemon-Related Products

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.

Growing Lemons Together with Local Regions—Connecting Lemon Cultivation to the Future

Recently, increasing demand for lemons has caused the domestic lemon market to expand. However, since lemon production is being affected by issues such as Japan's aging population and a lack of people to take over farms, the lemon yield is falling and, as a result, producers cannot respond to the growing demand for lemons. In response to these issues, POKKA SAPPORO Food & Beverage aims to contribute to the further revitalization of the domestic lemon market, by actively engaging in lemon cultivation and promoting lemon production together with lemon farmers. One of the company's partners in this regard, Osakikamijima Town, Hiroshima Prefecture, started cultivating lemons from April 2019. Through this initiative, POKKA SAPPORO Food & Beverage, working together with local regions, aims to create an agricultural environment that will further increase the value of lemons and further revitalize domestically cultivated lemons.

Creating and Providing Lemon-Based Value

POKKA SAPPORO Food & Beverage launched *POKKA Lemon* in 1957, and has been developing products that align with the changing times ever since. This includes rousing interest in the expanded use of lemons and increasing the variety of capacities and containers. The company continues to provide lemon products that fit people's lifestyles—from home-cooking to eating out—such as the 100% lemon juice, preservative- and additive-free *POKKA Lemon 100*, which lets you effortlessly enjoy the great taste of lemons, *Kireto Lemon*, and lemon products for business use that can be utilized in food and drinks at restaurants.

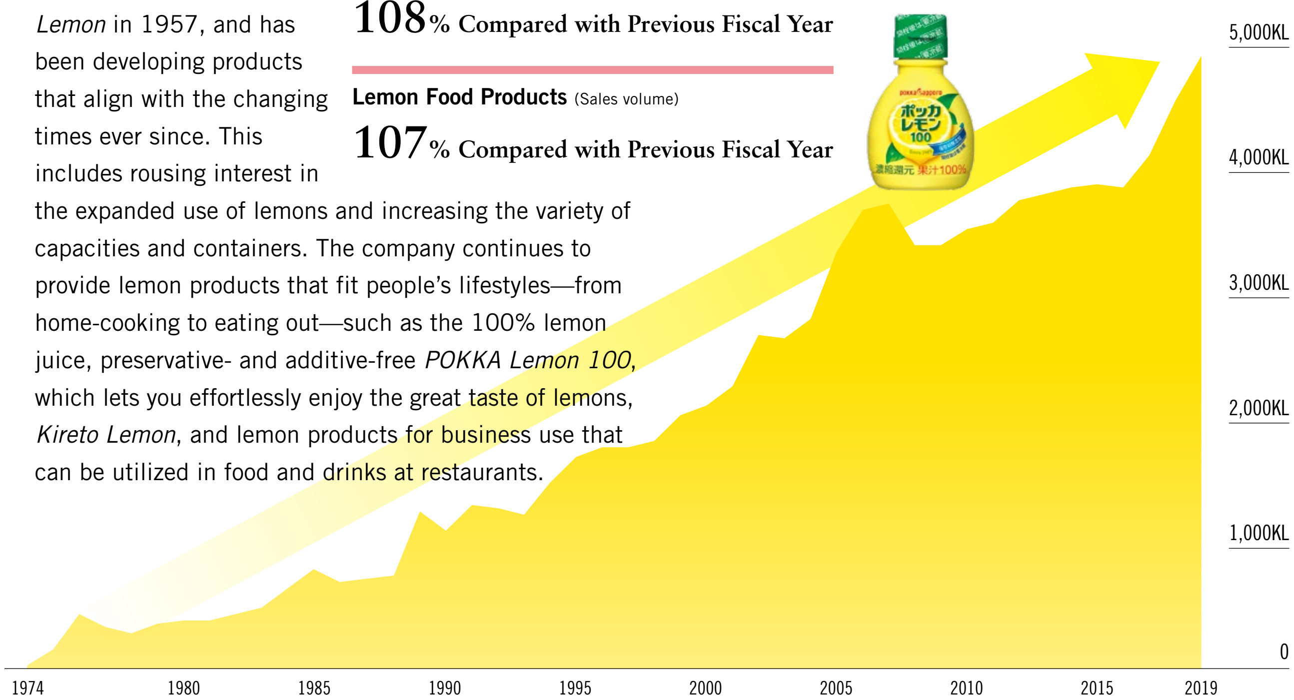
Lemon Beverages (Sales volume)

108% Compared with Previous Fiscal Year

Lemon Food Products (Sales volume)

107% Compared with Previous Fiscal Year

Sales Volume of *POKKA Lemon 100*

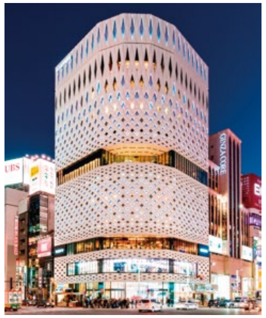


Source: POKKA SAPPORO Food & Beverage's *POKKA Lemon 100* Sales Volume (From 1974 to 2011, totals are calculated using the period from April to March of the following year. From 2012 to 2019, totals are calculated using the period from January to December of the same year.)

Real Estate

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





Risks and Growth Opportunities

- Rising interest in Ebisu, Sapporo, and Ginza
- Planned reconstruction of the Souseigawa East Area in Sapporo City
- Changes in market conditions due to increase in property supply
- Prolonged stagnation of the world economy due to the spread of COVID-19, coupled with a drop in inbound tourism
- Increasing competition among cities
- Changing demand for office space amid workstyle reforms (teleworking, etc.)

Strengths

- 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

Revenue (Fiscal year ended December 2019)

¥24.7 billion

Core Operating Profit / Core Operating Profit Margin
(Fiscal year ended December 2019)

¥10.7 billion / 43.5%

Note: Fiscal 2020 forecasts for the Real Estate business segment have not been presented in light of current difficulties in making reasonable calculations stemming from the spread of COVID-19.

Fiscal 2019 Achievements and Issues

Major Achievements

- Maintained a high occupancy rate at Yebisu Garden Place, GINZA PLACE, and our other major properties. In addition, aggressive efforts to raise rent levels produced results that exceeded expectations
- Carried out strategic review of property portfolio and made progress with urban development efforts to improve appeal of Ebisu area

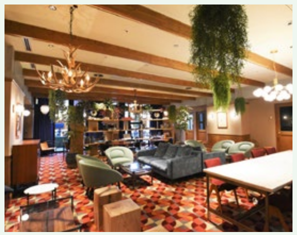
Major Issues

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

Basic Strategy for Real Estate

Maintain a stable foundation of cash flow creation	Make proactive investments in new properties	Develop high-return business model

Action Plan	Fiscal 2020 Initiatives
1 Enhance the value of the Ebisu area, centered on Yebisu Garden Place	Adapt to meet varying lifestyles and changing workstyles and increase convenience while also providing new functions and added value to continue sharpening profit trends and increase the brand value of the area as a whole
2 Improve profitability of Sapporo Factory and promote future urban development	Continue work in line with the redevelopment plan for the Souseigawa East Area of Sapporo City and with changes in the surrounding area to put forth new lifestyles and create attractive urban spaces as a flagship location in the region
3 Acquire properties for future development and create communities	Increase value across the entire Real Estate business segment by promoting urban development in the Ebisu and Sapporo areas via strategic restructuring of our property portfolio and by working to earn profits in new business areas



(Photo provided by REALGATE INC.)

Promoting Sustainability Management

The Sapporo Group's Sustainability Policy

The Sapporo Group established its Sapporo Group Sustainability Policy to vigorously promote sustainability management, which refers to efforts executed through its business activities to address social issues such as climate change, food loss, marine plastic waste, and regional revitalization.

Based on partnerships between employees of the Sapporo Group and stakeholders around the world, we are working to realize a sustainable society by creating both social and economic value.

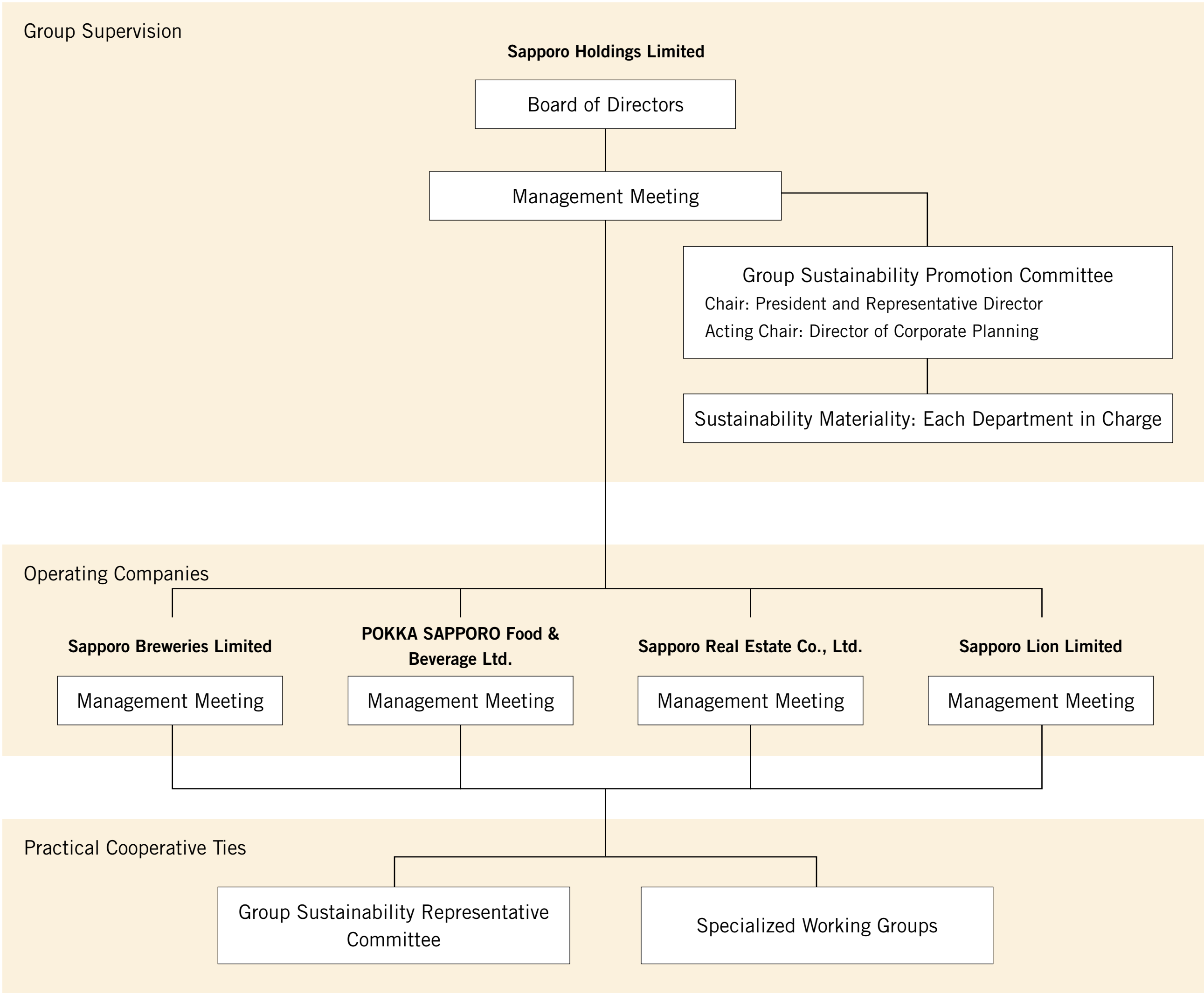
➡ P.02 The Sapporo Group's Sustainability Policy

Sustainability Implementation Structure

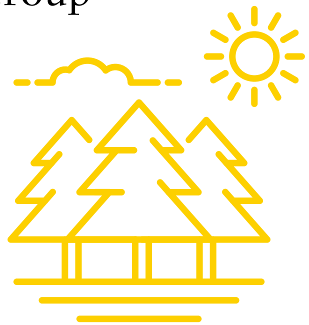
Sapporo Holdings has formulated an overall policy for implementing the Sapporo Group's sustainability activities and has established a Group Sustainability Promotion Committee. This committee is chaired by the president and representative director of the Company, who is responsible for coordination and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

The Sustainability Office within Sapporo Holdings' Strategic Planning Department develops and implements various measures to promote sustainability activities at each Group company, holds monthly meetings for sustainability personnel, and shares information regarding its progress.

The Sapporo Group's Sustainability Implementation Structure (As of December 2019)



Social Conditions and Issues Surrounding the Sapporo Group



The society in which the Sapporo Group exists is undergoing major changes at a rapidly accelerating rate. As a result of Japan's aging population and falling birth rate, domestic demand for alcoholic beverages, food, and soft drinks is on the decline. However, if one looks to the global market, the human population seems ready to explode going forward. AI and 5G technological developments are impossible to deny, while lifestyles and tastes are becoming widely diverse.

On the other hand, the global market is built upon the earth's environment. Climate change, food loss, and plastic waste are just some of the environmental and social issues that we are facing, in addition to an unprecedented global crisis caused by infectious outbreaks.

For the Sapporo Group, which relies on the blessings of nature to conduct business, environmental conservation coupled with the ability to adapt to environmental changes are particularly urgent issues. At the same time, there are new business opportunities stemming from lifestyle changes emerging as a result of the current global situation and from revisions to tax regulations related to the domestic liquor tax scheduled for gradual introduction in 2020 and full implementation in 2026. We will work to create richness in the business fields of "Alcoholic Beverages," "Food," and "Soft Drinks," working with all of the regions where we do business and incorporating the values of employees and all other stakeholders.

Going forward, the Sapporo Group will continue to face social issues and strive to realize both a sustainable society and the sustainable growth of the Group as a way to bring happiness to people.

The Sapporo Group's Environmental Vision 2050

(Formulated September 20, 2019)

"In appreciating the bounty of nature, each employee of Sapporo Group will proactively work for environmental conservation and realization of a sustainable society"

1. Realizing a carbon-free society

- **Aim to achieve zero CO_2 emissions at Company locations**
- **Strive to reduce CO_2 emissions from value chains outside Company locations**

2. Realizing a recycling-oriented society

- **All segments of our group will work to achieve the 3Rs for business-related resources**
  - Seek to use materials that meet the requirements of a recycling-oriented society for 100% of our containers & packaging
  - Continue our efforts to reduce the amount of water used at our factories so as to use water resources sustainably

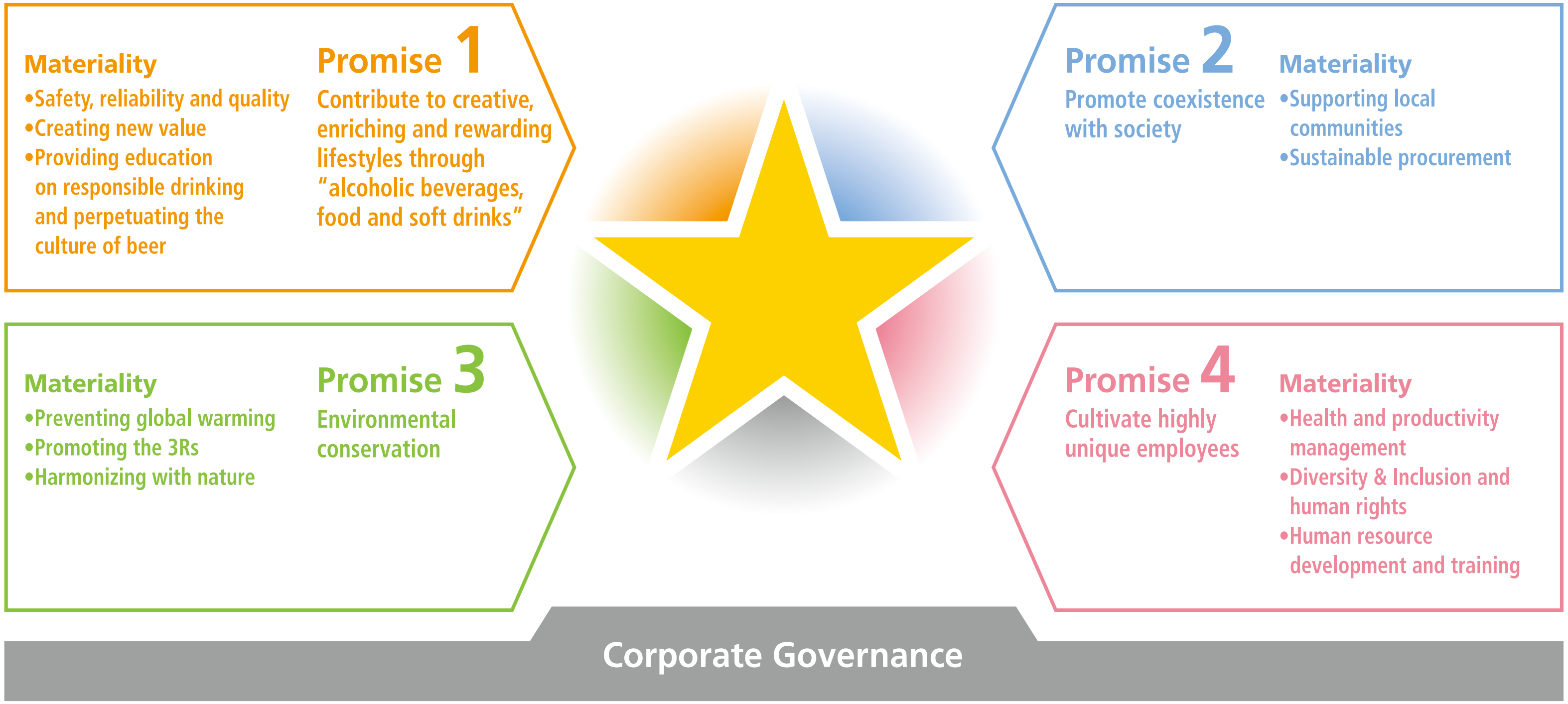
3. Realizing a society in harmony with nature

- **Contribute to sustainable procurement through barley and hops R&D**
- **Contribute to sustainable regional development that offer the feel of enriching time and space in harmony with nature**

Sustainable Smile Plan

With our Sustainability Policy, we will promote Sustainable Smile Plan, a sustainability management strategy. Based on the medium- to long-term targets (2030) set for sustainability materiality, we will work to solve social issues through our businesses for a sustainable society.

Priority Challenges for Sustainability and 4 Key Promises

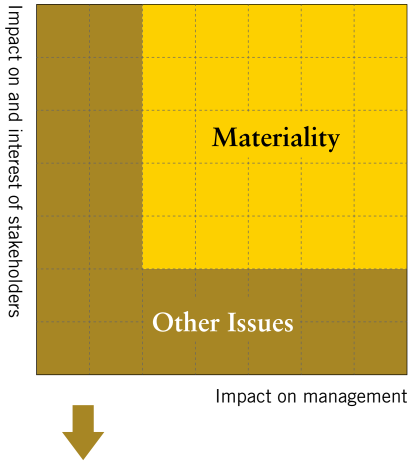


With the earth, in harmony with society, from the start, to bring smiles to people.

Identifying and Updating Materiality

The Sapporo Group identifies and maps sustainability priority issues on a materiality matrix, with significance to stakeholders on one axis and significance to management on the other. From there, potential top materiality is analyzed from various perspectives, such as guidelines, and the viewpoints of both stakeholders and managers. Based on that analysis, the materiality is identified and updated.

Identifying Key Challenges



Other Issues

- Environmental communication
- Work-life balance
- Disaster recovery efforts
- Disaster risk management
- Rigorous information security
- Reinforcing fair and impartial partnerships
- Dialogue and cooperation with stakeholders

Materiality

Updating Process

Step 1
Listing and updating of potential material issues

Step 2
Sorting out issues in each industry by analyzing guidelines

Step 3
Grasping level of interest and needs by studying stakeholders

Step 4
Quantitative needs / impact analysis based on scoring method

Step 5
Analysis of consistency with sustainability strategy through management review

Step 6
Drafting materiality map and identifying materiality

Medium- to Long-Term Targets for Addressing Sustainability Material Issues

Sapporo Holdings has established medium- to long-term targets for addressing its sustainability materiality issues, particularly those issues related to its business activities (identified in 2017). Furthermore, relevant United Nations Sustainable Development Goals (SDGs) have also been included in each of the aforementioned targets.

The medium- to long-term targets align with the Sapporo Group's Long-Term Management Vision "SPEED 150" and the First Medium-Term Management Plan, and their achievement is regarded as crucial for realizing the Group's business strategies and individual measures. Each Group company will formulate and carry out detailed measures as we strive to achieve our goals, contribute toward realizing the SDGs, and create rewarding and enriching lifestyles for our customers.

Promises	Materiality	SDGs		Medium- to Long-Term Targets to 2030
			Targets	
Contribute to Creative, Enriching and Rewarding Lifestyles Through Alcoholic Beverages, Food, and Soft drinks	Safety, reliability and quality		2.1	• Continue our work of nurturing a corporate culture and training human resources to enhance the quality of "alcoholic beverages," "food," and "soft drinks" while building an effective quality assurance system based on global-standard food safety systems • Pursue appropriate quality levels in line with customer needs and work to eliminate quality-related problems associated with our products and services • Aggressively introduce new technologies to materialize high-level quality more efficiently
	Creating new value		2.4 3.4 17.17	• Promote research and development that fulfills the needs for "palatability" and "health benefits" by being quick to capture evolving changes • Offer new value to customers through products that build on the research and processing technology of plant derived materials, a field where we hold an advantage • Strengthen cooperation inside and outside the Group, efficiently acquire diverse technologies and promote innovation
	Providing education on responsible drinking and perpetuating the culture of beer		3.4 3.6	• Promote educational programs aimed at eliminating inappropriate drinking ,including underage (before 20) drinking, drunk driving and alcohol harassment • Contribute to the creation of enriching and rewarding lifestyles through our endeavors to perpetuate the culture of beer in Japan with museums and open-factory visits and through support for the "Association of Japan Beer Culture Study"
Promote Coexistence with Society	Supporting local communities		8.9 11.3 17.7	• Contribute to regional development through each employee playing an active role in supporting their local community • Connect local communities through our products and services as we work together to solve problems • Collaborate with administrative agencies and our partners to promote the creation of enriching towns in ways that help enhance the region's appeal (Sapporo Real Estate, Sapporo Lion)
	Sustainable procurement		10.3 13.1	• Aim to have at least 90% of our major suppliers meet the sustainability procurement guideline (Sapporo Breweries, POKKA SAPPORO Food & Beverage)

Medium- to Long-Term Targets for Addressing Sustainability Material Issues

Promise	Materiality	SDGs	Targets	Medium- to Long-Term Targets to 2030
Environmental Conservation	Preventing global warming	2, 6, 7, 12, 13, 14, 15, 17	2.1 6.4 7.2 12.2 12.3 12.4 12.5 13.1 14.1 15.4 17.16 17.17	• Reduce CO_2 emissions at Company locations by 20% from 2013 levels • Strive to reduce CO_2 emissions from value chains outside Company locations
	Promoting the 3Rs			**Water resources** • Reduce the total water consumption at our production factories by 10% from 2013 levels (Sapporo Breweries, POKKA SAPPORO Food & Beverage) • Launch global measures against water-related risks to save water resources
				Containers & packaging • Sustain and expand the use of lighter and simpler container packaging ("Reduce") • Expand the use of recyclable materials to diminish our dependence on exhaustible resources for containers & packaging • Contribute to the building of a sustainable, recycling-oriented society through strengthened collaboration and cooperation with outside parties
				Wastes • Aim to reduce food loss at our food service outlets and in food distribution (domestic group companies) • Reduce waste generation and raise the rate of reused food waste to 50% by 2024 (Sapporo Lion) • Strive to increase the waste recycling rate, and achieve to 100% at our major factories (*) (domestic Group companies (*Sapporo Breweries, POKKA SAPPORO Food & Beverage))
	Harmonizing with nature			• Develop barley and hop varieties with more tolerance to climate change (Sapporo Breweries) • Offer lifestyle alternatives that harmonize with nature for nearby residents, with a focus on Yebisu Garden Place and Sapporo Factory (Sapporo Real Estate)
Cultivate Highly Unique Employees	Health and productivity management	3	3.4	• Encourage employees and their families to raise their health awareness and effect behavioral change to maintain better health
	Diversity & Inclusion and human rights	5, 8	5.5 8.5	• Aim to realize an environment that encourages each employee to have a deeper understanding of diversity and to work with passion and vitality • Raise the proportion of women in management and executive positions (to a proportion equivalent to that of female workers among the entire workforce)
	Human resource develop-ment and training			• Establish a system that encourages employees to shine, inspiring them to "carve out their own careers" • Establish an environment where employees receiving cancer treatment and those providing nursing care can keep working • Increase the ratio of employees with disabilities to 3% of the workforce

Initiatives Based on Our 4 Key Promises

Promise 1

Contribute to Creative, Enriching and Rewarding Lifestyles through Alcoholic Beverages, Food, and Soft Drinks

We will offer the joy of living and richer lives to our customers by creating new value through alcoholic beverages, food, and soft drinks.

Safety, Reliability, and Quality

Acquisition of Safety Certification for Breweries and Plants

Previously, the Sapporo Group owned eight major breweries and one plant, POKKA SAPPORO Food & Beverage's Gunma Plant, all with FSSC 22000 certification, which targets food manufacturing organizations and is the international standard for food safety management systems.

In 2019, POKKA SAPPORO Food & Beverage's Nagoya Plant became the newest plant to receive this certification. Moreover, OKINAWA POKKA FOODS CO., LTD. acquired ISO 22000:2018 certification, the most recent version of the certification that targets food safety management systems. Going forward, the Sapporo Group will continue to improve its quality assurance systems.

Creating New Value

Lemon-Derived Functional Ingredients Proven Effective in Reducing Facial Swelling

Support for Women's Success through Lemon-Derived Polyphenols

Clinical trials have verified the effectiveness of lemon-derived polyphenol, enzyme-treated hesperidin, extracted from green lemons, in reducing facial swelling.[*1] This is a new health function for polyphenol. This is the first time in Japan that this effect has been verified with a lemon ingredient.[*2]

In Japan, more than 70% of women have experienced swelling, and more than two in three people are suffering from swelling.[*3]

In the future, we will continue to research and develop products displaying health functions that can be seen or felt and will work to solve day-to-day problems through food. In doing so, we will deliver wellness and bring smiles to our customers.

*1 Joint research with Toyo Sugar Refining Co., Ltd., published in "Japanese Pharmacology & Therapeutics," Volume 47, Issue 2 (2019)
*2 In-house survey (as of September 12, 2019)
*3 In-house survey (conducted in September 2019 via online survey targeting Japanese men and women in their 20s–50s)

Providing Education on Responsible Drinking and Perpetuating the Culture of Beer

Spreading of Japanese Beer Culture and Contributions to Fulfilling Lives

The one and only Beer Museum in Japan—Sapporo Beer Museum

The museum conveys the history of Japanese beer, born of the devotion and passion of great figures, and also imparts the spirit and stories passed on through the beer inherited by Sapporo Breweries.

Museum of YEBISU BEER—Built on the Birthplace of *YEBISU*

YEBISU was born in 1890 in Ebisu, Tokyo. The museum is a place where you can take in the birthplace of *YEBISU*, transcendent of history and time.

Cooperation with the General Incorporated Association of Japan Beer Culture Study

To encourage people to deepen their knowledge of and fondness for beer, we have been implementing the Japan Beer Certificate Examination since 2012. As of 2019, the cumulative total number of applicants for the test is approximately 27,000, with the number of applicants increasing in recent years.

Note: For information on spreading proper drinking awareness, please refer to the section "Alcohol-Related Problems" on page 49.

Initiatives Based on Our 4 Key Promises

Promise 2

Promote Coexistence with Society

We will contribute to community development and solve issues as a member of local societies, in addition to creating a better future along with everyone in society.

Supporting Local Communities

Resolution of Social Issues through Collaborative Agreements

Since its founding, the Sapporo Group has cherished its ties to the areas and local communities with which it has a long history. Beginning with a comprehensive collaborative agreement with Hokkaido Prefecture in 2007, the Group has gone on to establish a collaborative agreement with Fukushima Prefecture. All in all, the Sapporo Group has established 63 agreements with local municipalities and universities across Japan as of February 2020. We will continue our ongoing efforts to promote regional revitalization, urban development, disaster prevention, and the resolution of other social issues into the future.

Thirty-Four Years of Support for the Hakone Ekiden

The Hakone Ekiden is a relay marathon synonymous with the Japanese New Year. Sapporo Breweries has supported the Hakone Ekiden since 1987, for a total of 34 years.

Every year, Group employees conduct charity sales near the outbound finish of Lake Ashi and donate a part of the sales to the Hakone Trust Fund, established by Hakone, Kanagawa Prefecture.

As we value our connections with the athletes who support the Hakone Ekiden, the people involved and their families, and the surrounding area, we will continue to connect with more people in the future.

Sustainable Procurement

Sustainable Procurement Education for Suppliers

Based on the Sapporo Group Procurement Basic Policy and the Sapporo Group Supplier Sustainability Procurement Guideline, the Group has chosen six main subjects to frame two-way communication with suppliers and undertake cooperative sustainability-related 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 marketing policies, we provide explanations and education regarding the Sapporo Group's approach to sustainable procurement.

Initiatives Based on Our 4 Key Promises

Promise 3

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.

Preventing Global Warming and Promoting the 3Rs

New Products Launched in "Cartocan" Paper Beverage Containers

Ahead of the curve in the soft drinks industry, POKKA SAPPORO Food & Beverage adopted the "cartocan" in 1996, a container composed of 30% or more domestic materials, including thinned wood, which is wood produced during forest thinning. We have also participated in initiatives of the Morikami Association since its founding in 2004. The Morikami Association—derived from the words "*mori*," meaning "forest," and "*kami*," for "paper"—was formed to promote forest-friendly paper beverage containers. As a member, we are working to popularize the cartocan as a familiar eco-tool.

Through its use of thinned wood, the cartocan contributes to the prevention of global warming as a part of forest conservation and cultivation, which promotes CO_2 emissions absorption by healthy forests.

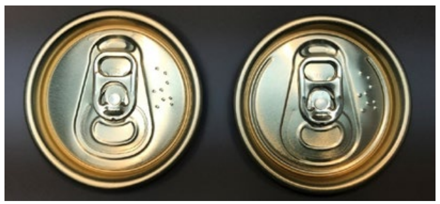
In February 2020, we launched *Umami Maroyaka Ryokucha* with the concept of a tea that could be used by all companies and organizations for meetings and with visitors. Due to the recent increase in environmental awareness, it has been well received by companies and organizations wanting beverages that do not use plastic containers.

Furthermore, a portion of sales is donated to the Green Fund, which, among other activities, is used for providing financial assistance to volunteer organizations that take part in forest maintenance.

Lightweight Aluminum Can Lids for Beer Taste Beverages for Reducing CO_2 Emissions

In June 2019, Sapporo Breweries took home a prize at the 43rd Kinoshita Awards, sponsored by Japan Packaging Institute, in the *Kaizen* and Rationalization Category for the "development of lightweight aluminum can lids for beer taste beverages." The lids, which are about 7% lighter than conventional lids, were designed and manufactured by the Daiwa Can Company, while Sapporo Breweries carried out evaluations for their practical use in a joint initiative. Replacing the can lids of our beer taste products with these lightweight lids would reduce CO_2 emissions by approximately 1,200 tons per year (based on 2018 figures). The characteristic feature of these lids is newly devised depressions formed by beading* on the surface of the lid, in order to achieve the same level of quality as that of conventional lids while being thinner. We intend to adopt these lids for all of our beer taste beverages by 2022.

* Groove-shaped depression on the surface of a can lid



Left: Conventional can lid
Right: Lightweight aluminum can lid

Harmonizing with Nature

Support for Regional Conservation

In fiscal 2016, Sapporo Breweries launched a limited release of the Shinshu Environmental Support Can of *Sapporo Draft Beer Black Label* in Nagano Prefecture. In fiscal 2017, Sapporo Breweries entered into the Biodiversity Protection Partnership Agreement, and ¥1 for every can sold is donated to the ongoing environmental conservation efforts of Shinshu (the traditional name of Nagano Prefecture). In addition, the *Saitama Environmental Support Can of Sapporo Draft Beer Black Label* was launched in November 2019 to support the "*Umi-to-Nippon* Project (the Ocean and Japan Project)." In Hokkaido, Sapporo Breweries, in cooperation with CO-OP Sapporo and Hokkaido Prefecture, launched the "Re-energize the Forests of Hokkaido!" campaign in 2013. This project, currently known as "Cheers to the Seas and Forests of Hokkaido!," supports the conservation of Hokkaido's forests.

Moreover, in March 2020 OKINAWA POKKA CORPORATION CO., LTD. released limited quantities of *Ganso Sanpin-cha* (Okinawan jasmine tea), with special packaging featuring natural sightseeing spots and rare creatures from the Yanbaru area in the northern region of the main island of Okinawa. This effort is intended to support the Yanbaru area, which has put in a bid to become a World Heritage Site, and a portion of sales will be donated toward environmental conservation activities.

Initiatives Based on Our 4 Key Promises

Promise 4

Cultivating Highly Unique Employees

We respect diverse employees and foster the development of an environment that allows each employee to demonstrate his or her ability to the maximum extent.

Health and Productivity Management

Certified as 2020 Excellent Enterprise of Health and Productivity Management (White 500)

Sapporo Holdings and its Group companies have been awarded the Excellent Enterprise of Health and Productivity Management certification, a distinction granted by the Ministry of Economy, Trade and Industry to businesses with exceptional health management.

Our Long-Term Management Vision "SPEED150" states, "Our greatest asset is our human resources, and we aim for human resources who are healthy in body and mind; who have the energy, cheerfulness, and positivity to take on challenges and "Go Beyond Boundaries" in new fields; and who are pleased to be working in the Sapporo Group." In that spirit, we have formulated the Sapporo Group Health Creation Declaration and are working to implement workstyle reforms and maintain and improve employee health.

We will continue to strengthen our efforts to improve the health of all employees of the Sapporo Group.

2020 健康経営優良法人 Health and productivity ホワイト500

2020 健康経営優良法人 Health and productivity

Diversity & Inclusion and Human Rights

Sapporo Management Seminar

The Sapporo Group promotes "diversity and inclusion," in which the experience, abilities, and ideas of its entire range of diverse employees can be utilized.

In 2020, we held a management seminar for management-level employees featuring members of the LGBT community and cancer survivors from within the country. By helping attendees recognize the existence of diverse communities and get a grasp of the feelings of people in these communities—which can be difficult to understand from an outside perspective—this seminar served as a chance to encourage managers to see and respect their fellow employees as equals and think of how to create work conditions that allow a diverse set of human resources to fully display their abilities.

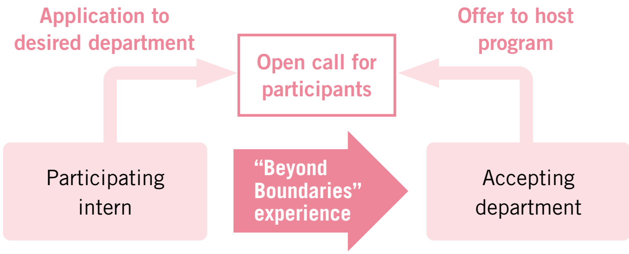
Going forward, we will continue to educate managers on their important roles in the workplace.

Human Resource Development and Training

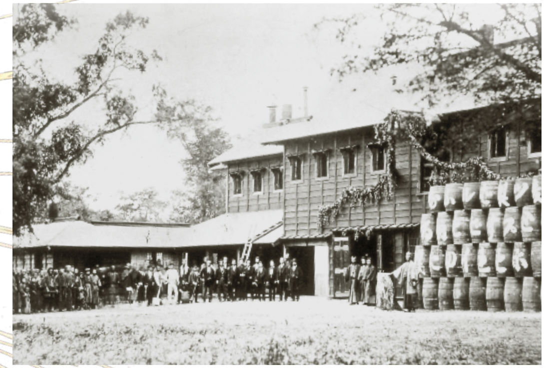
In-House Internship Program

In 2019, the Sapporo Group introduced its In-House Internship Program on a trial basis as a new measure aimed at career development. The program is an initiative aimed at fostering a culture that encourages career development for young and mid-career employees and communication across departments (going "Beyond Boundaries") and at allowing participants ("interns") to perform duties in a department of their choosing. This enables the intern to gain experience with the current work being done in their accepting department and apply it to their future careers. We expect this program to have synergistic benefits, in that the accepting department will be able to gain new, never-before-seen perspectives from the influx of new, short-term human resources.

In-House Internship Program



Note: After completing their "Beyond Boundaries" experience, participants hold a briefing session to share information and report on the business site.



★ *Special Feature 1*

Committed to Quality Raw Materials for over 140 Years—Sapporo Breweries Meets the Challenge

Sapporo Breweries has held the same conviction since its founding in 1876, “To make delicious beer from nothing but the finest raw materials.” In this spirit, the Company shows its commitment to the procurement of fine raw materials through its dedication to breeding its own barley and hops, and by adopting the proprietary Collaborative Contract Farming System, ensuring that these raw materials are at hand.

“Breeding” refers to our R&D efforts, which cross-fertilize plant lines with different characteristics to create never-before-seen, high-quality cultivars. We are working with universities, research institutions, malting companies, and hop dealers in Japan and overseas to develop new varieties of raw materials at our various bases—the Raw Material R&D Center, the Raw Material Quality Control Center (for barley), and the Hokkaido R&D Center (for hops) at the Crop Research Laboratories. In addition, the know-how cultivated through our aforementioned R&D efforts is also utilized in our Collaborative Contract Farming System, which delivers quality from the field onward.

Fueled with the desire to deliver delicious beer to customers, our over 140-year commitment to raw materials has led to our efforts to resolve sustainability material issues. To bring smiles to the customers of tomorrow, we will help realize a sustainable society by continuing to make beer out of these raw materials.

Resolving Sustainability Material Issues through Breeding and the Collaborative Contract Farming System

1. Creating New Value

Creating Value, Starting with Raw Materials

One of the causes for the deterioration of beer over time is the enzyme lipoxygenase-1 (LOX-1), which is present in barley. After years of research, Sapporo Breweries, in collaboration with Okayama University, succeeded in finding barley lines that did not contain the enzyme responsible for the degradation of beer flavor. Collaborative work with breeding institutions around the world has produced variations of this LOX-less barley, with successful cultivation of these varieties taking place in Canada and Australia. When used in malt production, LOX-less barley keeps beer fresh for longer, and improves the quality of the beer foam. As such, it is utilized in *Sapporo Draft Beer Black Label* as "flavor-retaining malt."

In a recent case, we developed a new cultivar, "*Kitanohoshi*," by cross-breeding LOX-less barley with a superior-quality barley variety from Hokkaido, which is now being produced and commercialized.

Products made with "flavor-retaining malt" (LOX-less barley-derived malt)

Left: *Sapporo Draft Beer Black Label* (partial use)
Right: *Sapporo Hokkaido Draft Beer Miracle Barley Kitanohoshi*

2. Safety, Reliability, and Quality

Pursuing High Quality through the Collaborative Contract Farming System

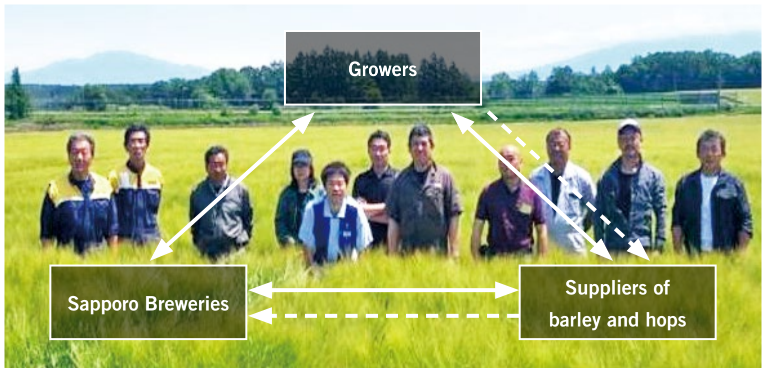
In order to provide customers with deliciousness that is safe and secure, Sapporo Breweries is thoroughly dedicated to the procurement of raw materials. This is the crux of the Collaborative Contract Farming System, developed with growers and suppliers.

The main elements of the Collaborative Contract Farming System are:

1. Sapporo knows who grow the barley and hops, where they are grown
2. How they are cultivated
3. Direct communication between Sapporo and the growers

These three elements make up the Sapporo Breweries' barley and hops procurement system, and allows the Company to work with growers to produce barley and hops from the field.

Collaborative Contract Farming System



↔ Flow of information - - -► Flow of items

3. Supporting Local Communities

Ensuring Mutual Prosperity through the Development, Production, and Commercialization of Raw Materials

Kamifurano in Hokkaido Prefecture is the only region in Japan that produces both malting barley and hops developed by Sapporo Breweries. We promote the region by brewing beers, on behalf of Kamifurano, from barley and hops produced in Kamifurano to support its local events.

Marugoto Kamifurano—a made-in-Kamifurano product

Several factors, including declining demand for beer, aging growers, and a lack of successors, have led to the volume of Japanese-produced raw materials decreasing every year. In response, Sapporo Breweries has developed barley and hop varieties and is working to spread their production in Japan. Going forward, we will continue to engage in the sustainable development of raw materials as well as in more vigorous production and commercialization to increase brand value and thereby help revitalize Japanese raw materials.

Products Utilizing Japanese Barley and Hops

Left: *Sapporo Draft Beer Black Label Extra Brew*
Right: *Sapporo Hokkaido Draft Beer Miracle Barley Kitanohoshi*

4. Promoting the 3Rs

Utilizing Anti-Food Loss Measures

Food loss is a major social problem. Sapporo Breweries has been able to extend the shelf life of its products through efforts that include the adoption of LOX-less barley (barley lacking the enzyme that causes beer deterioration) as a raw material in "flavor-retaining malt," manufacturing methods that do not introduce oxygen in the production process, and distribution methods that maintain a constant temperature and prevent shaking of products during transport.

Flavor-retaining malt	Manufacturing methods that do not introduce oxygen in the production process	Distribution methods for reducing deterioration (maintenance of temperature, prevention of shaking of products, etc.)
		

Shelf life of beer taste products extended from nine months to 12 months, expiration dates rolled forward on labeling to reflect longer shelf life (e.g., best-before dates in the last third of a month rolled forward to next month)

Note: The above achievements are regarding cans and bottles produced in Japan.

5. Harmonizing with Nature

Developing Barley and Hops Resilient to Climate Change

In 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. Sapporo Breweries and the university are currently conducting joint research on how to develop a novel method to select hop germplasm with better root system development, under the hypothesis that such hop plants may show better resilience to extraordinary weather phenomena caused by climate change, including droughts and other kinds of water stress.

Joint research and surveying with Tokyo University of Agriculture

Teaching the Next Generation

Sapporo Breweries, in cooperation with Okayama University, holds an annual barley experience event at its Gunma Brewery to foster environmental awareness in children, the leaders of the next generation. This event for local elementary school students has been ongoing since 2008. By providing hands-on experience sowing and harvesting barley, a crop that is widely cultivated in the northern Kanto region, we offer opportunities to experience nature and deepen interest in local agricultural products.

Hands-on experience harvesting barley

Hands-on experience sowing barley

Supporting the TCFD's Recommendations

Sapporo Holdings agrees with the recommendations put forth by the TCFD,* which encourage companies to evaluate and manage risks and opportunities associated with climate change and to disclose information, and is therefore actively promoting such information disclosure. We are currently conducting scenario analyses based on the progress of climate change.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

* The Task Force on Climate-related Financial Disclosures. It was established by the Financial Stability Board (FSB), an international institution that includes the participation of central banks and financial regulators of major countries. The TCFD provides a framework for information disclosure related to climate change.

Opening of the Grande Polaire Hokkaido Hokuto Vineyard

GRANDE POLAIRE

In recent times, partly due to global warming, ideal cultivation zones for wine grapes have been gradually moving north. Keeping its eye on the future, Sapporo Breweries opened up the Grande Polaire Hokkaido Hokuto Vineyard in the city of Hokuto, Hokkaido Prefecture, in June 2018. Phase 1 of planting at the vineyard began in 2019, and planting for Phase 2 in 2020 has taken place as well. The land was originally used by a Trappist monastery in 1896 and covers a vast 25.4 hectares. The area features optimal growing conditions, including soil and a climate ideal for the cultivation of high-quality grapes for winemaking. This is the third Company-owned vineyard, joining the Azumino Ikeda Vineyard (12.6 hectares) and the Nagano Furusato Vineyard (3 hectares).

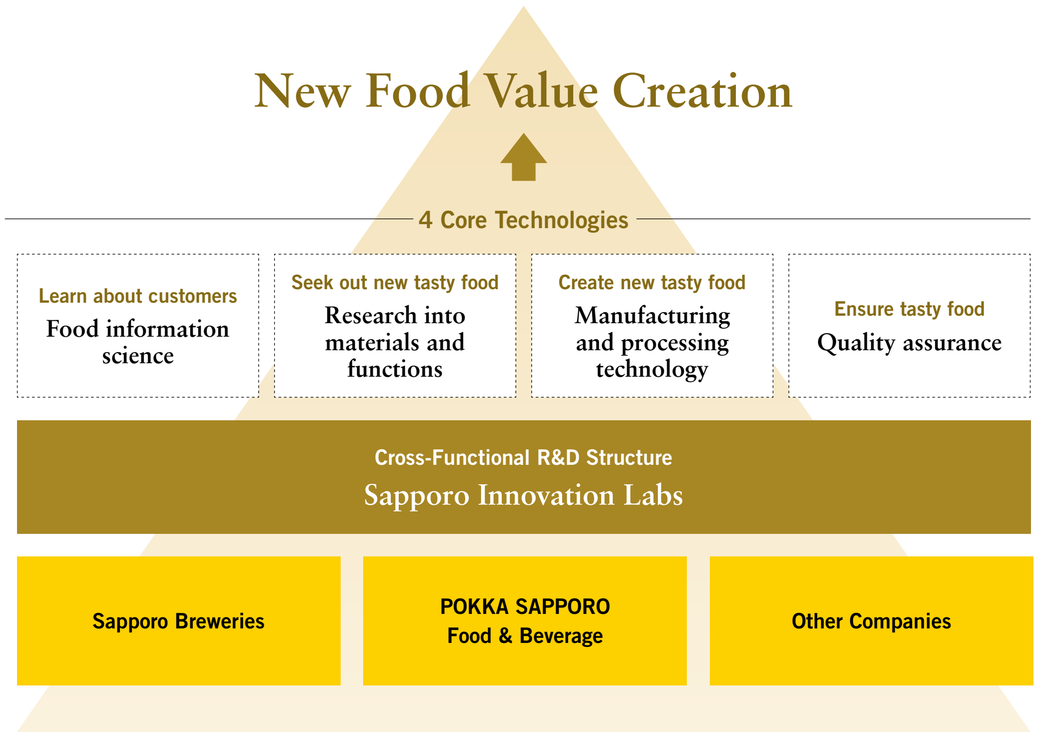
Grand Polaire is the flagship brand of Japanese wine within the wine business, and was launched in 2003 as a world-class prestige wine. The most distinguishing feature of the brand is its exquisite harmony and perfect balance between "land, nature, and people," drawing from the individual characteristics of the grapes grown in Hokkaido, Nagano, Yamanashi, and Okayama—our four grape-growing areas. Its high quality has been the subject of much praise in Japan and overseas, as well as the recipient of several awards. One may say that Japanese wine is a business that embodies the craftsmanship that is at the core of the Sapporo Group. We will continue with excitement to create a world-class luxury brand that is the pride of Japan.

The Sapporo Group's R&D Strategy

Creating New Value with Sapporo Innovation Labs

The Sapporo Group promotes R&D in order to sow the seeds of future growth. Central to this goal, and to serve as a foundational guide for the Group's growth as a food manufacturer, is Sapporo Innovation Labs, a cross-functional R&D structure aimed at creating synergies. To support new value creation, we have organized our efforts into four research fields, positioned as a wellspring of R&D competitiveness and created over many years of R&D dedicated to the pursuit of quality, the seeking of high-value materials, and the creation of delicious flavor.

In a time when customer tastes are diversifying more and more, we will continue to be steadfast in our commitment to delicious flavor and engage in R&D from a unique perspective.



TOPICS

The Sapporo Group's First Functional Food, *Switch Lactic Acid*

The research demonstrating the functionality of lactic acid bacteria SBL88 continues to mount up. SBL88 is derived from barley used as an ingredient for beer produced by the Sapporo Group.

As part of research dedicated to sleep quality, large-scale clinical trials on human subjects confirmed SBL88's effectiveness in reducing drowsiness and promoting greater fatigue recovery upon waking up. Sapporo Wellness Lab Limited, established in February 2019, launched the functional food *Switch Lactic Acid* in April 2020, turning these research results into a material product. This product is aimed at the many people who suffer from sleep-related issues and will help them improve their sleep quality and support a bustling daily lifestyle. Going forward, the Sapporo Group will draw from its knowledge and materials to bring forth new value.

★ *Special Feature 2*

The Sapporo Group's Urban Development—Deepening Relationships with Local Communities

Since its founding, the Sapporo Group has engaged in a variety of efforts dedicated to ensuring quality and committed to securing fine raw materials, never forgetting that manufacturing is its fundamental starting point. At the same time, the Group has also carried out development while placing importance on connections—regions that have a connection to the Group and contact points with local communities. Our various business activities bring smiles to the faces of our customers, deliver deliciousness, and offer richness and fulfillment. By doing so, we hope to continue as a group that both has the trust of local communities and contributes to their development.

Sapporo Factory

SAPPORO

Once the Site of the *Kaitakushi* Brewery, Now a Place for Locals to Relax

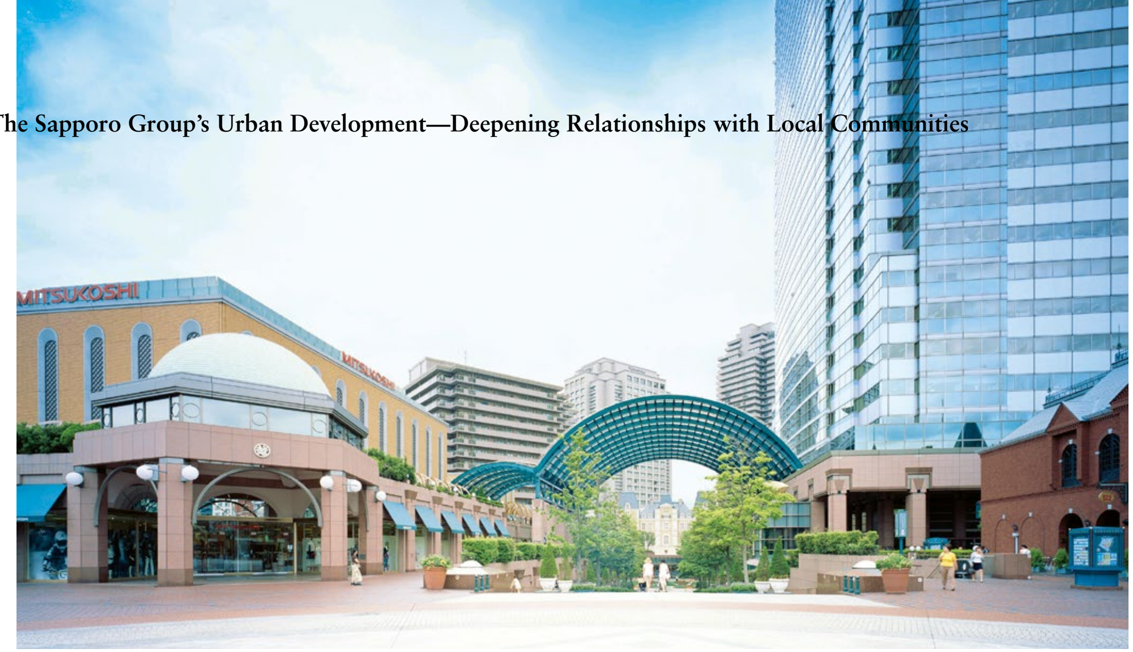
Sapporo, Hokkaido Prefecture, was the home of the *Kaitakushi* Brewery, the predecessor of Sapporo Breweries, making it at once the birthplace of the Sapporo Group and of Japanese beer.

Sapporo Factory, built on the site of the *Kaitakushi* Brewery, is now a place for locals to relax, home to a myriad of shops and restaurants, a hotel, a cinema, service areas, and more, in addition to tour facilities that take visitors back through history to the heyday of the *Kaitakushi* era.

The Sapporo Beer Museum, located in Sapporo Factory, is one of the only beer museums in Japan. The museum helps communicate the history of Japanese beer created through the passionate efforts of Japanese brewers. At the same time, the museum tells the thoughts and stories passed on through beer over time. The museum's red-brick building—hearkening back to the Meiji era—and the Sapporo Beer Garden, both located within Sapporo Garden Park, have been designated as Hokkaido Heritage sites.

Working with Sapporo City—Urban Development through Beer

In 1972, Sapporo City became the only Japanese sister city of Munich, Germany, famous for the international beer festival Oktoberfest. Since then, the two cities have deepened their relationship through a variety of events, with active cooperation from the Sapporo Group. Since 2011, people have been able to enjoy delicious beer and food at the annual Autumn Beer Festival held at Sapporo Factory as part of the "Sapporo Urban Development through Beer" project, started to mark the 40th anniversary of this sister city relationship.



Yebisu Garden Place

YEBISU

YEBISU, the Beer That Named a District

The Yebisu Beer Brewery was completed in 1889, in *Mita-mura* in the Ebara district, now the *Mita* district in the Meguro Ward of Tokyo. In 1901, the Yebisu Railyard was established as a dedicated cargo station for beer. Years later, it became a train passenger station, currently known as JR Ebisu Station. In addition, the district's name was changed to Ebisu as well. Cases of an area being renamed after a product brand are exceedingly rare.

Museum of YEBISU BEER is located at the site where *YEBISU* was born and follows the concept of "everything *YEBISU*, all in one place." The museum welcomes numerous visitors who are able to experience the *YEBISU* brand worldview.

Creating Smiles and Cities with Roots in the Community

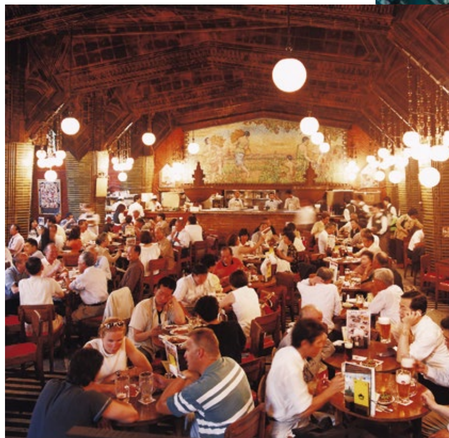
On October 8, 2019, Yebisu Garden Place celebrated 25 years since its development on the site of our old beer brewery, reopened as a trailblazing commercial complex.

We will work with cities and society as a whole to create and cultivate "luxurious times" in "luxurious spaces." To that end, we have adopted the motto "create smiles and cities with roots in the community" and will engage in urban development that appeals to residents, workers, and visitors who want to enjoy themselves and relax.

GINZA

Delivering Top-Quality Beer in Ginza, an Area Close to the Company

Ever since Japan Beer Brewery Company, the predecessor of Sapporo Breweries, was established in 1887 in what is now Ginza 2-chome, Ginza has been an area with deep connections to the Company. August 4 in 1899 saw the birth of Sapporo Lion, marked by the opening of Japan's first beer hall in modern-day Ginza 8-chome, *YEBISU BEER HALL*. Sapporo Lion celebrated its 120th anniversary in 2019 and August 4 has been commemorated as Beer Hall Day.


Beer Hall Lion Ginza 7-chome

Since its opening in 1934, *Beer Hall Lion Ginza 7-chome* continues to draw the adoration of its many customers as the oldest beer hall in Japan. The venue utilizes thorough quality control combined with traditional extraction technology to deliver top quality with every pour.

In 2016, GINZA PLACE, a commercial facility with the concept of "a base for communication and exchange," opened at the corner of Ginza 4-chome. Our goal is to make GINZA PLACE "a landmark that builds the Ginza of tomorrow" and help further invigorate the city and create an upbeat atmosphere.

★ *Special Feature 3*

Alcohol-Related Problems

Toru Miyaishi
Executive Officer
(Member of the Board)
Sapporo Breweries Limited

The Sapporo Group carries out initiatives in line with its Policy Related to Proper Drinking Practices, which is based on the Sapporo Group Code of Conduct. As members of a corporate entity engaged in the distribution of alcoholic beverages, we are actively involved in efforts to provide knowledge to employees concerning proper drinking practices. We have also highlighted "providing education on responsible drinking and perpetuating the culture of beer" as a material issue for sustainability. To that end, we promote educational programs to eliminate improper drinking practices such as underage drinking, driving while intoxicated, and alcohol harassment. At the same time, we also promote the culture surrounding Japanese beer and contribute to enriching and rewarding lifestyles.

The Sapporo Group's Policy Related to Proper Drinking Practices

The Sapporo Group Code of Corporate Conduct stipulates the following policies on the relationship between alcoholic beverages and society.

- **In light of the nature of alcohol, we 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.**

Group companies, especially the alcohol-centered businesses of Sapporo Breweries and Sapporo Lion, will also promote proper drinking practices under these policies.

Medium- to Long-Term Targets for Fiscal 2030

We will promote educational programs to eliminate improper drinking practices such as underage drinking, driving while intoxicated, and alcohol harassment.

Initiatives Aimed at Reaching Targets

- Educational programs for universities and companies to spread awareness of proper drinking practices
- Distribution of free pamphlets for elementary and junior high school students aimed at increasing awareness of and preventing alcohol consumption
- Adherence to advertising regulations and prevention of inappropriate drinking practices through product labeling and messaging
- Development of non-alcoholic beer taste beverages aimed at preventing intoxicated driving
- Education via e-learning on proper drinking practices for employees
- Introduction of "special glasses" by Sapporo Lion, to prevent accidental consumption of alcohol

Free pamphlet aimed at elementary and junior high school students

Product development to prevent intoxicated driving

International Alliance for Responsible Drinking

As a member of the Brewers Association of Japan for five years, an organization affiliated with the Global Alcohol Producers Group* (GAPG), Sapporo Breweries has stayed true to its commitment—since 2013—and has worked to promote proper drinking practices. The company will continue to enhance its efforts in this regard going forward.

* Merged with the International Center for Alcohol Policies (ICAP) to form the International Alliance for Responsible Drinking (IARD) in January 2015

A Dialogue on Sapporo's Human Resource Strategy

Mayumi Fukuhara
Director (Member of the Board)

×

Mackenzie Clugston
Outside Director (Independent Officer)

To achieve the targets of Group Management Plan 2024 (hereinafter, the "New Medium-Term Plan"), the most important factor is human resources. Mr. Mackenzie Clugston, an outside director, and Ms. Mayumi Fukuhara, a director and member of the Board of Directors, sat down for an open exchange of opinions regarding the Group's overall vision for human resources within the New Medium-Term Plan as well as specific initiatives to nurture their development.

Weaving a Brand Story

Ms. Fukuhara: For the New Medium-Term Plan, we have placed a new focus on "promoting sustainability management" as a basic policy. It is a mindset that entails using our industry to address social issues and helping create a sustainable society as ways to increase corporate value in a sustainable manner. Bearing this in mind, my hope is that employees will look at their particular duties in terms of how they are connected to the needs of their customers and society as a whole. This involves reframing everything that the Sapporo Group has built over 140 years of history, be it the products we offer, our attitude toward customers, our daily actions—the list goes on—and being able to look at our customers and society and say proudly, "This is what Sapporo is all about." This is how you weave the Company's brand story in a nutshell. A brand is made up of the trust from customers, while also acting as a promise from the company to them. Each and every one of our employees is at the core of our brand and a bearer of the promise.

Mr. Clugston: I agree. While "The customer is always right" is a popular turn of phrase, we also need to be aware of who the customer is at that time. Customer needs and tastes are subject to change, so there is always the question of what will be in demand in the future. That then begs the question of how company functions should evolve. This is something all employees need to consider. I believe that employees need to look outside of their own duties and have an idea of what the Company should be as a whole, and then think of how they can help the Company reach that ideal.

Developing the Power to Go "Beyond Boundaries"

Ms. Fukuhara: The underlying idea of our human resource strategy is to "Go Beyond Boundaries." What this means in regard to human resources under the New Medium-Term Plan is having people who can be flexible in the face of changes in the environment, or boundaries so to speak, and be willing to go beyond boundaries to produce results under a healthy workstyle. In order to cultivate employees with this mindset, we have revised human resource systems at our main operating companies and introduced measures to help implement this mindset at work sites, with an emphasis on one-on-one communication with supervisors. Rather than repeating the annual goal setting and review model of past years, we aim to build a set of individual challenges and their corresponding achievements while updating our goals as needed.

Mr. Clugston: I think that it is a company's responsibility to create an environment that activates the sensibilities of employees and encourages changes in values. That said, it is up to employees to actually take on a challenge. On the flip side, a company needs to provide chances for its employees to take on these challenges, while adopting a stance of tolerance should these endeavors fall short. To create this sort of environment, one option may be to take the example of some leading IT companies and allow a freer workstyle that has some separation from the organization.

Ms. Fukuhara: It is certainly important to change one's thinking from one of avoiding risk to accepting it. Last year, we held a business contest in which an independent start-up and a number of our employees teamed up to launch a new business, and I hope that these kinds of efforts will act as a good stimulus for activity.

Mr. Clugston: Up to this point, domestic Group companies have relied on risk-free decision-making carried out by the Group, but in the future it will be necessary for someone to display the leadership to make major decisions. This is especially true for entering markets overseas. One way to develop such a leader is to give special training to promising new graduates entering the Company from an early stage. Since the values of the younger generation are more common across countries and cultures, the use of young employees is key in terms of responding to internationalization.

Promoting Globalization and Diversity

Ms. Fukuhara: One of the easiest-to-understand aspects of diversity and inclusion is supporting the success of women, and we will continue to promote this approach. What is important here is that diverse human resources within the organization are able to exercise their individuality freely, and that everyone around them is willing to accept and respect them. At Sapporo Breweries, we have a female team leader who started out on the sales frontline, and this year we hired a woman from Vietnam as a new university graduate. I believe that individual employees will be inspired by these efforts and be mindful of the diversity of every other employee and incorporate a wide variety of perspectives into their work, which will strengthen the organization itself.

Mr. Clugston: I think that, when it comes to the matter of diversity, increasing support for women's success is a good place to start as well. With employees who were born overseas working as usual in the head office, among other things, I get the sense that changes are happening pretty steadily. It is my opinion that these changes are part of the gradual and natural evolution of the Company's organizational structure.

Also, many Japanese companies dispatch employees from Japan to manage local businesses when they acquire overseas companies, but this is not necessarily the case with the Sapporo Group. In North America, for instance, the Group has taken employees from Canada-based Sleeman Breweries and sent them to other local companies in the United States and Canada. I have to commend you for being able to undertake such challenging activities as a company without the fear of failure. The same goes when talking about the Company in Southeast Asia. After visiting a Company site in the region, I was impressed by the high morale of the employees and their attachment to Sapporo as a company.

"

We intend to put forth a variety of signals toward the internationalization of human resources and organizations and the further promotion of diversity.

—— **Mackenzie Clugston**

Developing an Employee's Skill Set

Ms. Fukuhara: Like you said, Mr. Clugston, human resources' development and growth are two sides of the same coin. Companies have a certain responsibility to train their employees, but I also want employees to be self-sustaining people able to draw inspiration from themselves. To this point, we will keep providing opportunities for employees to take on various types of training and platforms to recruit human resources. So-called "tough assignments" are especially effective for future leader prospects, since they can gain rigorous experience in the field. In a top position at even a small organization, one gets to be in a role where they have full oversight of projects, which will develop the next generation of management human resources.
Mr. Clugston: It is vital that these kinds of efforts continue, and it is likewise important to keep these various existing programs in place. At the same time, when you think about the skill set that employees need in light of ongoing global development, language skills come first, right? However, language skills in the strict sense of the term are not enough and the ability to read between the lines and pick up on extraneous nuances have become important, as is an understanding of cultural backgrounds. For young people in Japan, the local environment can sometimes be unsettling, so adaptability to different cultures and similar skills are crucial to have.
Ms. Fukuhara: I could not agree more. Above all else, our most pressing task is to engage in global business, and communication and language skills are essential in addition to the ability to deal with management issues. Japanese people should not think that the approach of starting out with no knowledge and getting used to something on the job is common sense around the world. Simply put, you have to be tough enough to compete in an unfamiliar environment where the rules and common sense are different.
Mr. Clugston: At the same time, there seems to be many people who do not want to return to Japan after spending a year or two overseas. They discover the interesting nature of becoming familiar with a local lifestyle and develop courage of knowing that they can do things by themselves. As far as I know, that is true for the majority of cases. Adaptability, courage, and toughness—that is the stuff that future leaders are made of.

"A brand is made up of the trust from customers, while also acting as a promise from the company to them. Each and every one of our employees is at the core of our brand and a bearer of the promise.

——— Mayumi Fukuhara

Mobilizing the Collective Energy of the Group

Mr. Clugston: Being non-Japanese and a former diplomat, I believe I serve a valuable role for the Sapporo Group as a source of encouragement from an external point of view. The best analogy I can make is Japan's national rugby team. By bringing together the abilities of all people, regardless of nationality or culture, this country and the Company should be able to grow stronger and stronger. We intend to put forth a variety of signals toward the internationalization of human resources and organizations and the further promotion of diversity.
Ms. Fukuhara: As a holding company, we will work to build a system and create opportunities for all employees to experience the diversity of society and the market. Most of the specific efforts will be promoted by each operating company through their respective business sites and customer contact points. The holding company will provide general direction, while helping push each operating company in the right direction on occasion.

As for me personally, my resolution is to increase the opportunities I have to meet and talk with Group employees and promising human resources. Finally, I will take this chance to send a message to employees: "Be outward" and "Be forward-facing."
Mr. Clugston: My message echoes a popular phrase in Japan, "Boys and Girls, Be Ambitious!" I think employees should aim to be Company president someday. It takes a skill set, experience, and the willingness to take on a challenge. You only have one life to live, so pursue your ambitions without be bound up by anything.

Message from an Outside Director

By using our outside perspective to increase the objectivity of management decisions and contributing to more effective governance, we will help the Company live up to its investors' trust.

Shuji Fukuda
Outside Director

Bringing Perspectives from Different Industries into Management Decisions

In 1974, I joined a major cement manufacturer. From 2012, as company president, I formulated and promoted two medium-term management plans, each spanning three years. In the first plan, we concentrated on reducing interest-bearing debt and, based on those results, we changed course toward aggressive growth in the next plan. During this time, I have gained experience through a number of difficult management decisions, which included making and withdrawing from foreign investments and streamlining the organization.

In March 2019, I was appointed as an outside director at Sapporo Holdings, where I have drawn from my experience to make a wide range of statements at Board of Directors' meetings and in other settings. Generally speaking, outside directors are expected to advise and supervise from an independent viewpoint, but as members of the Board of Directors, we also have a duty to improve corporate value as well. By introducing perspectives unique to different industries into the decision-making arena, we ensure objectivity in management decisions and live up to our investors' trust.

The Message within Group Management Plan 2024

Fiscal 2019 was a major milestone for the Sapporo Group, in which it set upon the five-year medium-term management plan Group Management Plan 2024 (hereinafter, the "New Medium-Term Plan") and a complete overhaul of Group governance.

A management plan typically starts from a vision for the future of a company, specifies the issues that need to be addressed in the present, and determines the distribution of management resources. It is, essentially, a reflection of the "now" on the company, and serves as a statement of management's intentions both inside and outside the company. Take the year 2050 as an example. At around this time, the new employees of today will play a central role in management, but Japan's declining birth rate and aging population will be accelerating, with the total population expected to drop below 100 million. By that time, the Sapporo Group will need to grow further—in not only the domestic market but also the global market. Now is the time for the Company to concentrate its management resources on its core business—beer—which will likely be its strongest business in the future, and devise a bold growth strategy for the years to come.

Being mindful of these issues, the New Medium-Term Plan presents a path toward "focusing on the core business and building resilience" and "accelerating global expansion" as well as "restructuring to downsized office operations and an easy-to-understand organizational structure," as a means to progress down that path. The message put forward in the plan is appropriate and clear and, most importantly, the basic policies and financial goals therein are expressed very simply. I am of the opinion that a management plan should be as simple and easy-to-understand as possible so that it can be shared companywide and communicated to employees, and so that the plan's individual goals can be worked toward in the field. The New Medium-Term Plan satisfies these conditions and I rate it highly.

Deciding Whether to Invest or Withdraw

There are a few things to note when expanding overseas investments in line with the strategy laid out in the New Medium-Term Plan.

To begin, investment decisions must be precise and swift. The necessary checks and a decision regarding the appropriateness of an investment need to be made within a limited time frame, and this includes the prospect of fundraising.

When the decision to invest is made, local management and production oversight are important. To protect against brand damage, you need to establish global quality assurance, which in turn requires you to take root in local areas, hire employees on a consistent basis, and cultivate them over time.

On the other hand, this approach makes the timing of withdrawal more difficult. Because we are talking about investments, when there is no prospect of recovery, you have to look into withdrawing. Japanese manufacturers, particularly large companies with a long history, tend to be late on this timing. Management needs to keep the possibility of future withdrawal at the front of its mind, with an exit strategy prepared in advance.

There is no golden standard for making these investment and withdrawal decisions—they need to be made on an individual and specific basis. To do so properly, it is crucial to have the experience of outside directors plus the governance reforms that I will mention below.

Pursuing More Effective Governance

As part of its governance reforms, the Company has transitioned to a Company with an Audit & Supervisory Committee, and has ensured independent outside directors comprise one-half of its Board of Directors. Assigning certain powers to the business execution side has served to narrow down the agenda of the Board, which has allowed it to focus its discussions on important themes that require deliberation. The new governance system was designed with thought given to strengthening its supervisory function while making its decision-making function more flexible and effective.

The Company recognizes its responsibility to its shareholders to make effective use of its brands and assets and to continue to deliver the best performance possible.

By practicing more effective governance, the Company is working to improve asset efficiency and increase corporate value in the future.

At the most recent General Meeting of Shareholders, the decision was made by majority vote to continue the Company's Policy toward the Large-Scale Purchase of Share Certificates, etc., of the Company, which could be thought of as an anti-takeover measure.

Ensuring Brand Strength and Sustainability

The fourth and final basic policy highlighted in the New Medium-Term Plan is "promote sustainability management." The concept of sustainability can be applied in an extremely wide range of contexts. In the case of corporate management, however, it boils down to "maintaining and upgrading brand strength."

A company's brand strength is the trust granted to it by its stakeholders, be they customers, partners, or investors. It takes a great deal of effort and time to build, but once trust is broken, rebuilding it is the exception and not the norm. Companies must endeavor to maintain their brand power in order to earn trust, but need to evolve that brand power to meet the times as well.

By pursuing high-quality manufacturing and transparent and effective governance, the Company will continue to grow to ensure confidence in the phrase "Sapporo is beer." I would like to offer a steady stream of advice based on my own experience, to ensure that the Sapporo Group can manifest these efforts in Japan and overseas and find sustainable growth in the 21st century.

Corporate Governance

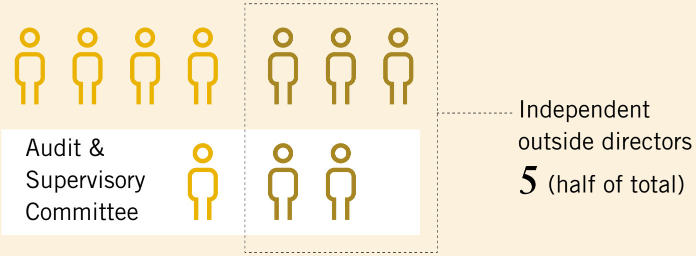
Governance Digest

Format

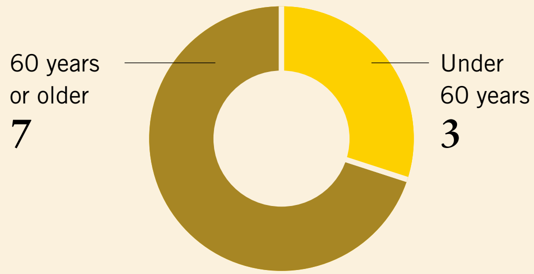
Sapporo Holdings established a Nominating Committee in November 1998 and has been making efforts to enhance the transparency of management related to the nomination and remuneration of directors, while preserving a sound management structure. Furthermore, in December 2015 we set up the Outside Director Committee in an effort to strengthen the exchange of information and sharing of knowledge with independent outside directors regarding such matters as Groupwide management strategies and corporate governance issues. In March 2020, the Company also transitioned to a Company with an Audit & Supervisory Committee.

Board of Directors

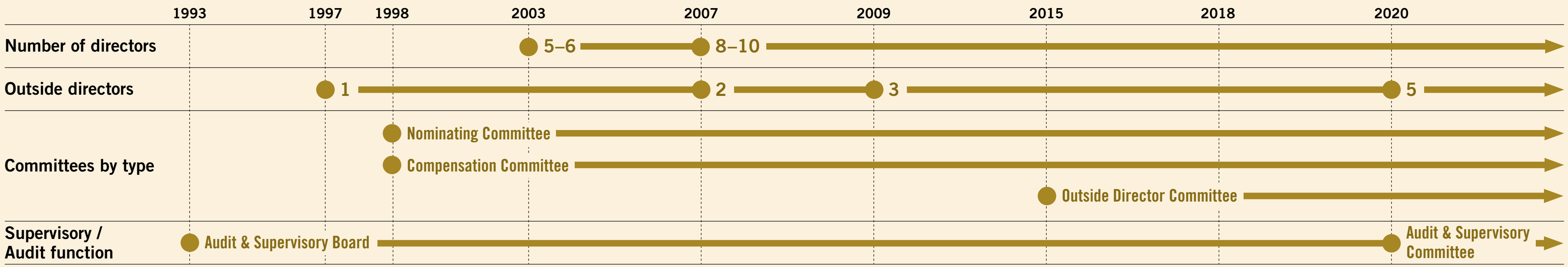
Constituent Members



By Age

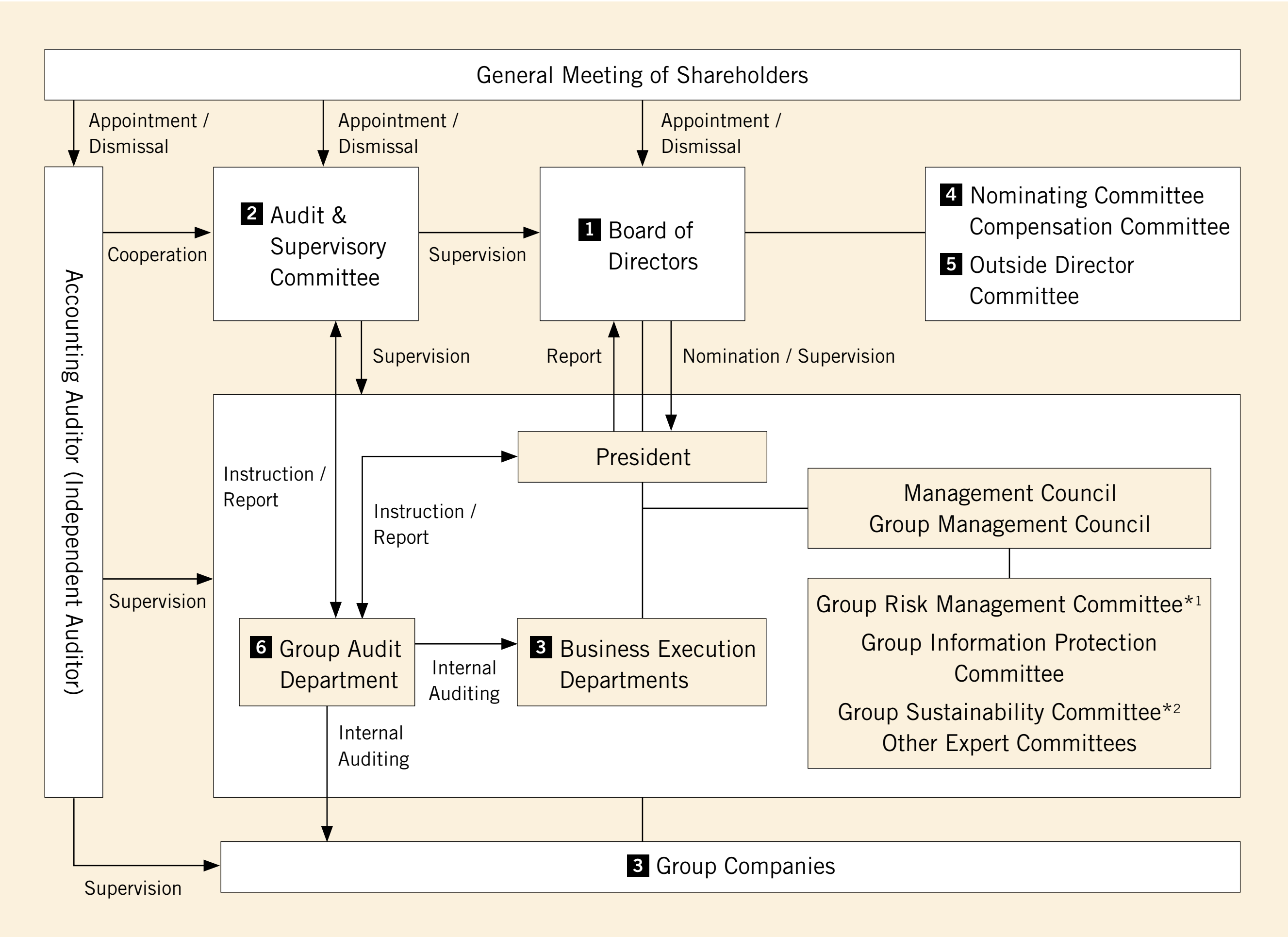


History of Corporate Governance Reforms



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.

Corporate Functions and Internal Control Relationships



*1 Group Management Committee chair: President and representative director
*2 Group Sustainability Committee chair: President and representative director

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

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 nominates and supervises the business execution of the representative director, president, Group operating officers, and other key personnel.

About Independent Outside Directors

Five of the 10 members, or one-half, of the Company's Board of Directors are independent outside directors, two of whom are members of the Audit & Supervisory Committee. All five 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 in raising corporate value. At the 13 Board of Directors' meetings held in 2019, the independent outside directors gave advice and suggestions regarding the review of issues from an objective viewpoint independent of that of the management.

Reasons for Appointment of Directors

Name	Reasons for appointment
Masaki Oga	Mr. Oga has served as representative director of the Company and president and representative director of an operating company. He has a wealth of experience, an extensive 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.
Yoshihiro Iwata	Mr. Iwata possesses experience, a track record, and insight regarding corporate planning, having gained broad experience from his role as president and representative director of an operating company and other positions, as well as having been in charge of the corporate planning and international departments of said company. The Company has determined that he is the right person to strengthen the Group's 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.
Shizuka Uzawa Outside Director	Mr. Uzawa has a wealth of experience, an extensive 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, an extensive 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, an extensive track record, and great insight as the president of a business corporation. Based on his experience in the 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 the strengthening of the Group's management structure.

2 Audit & Supervisory Committee

Sapporo Holdings Limited has adopted an Audit & Supervisory Committee system to improve transparency and strengthen management oversight functions in order to achieve its management goals. This system has the function of auditing and supervising the execution of duties by directors on the Board.

About Independent Outside Audit & Supervisory Committee Members

The Audit & Supervisory Committee of Sapporo Holdings comprises three members, two of whom are independent outside Audit & Supervisory Committee members. Both independent outside Audit & Supervisory Committee 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 Committee members audit the duties executed by members of the Board from an objective and neutral standpoint, and offer input where fitting to preserve the propriety and appropriateness of decisions by Board members. Similarly, the independent outside Audit & Supervisory Committee members are expected to provide input where needed during discussions on proposals and fulfill a role to secure sound management. At the 13 Board of Directors' meetings held in 2019—the year that the Company adopted the Audit & Supervisory Board system—the independent outside Audit & Supervisory Board members made statements intended to ensure the validity and appropriateness of decision-making. These members also made statements regarding the review of issues and other matters as needed at the 13 Audit & Supervisory Board meetings held that year.

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, an extensive 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.
Kazuo Sugie Outside Audit & Supervisory Committee 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.
Kohtaro Yamamoto Outside Audit & Supervisory Committee Member	Although Mr. Yamamoto has no experience in directly managing a company, the Company has judged that he is able to audit the performance of duties by directors of the Company from an objective and fair perspective, based on his wealth of knowledge and experience as a lawyer and on his expertise in the field of corporate law specializing in the Companies Act, Antimonopoly Act, international contracts, among others.

3 Group Operating Officers

The president oversees 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, are responsible for business execution in the main business segments.

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

Candidates for independent outside director positions, whether they be positions for members of the Board who serve concurrently on the Audit & Supervisory Committee or for members of the Board who do not, are recommended by the Nominating Committee, chaired by an independent outside director. These candidates meet the standards for independence set out by financial instruments exchanges that have applied them, while 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.

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

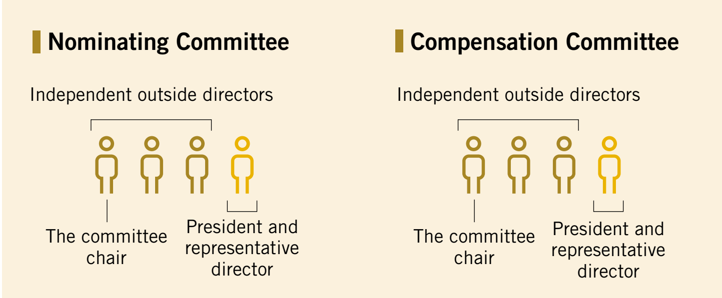
https://www.sapporoholdings.jp/en/csr/gri/pdf/basic_governance_approach.pdf

All of the Company's outside directors and auditors 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 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. Outside Director of NGK Spark Plug 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's 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 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 was 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 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 was 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. Sugie is unlikely to have a conflict of interest with shareholders. As such, the Company has determined that Mr. Sugie is unlikely to have a conflict of interest with shareholders in light of the Standards for Independence of Outside Officers established by the Company.
Kohtaro Yamamoto	Outside Director of Keihin Corporation	Mr. Yamamoto is currently a lawyer at Yamamoto & Shibasaki Law Offices. No transactions have or are being made between said law offices and the Company or the Company's subsidiaries, and the Company has determined that Mr. Yamamoto is unlikely to have a conflict with of interest 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 an Audit & Supervisory Committee, 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. All independent outside directors not concurrently serving on the Audit & Supervisory Committee and the president and representative director comprise the four members of both committees, while the committee chair of each committee is selected from among the outside directors. However, when the Nominating Committee recommends candidates for the Audit & Supervisory Committee, a standing Audit & Supervisory Committee member joins the committee. 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.



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 Fiscal 2019 in Response to the Results of the Board of Directors' Effectiveness Assessment for Fiscal 2018

In the assessment for fiscal 2018, the roles and duties of the Board of Directors (constructive discussion and progress management with respect to the First Medium-Term Management Plan 2020) were recognized as continuing issues. In response to the abovementioned results of the assessment, in fiscal 2019 the Company endeavored to increase the constructiveness of discussions, by way of clarifying points of discussion by making effective use of off-site meetings, which were held at the time of reviewing the First Medium-Term Management Plan 2020, and by considering changes in organizational design, etc. In addition, the Company streamlined the quarterly reports to be made by each business company and tried not only to confirm the achievements but also to proceed with discussions focusing on future issues and measures.

(2) Results of Board of the Directors' Effectiveness Assessment for Fiscal 2019

With respect to the Board of Directors effectiveness assessment for fiscal 2019, in continuation of similar practices in fiscal 2018, all directors took an anonymous survey. In consideration of the results of this survey, a discussion with a view toward ascertaining the current states of affairs and recognizing issues and challenges was conducted at the Board of Directors' meeting held in January 2020.

As a result of the assessment, it was judged that the effectiveness of the Board of Directors as a whole was ensured from the viewpoint of its composition, management, and roles and duties. On the other hand, it was recognized and stated once again that there was a need to provide information to outside officers, as well as to further deepen discussions and continuously confirm the status of progress, in the course of implementing the medium- to long-term management framework and Group Management Plan 2024.

By way of solving the identified issues and implementing 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 Board Members

Compensation for members of the Board of Directors (excluding members also serving on the Audit & Supervisory Committee) 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 Board members also serving on the Audit & Supervisory Committee is also decided within remuneration limits set by the General Meeting of Shareholders, and consists of a base salary for each Board member on the Audit & Supervisory Committee, calculated in accordance with standards decided by the Audit & Supervisory Committee.

The compensation amounts in fiscal 2019 were as follows

Classification	Payment recipient	Payment amount (Millions of yen)
Directors (including outside directors)	12 (4)	192 (29)
Audit & Supervisory Board members (including outside Audit & Supervisory Board members)	5 (2)	53 (19)
Total (including outside officers)	17 (6)	245 (48)

Notes:
1. Five of the directors (excluding outside directors) each receive a salary of ¥28 million for the employee part of their employee-directorship position, separate from the basic remuneration for directors shown in the table on the left.
2. The remuneration limit for directors was set to ¥500 million (excluding remuneration from consolidated subsidiaries and their employee salaries) at the 93rd Annual Shareholders' Meeting held on March 30, 2017. The limit for Audit & Supervisory Committee members was set to ¥84 million at the 83rd Annual Shareholders' Meeting held on March 29, 2007.
3. No share-based compensation linked to business performance was issued in fiscal 2019.
4. In addition to the aforementioned 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 ¥445 million (over three business years) in accordance with the officer stock benefit rules stipulated by the system. The system is separate from the aforementioned director 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, 2019, being 25 persons.

6 Internal Audits

The Group Audit Department, an internal auditing organization independent of the executive chain of command, receives instructions from the representative director or the Audit & Supervisory Committee and audits all operations of the Company and its subsidiaries regarding compliance with laws, the Articles of Incorporation, and internal regulations. With regard to fiscal 2019, the year in which the Company adopted the Audit & Supervisory Board system, members of the Group Audit Department and the Audit & Supervisory Board met 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 Group Audit Department is read by the Audit & Supervisory Board members as part of the information that they share.

Upgrading 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 related 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 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, in addition to systems for managing crisis situations that may arise. These efforts are governed by the basic policies for the Guidelines on the construction 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 Whistleblower Hotlines and Helpline to help with prevention and early detection of misconduct, with the General Affairs Department serving as secretariat. In addition, the Group 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 the Strategic Holding of Shares

The Company operates such businesses as alcoholic 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, it 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 abovementioned 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 2020, 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 efficiency, etc. As a result of the verification, the Company decided to sell a portion of its strategically held shares.

(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 strategic holding policy and the common interests of the shareholders involved in investments. Regarding the contents of agenda and other issues pertaining thereto, the Company will, whenever necessary, have dialogues with the invested companies.

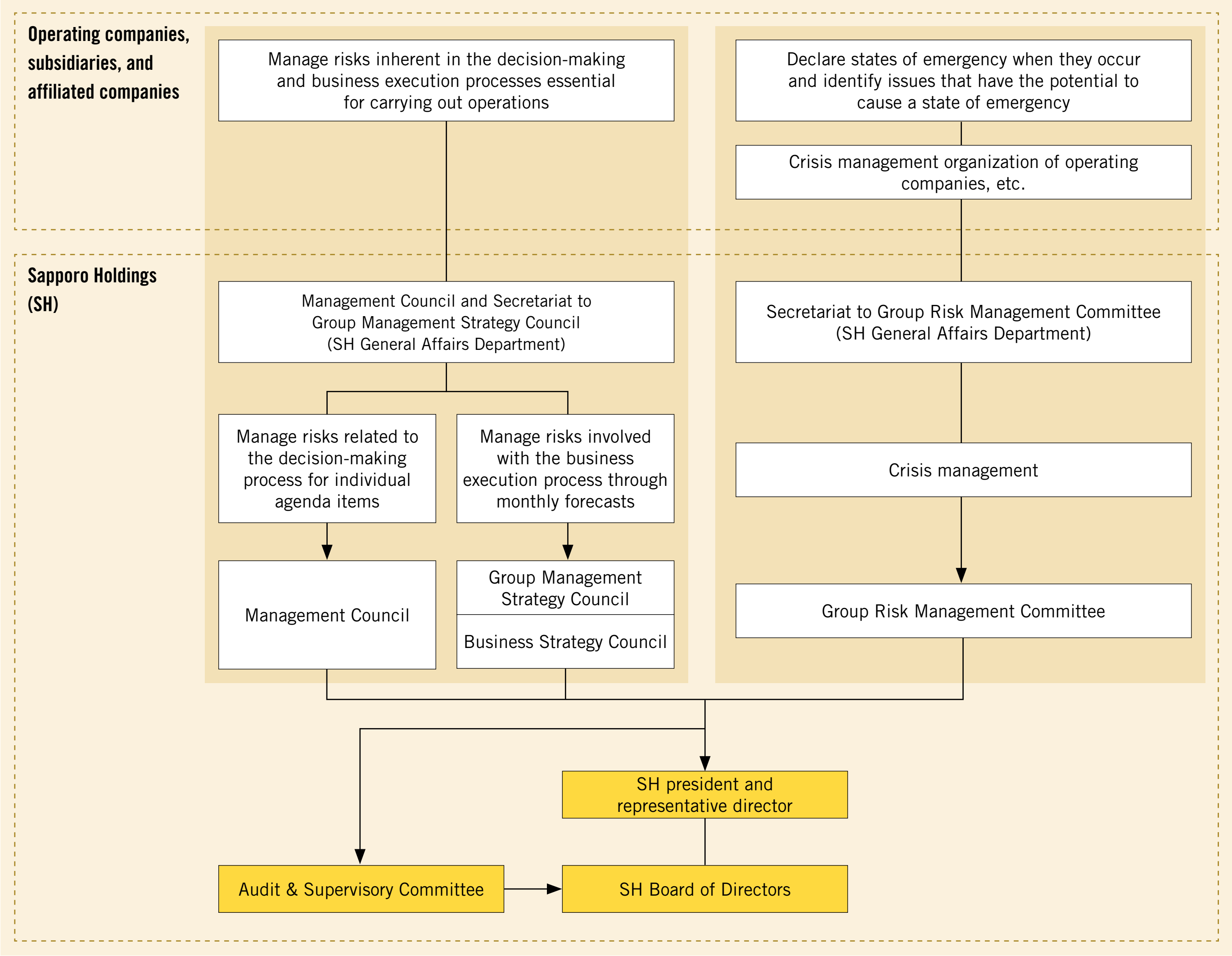
Basic Policy on Risk Management

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's 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

		Details	Measures
Risks related to business environment	Laws, regulations, and tax systems	The strengthening of legal regulations, or the introduction of new regulations, could restrict business operations. Consequently, the Group could incur new expenses.	Maintain constant watch over regulations pertaining to alcohol-related problems, food loss, and plastic-related issues 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 the Group conducts 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.	Carry out currency forward transactions, interest swap transactions, and currency swap transactions so as to limit fluctuation-related risks. Engage in market monitoring.
		The cost of sales could increase due to a rise in the price of raw materials and supplies.	
	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, or the spread of infectious diseases, could hinder procurement of raw materials.	Carry out research and development in order to mitigate climate change-related risks to raw materials, and consider risks when selecting growing areas. Gather information from suppliers related to crop conditions and cultivation of raw materials. Understand regional characteristics as they relate to water intake and drainage, and collect information on disasters and other factors that may affect transport of raw materials. Utilize remote working and travel restrictions and other measures to protect against diseases and reduce risk of spreading infection.
		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 effects on business, and 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 the 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 re-engineering (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.	

Major Business-Related Risks

		Details	Measures
Risks related to business execution	**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.	• Gain a correct understanding of laws and regulations and carry out appropriate 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 and other labor shortages 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.

Response Policy for COVID-19

Sapporo Holdings is establishing measures to help reduce the spread of COVID-19, while also continuing production and distribution at both its domestic and international locations, in order to fulfill its responsibilities as a supplier of alcoholic beverages, food, and soft drinks and as a member of the restaurant industry. Furthermore, regarding the real estate business, we are working to maintain safety and security at all of its properties.

At this time, the Sapporo Group is striving to prevent the risk of infection for its employees, customers, and partners, and to coordinate and cooperate with regional communities. We are taking all possible measures, while continuing to observe the latest trends.

Board of Directors, Directors Who Are Audit & Supervisory Committee Members, and Group Operating Officers (As of March 27, 2020)

Board of Directors

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)

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
Mar. 2020	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.

Yoshihiro Iwata
Managing Director

(August 21, 1961)

Apr. 1984	Joined the Company (formerly Sapporo Breweries Limited)
Mar. 2006	Director of Corporate Planning Department of Sapporo Breweries Limited (newly established company)
Mar. 2014	President and Representative Director of Sapporo International Inc. Director (Member of the Board) and Group Operating Officer of the Company
Mar. 2016	Director (Member of the Board) and Senior Managing Executive Officer of POKKA SAPPORO Food & Beverage Ltd. Director (Member of the Board) of Sapporo Group Management Co., Ltd.
Jan. 2017	Group Operating Officer of the Company President and Representative Director of POKKA SAPPORO Food & Beverage Ltd. (up to the present)
Mar. 2017	Executive Group Operating Officer of the Company
Mar. 2020	Managing Director (Member of the Board) 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 and Development Division of the Company
Mar. 2020	Director (Member of the Board) of the Company (up to the present)

Mackenzie Clugston
Outside Director (Independent Officer)

(June 19, 1950)

June 1982	Joined Ministry of Foreign Affairs, Trade and Development of 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)

Directors Who Are Audit & Supervisory Committee Members

Toshio Mizokami

Standing Director

(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 Co., Ltd.
Sept. 2013	Director (Member of the Board) of Sapporo Group Management Co., 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 Co., Ltd.
Mar. 2017	Executive Group Operating Officer of the Company
Mar. 2019	Standing Audit & Supervisory Board Member of the Company (up to the present)
Mar. 2020	Standing Director, Audit & Supervisory Committee Member of the Company (up to the present)

Kazuo Sugie

Outside Director
(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
Mar. 2020	Outside Director, Audit & Supervisory Committee Member of the Company (up to the present)

Kohtaro Yamamoto

Outside Director
(Independent Officer)

(October 19, 1955)

Apr. 1985	Registered as a Lawyer (Daiichi Tokyo Bar Association) Joined Yamashita & Oshima Law Offices
Sept. 1991	Registered as a Lawyer in the State of New York
Jan. 1994	Established Yamamoto Law Office (currently Yamamoto & Shibasaki Law Offices) (up to the present)
Apr. 2012	Vice-President of Daiichi Tokyo Bar Association
Mar. 2020	Outside Director, Audit & Supervisory Committee Member of the Company (up to the present)

Group Operating Officers

Hideya Takashima

Executive Group Operating Officer
President and Representative Director of Sapporo Breweries Limited

Shinichi Soya

Executive Group Operating Officer
President and Representative Director of POKKA SAPPORO Food & Beverage Ltd.

Yuichiro Miyake

Executive Group Operating Officer
President and Representative Director of Sapporo Lion Limited

Hiroshi Tokimatsu

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

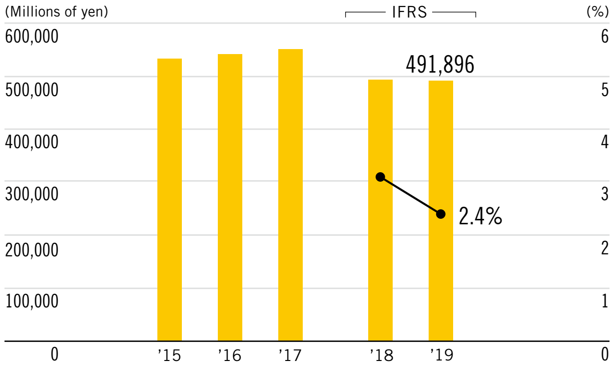
Yoshitada Matsude

Director of Accounting (serving concurrently as Director of Accounting at Sapporo Breweries Limited)

Financial Highlights

Note: Figures from fiscal 2015–fiscal 2017 are presented based on JGAAP. Figures from fiscal 2018–fiscal 2019 are stated based on IFRS.

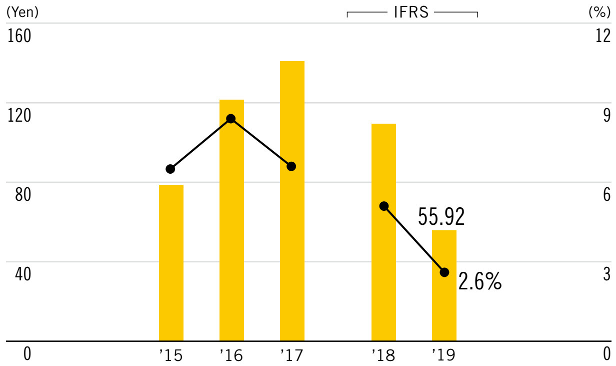
Revenue (Including Liquor Tax) / Core Operating Profit Margin*1



Revenue (including liquor tax)
Core operating profit margin

*1 The core operating profit margin is calculated as revenue – cost of sales – selling, general and administrative expenses.

Earnings per Share*2 / ROE*3

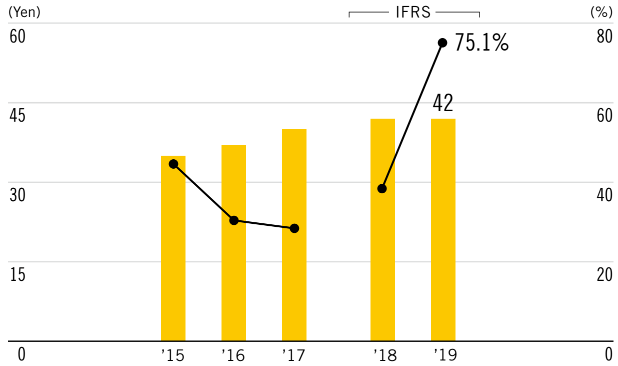


Earnings per share
ROE

*2 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.

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

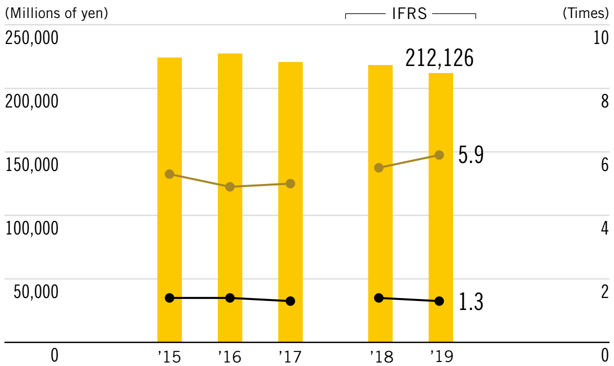
Dividend per Share*4 / Dividend Payout Ratio



Dividend per share
Dividend payout ratio

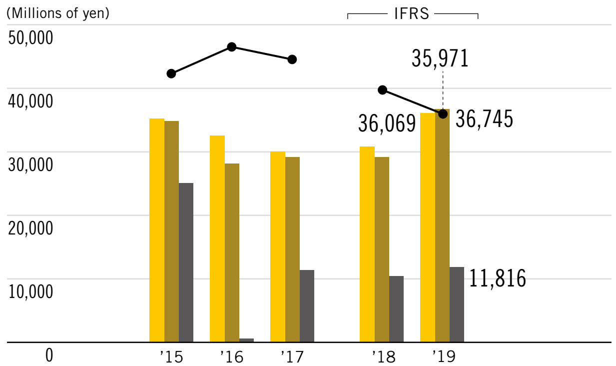
*4 On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, per-share information is presented on a basis that reflects this share consolidation.

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



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

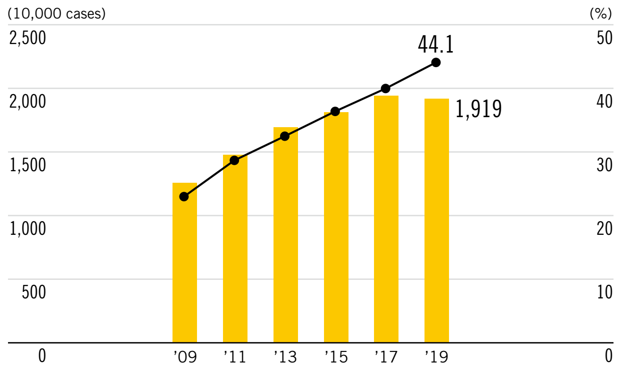
Cash Flows from Operating Activities and Status of Investments



Cash flows from operating activities
Investment amount*5
Proceeds from sale of investment securities and proceeds from sale of investment property
EBITDA

*5 Investment amount is calculated as cash flows from investing activities + proceeds from sale of investment securities and proceeds from sale of investment property.

Trends in Overseas Beer Sales Volume

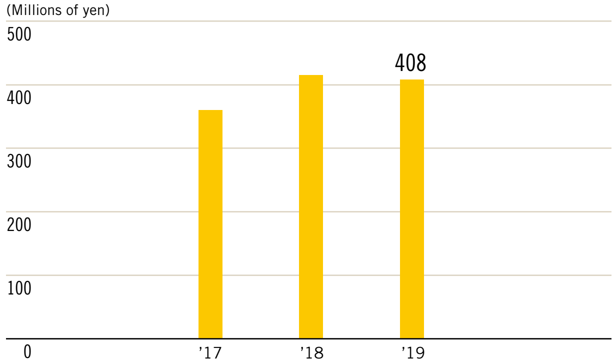


Overseas beer sales volume
Ratio of overseas beer sales volume to domestic beer sales volume

Non-Financial Highlights

Results of Social Contribution Activities

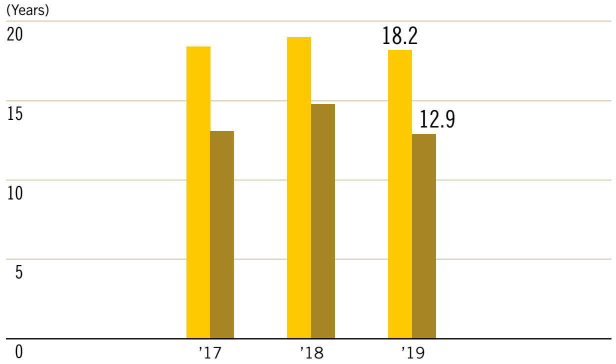
Society



Amount spent on social contribution activities

Average Number of Years Employed (by Gender)*6

Human Resources



Men   Women

*6 Average number of years employed at major domestic Group companies.

Number of Academic Presentations (in fiscal 2019)

Alcoholic Beverages, Food, and Soft Drinks

24

Sapporo Breweries gave presentations regarding findings that the aroma of hops can be changed by altering cultivation conditions, and on changes in beer aroma when Sorachi Ace, a Company-developed hop cultivar, is blended with other hop varieties, among other topics. In total, the Group gave 24 academic presentations during the fiscal year.

Number of Local Partnerships (as of February 2020)

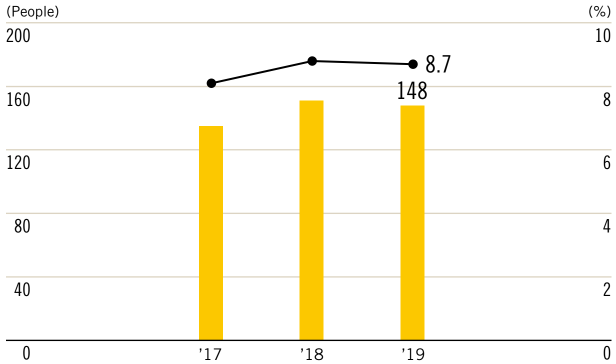
Society

63

The Sapporo Group has formed 63 cooperative agreements with a variety of entities across Japan—including prefectures, municipalities, and universities—and is engaged in activities that contribute to local communities, provide support for the next generation, and aid with disaster prevention.

Percentage of Women in Management Positions*7

Human Resources



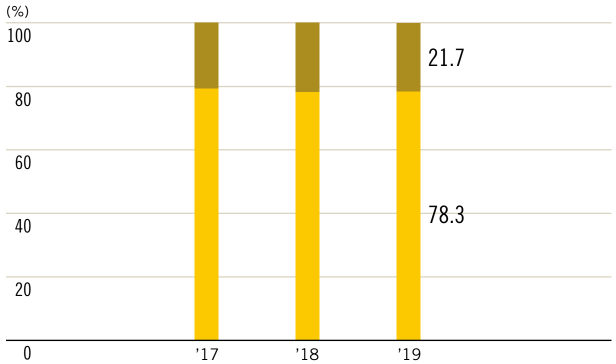
Number of women in management positions

Percentage of women in management positions

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

Ratio of Male to Female Employees*8

Human Resources



Men   Women

*8 Percentage of women who are full-time employees of the Group domestically and overseas.

Proportion of Employees Taking Childcare Leave (in fiscal 2019)

Human Resources

Men 68%

Women 100%

Ratio of employees taking childcare leave
(Including Sapporo Holdings and Sapporo Breweries).

Outside Evaluations

Included in SRI Indices

FTSE4Good Index Series
(FTSE Russell, the United Kingdom)

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

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

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

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

Research and Development

Sapporo Breweries was awarded a prize in the *Kaizen* and Rationalization Category at the 43rd Kinoshita Awards.*

"Development of lightweight aluminum can lids for beer taste beverages"

* Hosted by the Japan Packaging Institute (a public corporation)

Cultivating Highly Unique Employees

Sapporo Holdings and certain Group Companies were certified as 2020 Excellent Enterprises of Health and Productivity Management (White 500).

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

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

Sapporo Holdings obtained the 4.5 Stars Smart Work Management Award.

Ten-Year Summary of Financial and Non-Financial Data

The Sapporo Group has voluntarily applied International Financial Reporting Standards (IFRS), beginning in fiscal 2018. Figures prior to fiscal 2017 have been rounded down to the nearest specified unit. Figures from fiscal 2018 onward have been rounded up or down to the nearest unit. Moreover, in fiscal 2019, Country Pure Foods, Inc. was classified under discontinued operations, thus discontinued operations are presented separately from continuing operations. Consequently, revenue, operating profit, and profit before taxes for fiscal 2019 are shown based on values for continuing operations, and fiscal 2018 figures have been adjusted retroactively for comparative purposes.

(Millions of yen)

	JGAAP								IFRS	
For the Year:	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Revenue	389,244	449,452	492,490	509,834	518,740	533,748	541,847	551,548	493,908	**491,896**
Revenue (excluding liquor tax)	269,874	336,837	379,792	395,377	401,813	418,319	424,059	433,260	398,745	**371,100**
Overseas revenue									74,246	**71,232**
Overseas revenue (excluding liquor tax)	25,386	36,995	53,370	72,227	77,262	94,550	86,846	91,937		
Core operating profit*1	15,403	18,883	14,414	15,344	14,728	13,950	20,267	17,032	15,159	**11,724**
EBITDA*2	39,080	46,476	44,099	44,388	42,974	42,327	46,529	44,558	39,751	**35,971**
Profit before tax	17,762	5,840	10,512	16,562	2,694	11,690	16,403	17,801	10,629	**11,588**
Profit attributable to owners of parent	10,772	3,164	5,393	9,451	340	6,108	9,469	10,977	8,521	**4,356**
Capital expenditures (cash basis)	19,801	13,422	53,870	13,768	19,133	20,339	21,809	15,253	21,573	**29,900**
Depreciation	22,504	24,482	25,805	25,058	24,481	24,224	22,341	23,571	24,592	**24,248**
Goodwill amortization	1,172	3,110	3,879	3,985	3,764	4,153	3,920	3,954		
R&D expenses	2,022	2,621	2,998	2,683	2,698	2,724	2,766	2,791	2,840	**2,994**
Cash flows from operating activities	27,431	22,313	29,618	32,861	22,284	35,265	32,570	30,004	30,830	**36,069**
Cash flows from investing activities	(2,594)	(50,891)	(59,485)	(13,268)	(17,229)	(9,755)	(27,586)	(17,822)	(18,727)	**(24,930)**
Cash flows from financing activities	(18,119)	24,245	30,159	(19,147)	(7,307)	(24,802)	(4,827)	(10,171)	(14,521)	**(5,984)**
At Year-End:										
Total assets	494,798	550,784	597,636	616,752	625,439	620,388	626,351	630,630	639,692	**638,722**
Total equity	126,645	124,775	134,946	155,366	160,004	163,822	166,380	177,662	164,735	**174,524**
Net financial liabilities*3	167,944	209,963	247,891	236,275	237,775	224,310	227,553	220,871	218,358	**212,126**
Other Indicators:										
Core operating profit ratio	4.0%	4.2%	2.9%	3.0%	2.8%	2.6%	3.7%	3.1%	3.1%	**2.4%**
EBITDA to interest-bearing debt ratio (times)	4.3	4.5	5.6	5.3	5.5	5.3	4.9	5.0	5.5	**5.9**
Net debt-to-equity ratio (times)	1.3	1.7	1.8	1.5	1.5	1.4	1.4	1.2	1.4	**1.3**
Equity ratio	25.3%	22.4%	22.1%	24.6%	25.0%	25.5%	25.7%	27.5%	25.2%	**27.3%**
ROE (before goodwill amortization)	9.8%	5.1%	7.3%	9.5%	2.7%	6.5%	8.4%	8.9%	5.1%	**2.6%**
ROE	8.9%	2.5%	4.2%	6.7%	0.2%	3.9%	5.9%	6.6%		
Number of employees*4 (people)	3,983	6,649	7,264	7,434	7,014	7,484	7,858	7,902	7,904	**7,736**
Groupwide ratio of women in management positions*5	—	—	—	—	—	8.1%	7.6%	8.1%	8.8%	**8.7%**
Groupwide CO_2 emissions*6 (kt)	—	—	—	232.5	224.4	248.3	246.9	239.2	236.1	**—**
Domestic Groupwide water use*7 (1,000 m^3)	—	—	—	6,861	6,492	6,498	6,500	6,409	6,061	**—**

*1 Core operating profit 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 core operating profit + 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 Number of employees on a company-affiliated basis (including seconded employees from other companies) as of December 31 of each fiscal year.
*5 Percentage of women in management positions at domestic and overseas Group companies (excluding seconded employees from other companies).
*6 In Japan, use 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: four companies, 2015–2017: six companies, 2018: seven companies). Amounts totaled from April to March of the following year.
*7 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.

Management's Discussion and Analysis

Business Overview

During the fiscal year under review, the Japanese economy on the whole remained steady, despite a decline in domestic demand due to factors such as the consumption tax hike and natural disasters, as companies increased their capital expenditures on the back of firm corporate earnings while individual employment and income improved steadily. However, uncertainty in the global economy increased owing to heightened U.S.–China trade friction and growing geopolitical risks such as the worsening standoff between the U.S. and Iran.

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

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

Amid these circumstances, the Sapporo Group endeavored to accelerate growth under its Long-Term Management Vision "SPEED150" and the First Medium-Term Management Plan 2020 and to achieve its financial targets for fiscal 2019, as it strived to be a company with highly unique brands in the business fields of "Alcoholic Beverages," "Food," and "Soft Drinks" around the world.

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

Consolidated Operating Results

Revenue Graph 1

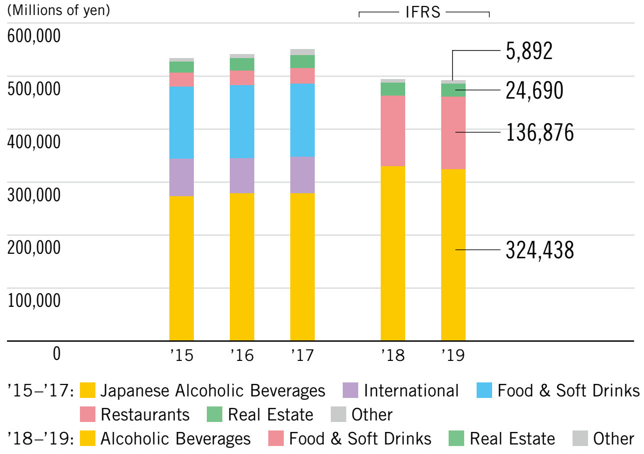
Revenue decreased ¥2.0 billion, or less than 1.0%, year on year, to ¥491.9 billion.

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

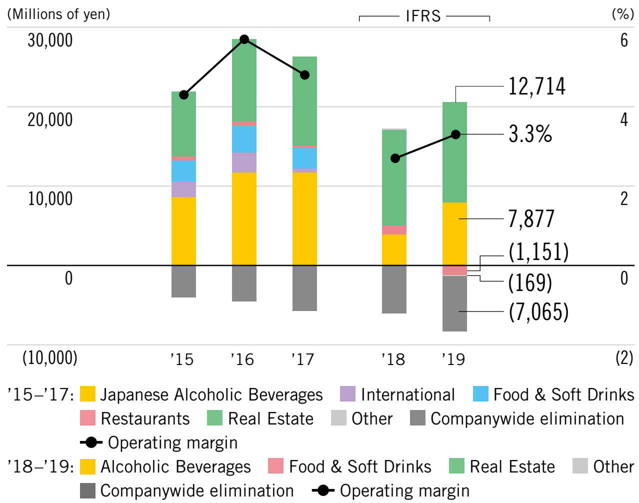
Operating Profit Graph 2

Operating profit increased ¥0.6 billion, or 5.0%, year on year, to ¥12.2 billion.

Graph 1 Revenue by Segment



Graph 2 Operating Profit by Segment / Operating Margin*



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

Operating profit in the Alcoholic Beverages segment rose on the back of domestic cost control measures, an improved product mix, and the impairment loss recorded in fiscal 2018 by U.S. subsidiary Anchor Brewing Company, which was not recorded in the fiscal year under review. On the other hand, operating profit declined in the Food & Soft Drinks segment as domestic sales fell. Conversely, the Real Estate segment recorded positive growth thanks to contributions from gains on sale of real estate following a property portfolio review, in addition to increases in rental income from core properties.

Profit before Tax

Profit before tax in fiscal 2019 rose ¥1.0 billion, or 9.0%, year on year, to ¥11.6 billion.

Profit Attributable to Owners of Parent Graph 3

In fiscal 2019, profit attributable to owners of parent decreased ¥4.2 billion, or 49.0%, year on year, to ¥4.4 billion. This was due to an increase in net loss from discontinued operations following the transfer of shares of Country Pure Foods, Inc.

Financial Position

Assets

Total assets as of December 31, 2019, stood at ¥638.7 billion, down ¥1.0 billion from the end of the previous fiscal year. This decline primarily reflected decreases in property, plant and equipment, intangible assets, and goodwill, which offset an increase in other non-current financial assets.

Liabilities

Total liabilities came to ¥464.2 billion, down ¥10.8 billion from the end of the previous fiscal year, primarily owing to decreases in net defined liability and current portion of bonds and borrowings, which offset an increase in other financial liabilities.

Equity

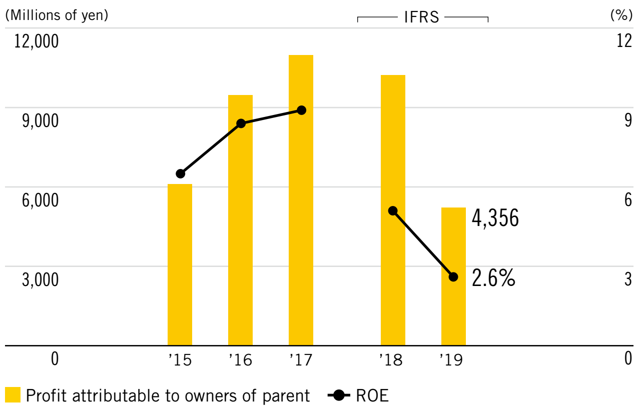
Total equity was ¥174.5 billion, up ¥9.8 billion from the end of the previous fiscal year. This change primarily reflected increases in profit attributable to owners of parent and other components of equity, which offset a decrease in non-controlling interests.

Management Indicators Graph 4

The current ratio rose 2.5 percentage points, from 71.5% to 74.0%. The rise reflected an increase in current assets of ¥2.2 billion and a decrease in current liabilities of ¥4.1 billion, due to factors such as a fall in commercial papers.

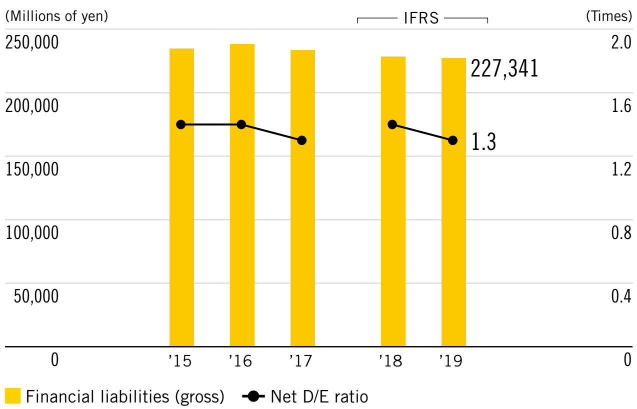
The ratio of total equity attributable to owners of parent to total assets increased from 25.2% in the previous fiscal year to 27.3%. This is due to the increases in profit attributable to owners of parent and in financial assets measured at fair value through other comprehensive income, despite a decrease in retained earnings due to payment of year-end dividends.

Graph 3 Profit Attributable to Owners of Parent / ROE*



* Under JGAAP, ROE is calculated before goodwill amortization.

Graph 4 Financial Liabilities (Gross) / Net D/E Ratio



Return on equity (ROE) was down from 5.1% in the previous fiscal year to 2.6% due to the year-on-year decrease in profit attributable to owners of parent.

The net debt-to-equity (D/E) ratio, calculated as financial liabilities divided by total equity, was 1.3 times due to an increase in total equity from the previous fiscal year.

Analysis of Resources for Capital and Liquidity of Funds

Cash Flows Graph 5

Cash and cash equivalents (collectively, "cash") totaled ¥15.2 billion as of December 31, 2019, up ¥5.2 billion, or 52.0%, from the end of 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 ¥36.1 billion, up 17.0%, or ¥5.2 billion, from fiscal 2018.

The main cash inflows were ¥28.2 billion from depreciation and amortization and a ¥4.9 billion loss on sale of discontinued operations.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥24.9 billion, up 33.0%, or ¥6.2 billion, compared with fiscal 2018.

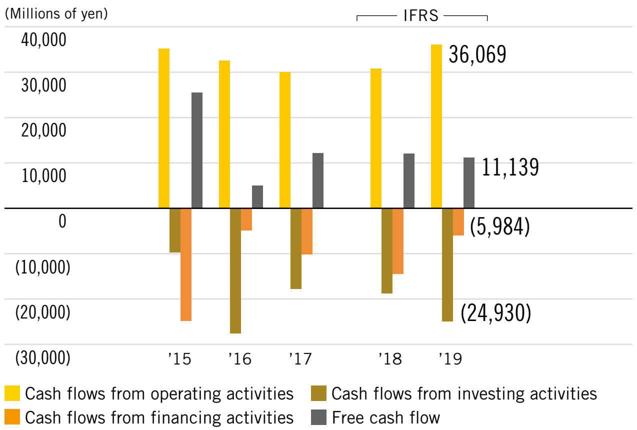
Major investment outflows were ¥15.0 billion for purchase of property, plant and equipment and ¥13.2 billion for purchases of investment properties. The major inflow from investing activities was ¥8.6 billion from the sale of trust beneficiary right (investment property).

Cash Flows from Financing Activities

Net cash used in financing activities came to ¥6.0 billion, down 59.0%, or ¥8.5 billion, compared with fiscal 2018.

The main cash outflows were ¥21.5 billion for repayment of long-term borrowings, ¥10.0 billion for redemption of bonds, ¥7.0 billion for repayment of lease liabilities, and ¥6.5 billion decrease in commercial papers. The main cash inflow was ¥21.4 billion in proceeds from long-term borrowings and the issuance of bonds totaling ¥20.0 billion.

Graph 5 Cash Flows



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 investments. 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 2020

The outlook for fiscal 2020 is not being reported here due to the difficulty of reasonably calculating the impact of COVID-19 at the time of publication.

Consolidated Statements of Financial Position

December 31, 2018 and 2019

(Millions of yen)

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

Note: 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)

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

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

Years ended December 31, 2018 and 2019

Consolidated Statements of Profit or Loss

(Millions of yen)

	2018	2019
Continuing operations		
Revenue	493,908	**491,896**
Cost of sales	335,631	**336,682**
Gross profit	158,277	**155,213**
Selling, general and administrative expenses	143,118	**143,490**
Other operating income	3,009	**3,528**
Other operating expenses	6,580	**3,044**
Operating profit	11,588	**12,208**
Finance income	1,139	**1,227**
Finance costs	2,117	**1,864**
Share of profit of investments accounted for using the equity method	19	**18**
Profit before tax	10,629	**11,588**
Income tax expense	2,023	**4,259**
Profit from continuing operations	8,606	**7,329**
Discontinued operations		
Loss from discontinued operations	(886)	**(3,509)**
Profit	7,721	**3,820**
Profit attributable to:		
owners of parent	8,521	**4,356**
non-controlling interests	(801)	**(536)**
Profit	7,721	**3,820**
Basic earnings (loss) per share (Yen)		
Continuing operations	114.55	**99.39**
Discontinued operations	(5.15)	**(43.46)**
Basic earnings per share (Yen)	109.40	**55.92**
Diluted earnings (loss) per share (Yen)		
Continuing operations	109.37	**93.55**
Discontinued operations	(4.91)	**(40.81)**
Diluted earnings per share (Yen)	104.46	**52.74**

Consolidated Statements of Comprehensive Income

(Millions of yen)

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

Consolidated Statements of Changes in Equity

Years ended December 31, 2018 and 2019

(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	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2018	53,887	40,825	(1,807)	44,491	1,137	(191)	33,712	—	34,659	172,055	3,655	175,710
Profit				8,521					—	8,521	(801)	7,721
Other comprehensive income					(2,622)	2	(9,200)	(3,688)	(15,508)	(15,508)	(215)	(15,724)
Comprehensive income	—	—	—	8,521	(2,622)	2	(9,200)	(3,688)	(15,508)	(6,987)	(1,016)	(8,003)
Purchase of treasury shares			(20)						—	(20)	—	(20)
Disposal of treasury shares		0	5						—	6	—	6
Issuance of convertible bonds with share acquisition rights		182							—	182	—	182
Dividends				(3,122)					—	(3,122)	(8)	(3,130)
Share-based payment transactions		(9)							—	(9)	—	(9)
Transfer to retained earnings				(3,826)			(466)	3,688	3,222	(603)	603	—
Total transactions with owners	—	173	(15)	(6,947)	—	—	(466)	3,688	3,222	(3,566)	595	(2,972)
Balance as of December 31, 2018	53,887	40,998	(1,822)	46,065	(1,485)	(188)	24,046	—	22,373	161,501	3,234	164,735

(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	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2019	**53,837**	**40,998**	**(1,822)**	**46,065**	**(1,485)**	**(188)**	**24,046**	**—**	**22,373**	**161,501**	**3,234**	**164,735**
Profit				**4,356**						**4,356**	**(536)**	**3,820**
Other comprehensive income					**622**	**120**	**6,411**	**4,595**	**11,748**	**11,748**	**348**	**12,095**
Comprehensive income	**—**	**—**	**—**	**4,356**	**622**	**120**	**6,411**	**4,595**	**11,748**	**16,104**	**(188)**	**15,915**
Purchase of treasury shares			**(9)**						**—**	**(9)**	**—**	**(9)**
Disposal of treasury shares		**0**	**39**						**—**	**39**	**—**	**39**
Dividends				**(3,277)**					**—**	**(3,277)**	**(12)**	**(3,289)**
Disposal of subsidiaries				**(245)**					**—**	**(245)**	**(2,580)**	**(2,826)**
Share-based payment transactions		**(41)**							**—**	**(41)**	**—**	**(41)**
Transfer to retained earnings				**4,623**			**(28)**	**(4,595)**	**(4,623)**	**—**	**—**	**—**
Total transactions with owners	**—**	**(41)**	**30**	**1,100**	**—**	**—**	**(28)**	**(4,595)**	**(4,623)**	**(3,534)**	**(2,592)**	**(6,126)**
Balance as of December 31, 2019	**53,887**	**40,958**	**(1,792)**	**51,521**	**(863)**	**(68)**	**30,428**	**—**	**29,497**	**174,071**	**454**	**174,524**

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2019

(Millions of yen)

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

Corporate Data (As of December 31, 2019)

Corporate Information

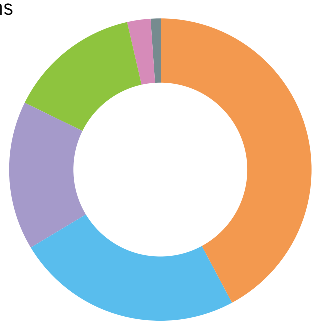
Company Name	SAPPORO HOLDINGS LIMITED
Business	Holding company
Date of Establishment	September 1, 1949
Head Office	20-1, Ebisu 4-chome, Shibuya-ku, Tokyo 150-8522, Japan
Capital	¥53,887 million
Fiscal Year-End Date	December 31 on an annual basis
Number of Employees	7,736 (Consolidated) 305 (Parent company)

Stock Information

Total Number of Authorized Shares	200,000,000
Total Number of Issued Shares	78,794,298
Number of Shareholders	68,638
Stock Listing	Tokyo Stock Exchange, First Section Sapporo Securities Exchange (Securities Code: 2501)
Shareholder Register Manager	Mizuho Trust & Banking Co., Ltd.

Breakdown of Shareholders by Investor Type

- Japanese financial institutions 33,340 thousand (42.31%)
- Japanese individuals 19,059 thousand (24.19%)
- Japanese corporations 12,563 thousand (15.94%)
- Foreign institutions and individuals 11,014 thousand (13.98%)
- Japanese securities firms 2,053 thousand (2.61%)
- Treasury stock 763 thousand (0.97%)

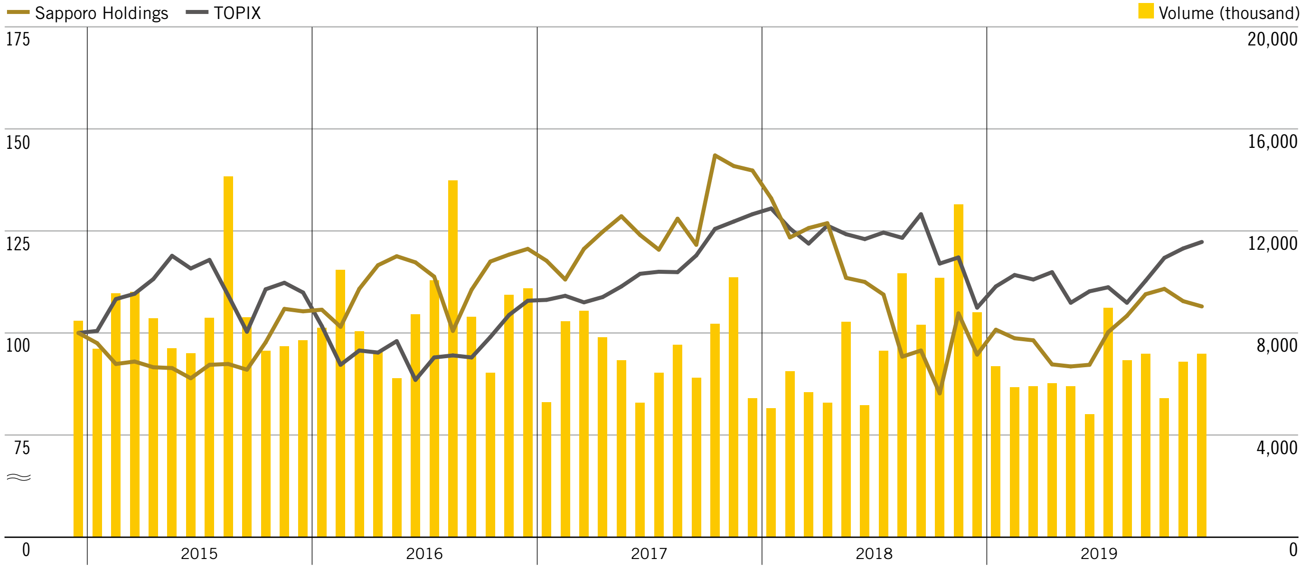


Major Shareholders

Name of Shareholder	Number of Shares (Thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,520	8.36
Japan Trustee Services Bank, Ltd. (Trust Account)	3,100	3.97
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
Taisei Corporation	1,400	1.79
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,387	1.78

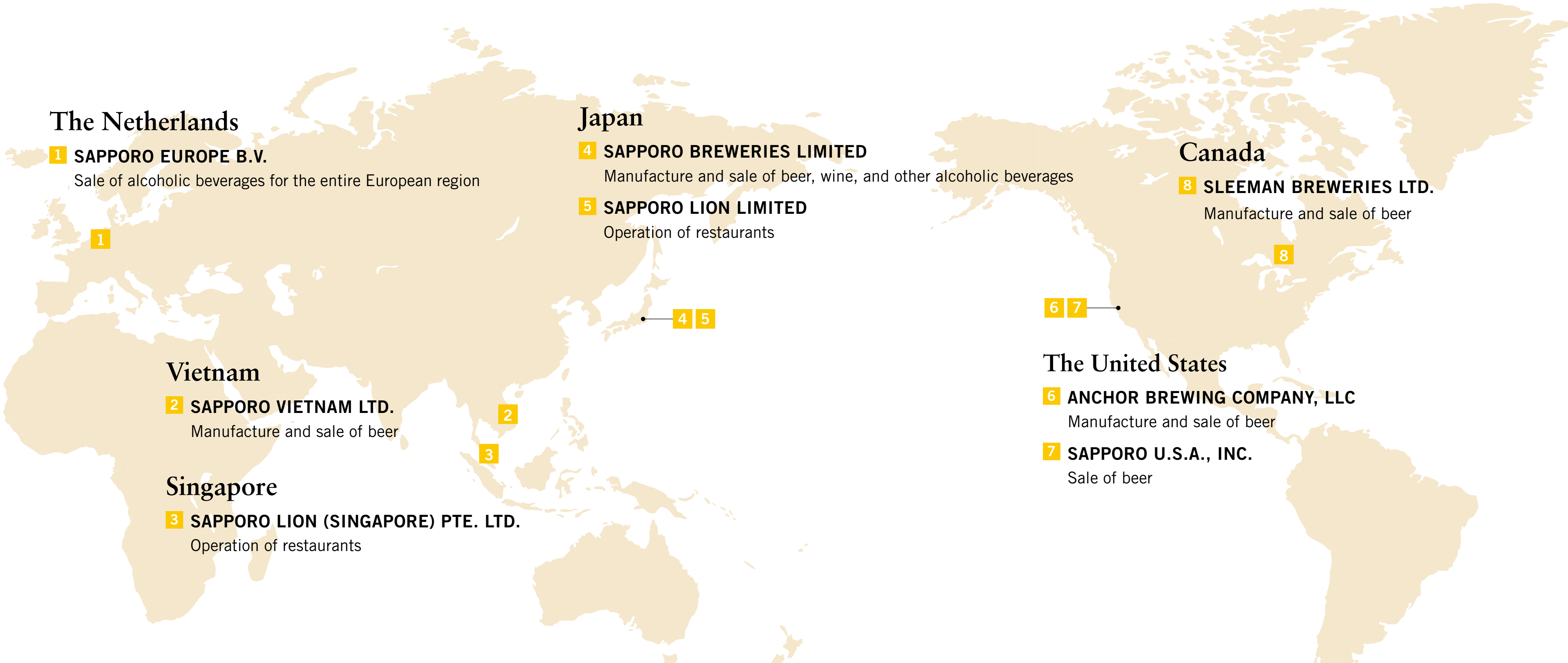
Note 1: Shareholding ratios are calculated after deduction of treasury stock (763,242).
Note 2: The statuses of the above major shareholders are based on the shareholder register.

Trends in Stock Price and Volume



Note 1: The stock prices of Sapporo Holdings and TOPIX are indexed with the closing price data of December 2014 set at 100.
Note 2: Stock prices have been adjusted to reflect the impact of the stock consolidation.

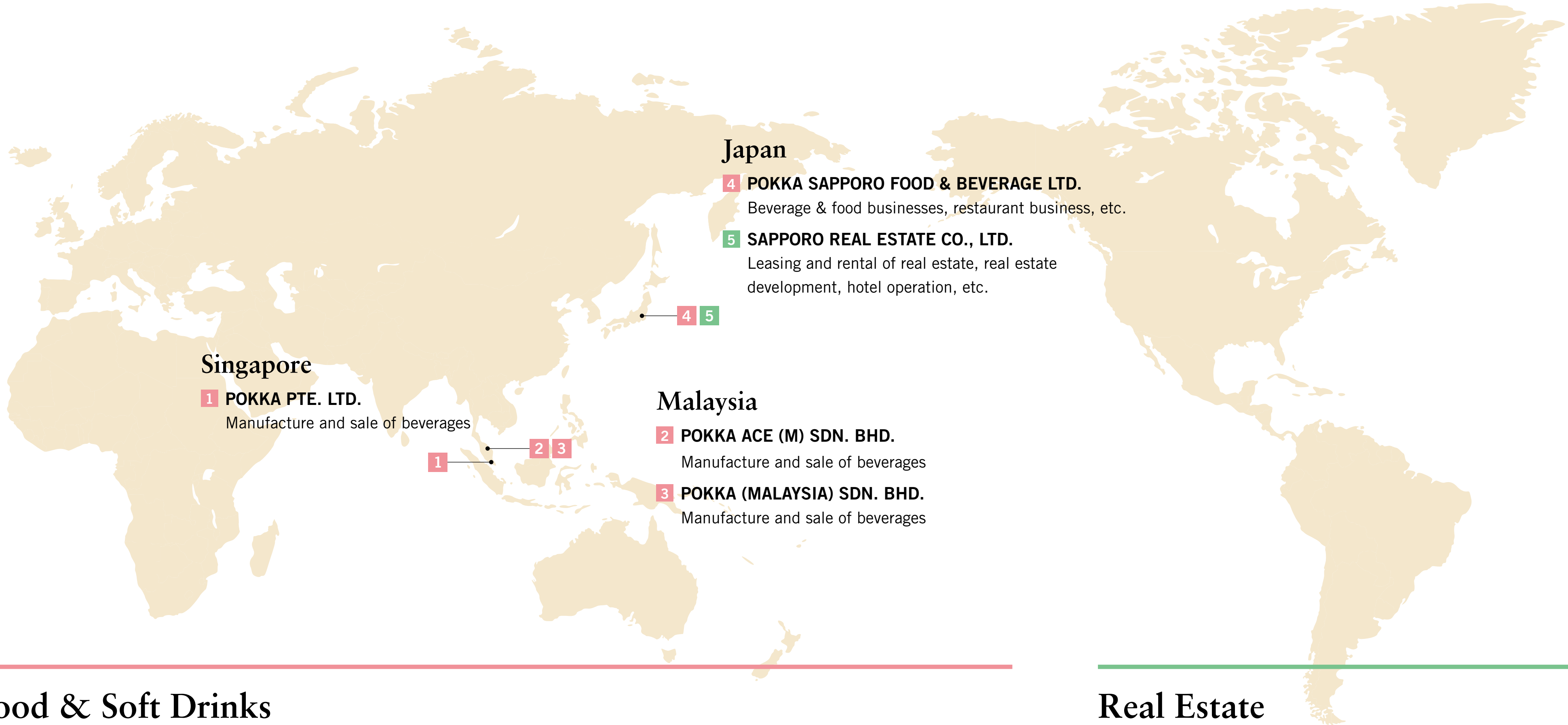
List of Group Companies (As of April 30, 2020)



Alcoholic Beverages

SAPPORO BREWERIES LIMITED	4
YEBISU WINEMART CO., LTD.	
TANOSHIMARU SHUZO CO., LTD.	
SAPPORO FIELD MARKETING CO., LTD.	
SHINSEIEN CO., LTD.	
SAPPORO GROUP LOGISTICS CO., LTD.	
SAPPORO LOGISTICS SYSTEMS CO., LTD.	
SAPPORO LION LIMITED	5
NEW SANKO INC.	
MARUSHINKAWAMURA INC.	
GINRIN SUISAN INC.	
HANEI INC.	
SAPPORO EUROPE B.V.	1
SAPPORO U.S.A., INC.	7
ANCHOR BREWING COMPANY, LLC	6
SAPPORO CANADA INC.	
SLEEMAN BREWERIES LTD.	8
SLEEMAN BREWING COMPANY USA INC.	
SAPPORO ASIA PRIVATE LTD.	
SAPPORO VIETNAM LTD.	2
SAPPORO VIETNAM DISTRIBUTION QUEBEC LTD.	
SAPPORO LION (SINGAPORE) PTE. LTD.	3
KEIYO UTILITY CO., LTD.*	

* Equity-method affiliate



Food & Soft Drinks

POKKA SAPPORO FOOD & BEVERAGE LTD.	4
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.	
POKKA SAPPORO OFFICE SUPPORT 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 PTE. LTD.	1
POKKA ACE (M) SDN. BHD.	2
POKKA (MALAYSIA) SDN. BHD.	3
POKKA LOGISTICS SINGAPORE PTE. LTD.	

Real Estate

SAPPORO REAL ESTATE CO., LTD.	5
TOKYO ENERGY SERVICE CO., LTD.	
YGP REAL ESTATE CO., LTD.	
THE CLUB AT YEBISU GARDEN CO., LTD.*	

Other Companies

SAPPORO GROUP MANAGEMENT LTD.
SAPPORO WELLNESS LAB LIMITED

* Equity-method affiliate

SAPPORO

SAPPORO HOLDINGS LIMITED
20-1, Ebisu 4-chome, Shibuya-ku, Tokyo 150-8522, Japan
https://www.sapporoholdings.jp/en/

Financial Statements

SAPPORO HOLDINGS LIMITED

Year ended December 31, 2019
with Independent Auditor's Report

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
ey.com

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, 2019, 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, 2019, 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 27, 2020
Tokyo, Japan

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

i) Consolidated Statement of Financial Position

As of	Note	(Millions of yen) December 31, 2018	(Millions of yen) December 31, 2019	(Thousands of U.S. dollars) December 31, 2019
Assets				
Current assets				
Cash and cash equivalents	8	9,989	15,215	138,887
Trade and other receivables	9	93,340	92,529	844,628
Inventories	11	37,109	36,528	333,435
Other financial assets	10	4,790	5,403	49,319
Other current assets	12	8,316	6,090	55,594
Total current assets		153,544	155,765	1,421,863
Non-current assets				
Property, plant and equipment	13	152,676	147,014	1,341,977
Investment property	15	215,522	219,589	2,004,464
Goodwill	14	21,229	18,358	167,580
Intangible assets	14	12,056	8,844	80,727
Investments accounted for using equity method	17	410	428	3,908
Other financial assets	10	70,205	78,728	718,652
Other non-current assets	12	8,526	7,445	67,961
Deferred tax assets	18	5,523	2,551	23,282
Total non-current assets		486,148	482,957	4,408,551
Total assets		639,692	638,722	5,830,414

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

As of	Note	(Millions of yen) December 31, 2018	(Millions of yen) December 31, 2019	(Thousands of U.S. dollars) December 31, 2019
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	21	35,292	34,475	314,701
Bonds and borrowings	19	73,863	72,121	658,338
Lease liabilities	20	6,743	6,538	59,682
Income taxes payable		1,527	2,414	22,031
Other financial liabilities	23	33,905	33,021	301,425
Other current liabilities	24	63,260	61,903	565,066
Total current liabilities		214,591	210,472	1,921,243
Non-current liabilities				
Bonds and borrowings	19	154,483	155,220	1,416,888
Lease liabilities	20	24,495	23,921	218,357
Other financial liabilities	23	45,733	46,624	425,594
Retirement benefit liability	22	11,715	5,007	45,705
Other non-current liabilities	24	2,991	2,828	25,817
Deferred tax liabilities	18	20,950	20,125	183,707
Total non-current liabilities		260,367	253,725	2,316,068
Total liabilities		474,957	464,197	4,237,311
Equity				
Share capital		53,887	53,887	491,891
Capital surplus		40,998	40,958	373,871
Treasury shares		(1,822)	(1,792)	(16,357)
Retained earnings		46,065	51,521	470,299
Other components of equity		22,373	29,497	269,259
Total equity attributable to owners of parent		161,501	174,071	1,588,963
Non-controlling interests		3,234	454	4,140
Total equity		164,735	174,524	1,593,103
Total liabilities and equity		639,692	638,722	5,830,414

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	December 31, 2018 (Millions of yen)	December 31, 2019 (Millions of yen)	December 31, 2019 (Thousands of U.S. dollars)
Continuing operations				
Revenue	6, 27	493,908	491,896	4,490,148
Cost of sales		335,631	336,682	3,073,320
Gross profit		158,277	155,213	1,416,827
Selling, general and administrative expenses		143,118	143,490	1,309,812
Other operating income	30	3,009	3,528	32,201
Other operating expenses	30	6,580	3,044	27,783
Operating profit	6	11,588	12,208	111,434
Finance income	31	1,139	1,227	11,202
Finance costs	31	2,117	1,864	17,016
Share of profit of investments accounted for using equity method	17	19	18	161
Profit before tax		10,629	11,588	105,781
Income tax expense	18	2,023	4,259	38,879
Profit from continuing operations		8,606	7,329	66,903
Discontinued operations				
Loss from discontinued operations	40	(886)	(3,509)	(32,031)
Profit		7,721	3,820	34,871
Profit attributable to				
Owners of parent		8,521	4,356	39,763
Non-controlling interests		(801)	(536)	(4,892)
Profit		7,721	3,820	34,871
Basic earnings (loss) per share (Yen or U.S. dollars)	34			
Continuing operations		114.55	99.39	0.91
Discontinued operations		(5.15)	(43.46)	(0.40)
Basic earnings per share		109.40	55.92	0.51
Diluted earnings (loss) per share (Yen or U.S. dollars)	34			
Continuing operations		109.37	93.55	0.85
Discontinued operations		(4.91)	(40.81)	(0.37)
Diluted earnings per share		104.46	52.74	0.48

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

iii) Consolidated Statement of Comprehensive Income

For the fiscal year ended	Note	(Millions of yen) December 31, 2018	(Millions of yen) December 31, 2019	(Thousands of U.S. dollars) December 31, 2019
Profit		7,721	3,820	34,871
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	32	(9,201)	6,411	58,521
Remeasurements of defined benefit plans	32	(3,688)	4,595	41,941
Total of items that will not be reclassified to profit or loss		(12,890)	11,006	100,462
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	32	(2,765)	885	8,083
Effective portion of net change in fair value of cash flow hedges	32	(69)	204	1,864
Total of items that may be reclassified to profit or loss		(2,834)	1,090	9,946
Total other comprehensive income, net of tax		(15,724)	12,095	110,409
Comprehensive income		(8,003)	15,915	145,280
Comprehensive income attributable to				
Owners of parent		(6,987)	16,104	146,998
Non-controlling interests		(1,016)	(188)	(1,718)
Comprehensive income		(8,003)	15,915	145,280

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, 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	32					(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	25			(20)						–
Disposal of treasury shares	25		0	5						–
Issuance of convertible bonds with share acquisition rights			182							–
Dividends	26				(3,122)					–
Share-based payment transactions	35		(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	32	(15,508)	(215)	(15,724)
Comprehensive income		(6,987)	(1,016)	(8,003)
Purchase of treasury shares	25	(20)	–	(20)
Disposal of treasury shares	25	6	–	6
Issuance of convertible bonds with share acquisition rights		182	–	182
Dividends	26	(3,122)	(8)	(3,130)
Share-based payment transactions	35	(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, 2019

(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, 2019		53,887	40,998	(1,822)	46,065	(1,485)	(188)	24,046	–	22,373
Profit					4,356					
Other comprehensive income	32					622	120	6,411	4,595	11,748
Comprehensive income		–	–	–	4,356	622	120	6,411	4,595	11,748
Purchase of treasury shares	25			(9)						–
Disposal of treasury shares	25		0	39						–
Dividends	26				(3,277)					–
Changes due to sale of consolidated subsidiaries					(245)					–
Share-based payment transactions	35		(41)							–
Transfer to retained earnings					4,623			(28)	(4,595)	(4,623)
Total transactions with owners		–	(41)	30	1,100	–	–	(28)	(4,595)	(4,623)
Balance as of December 31, 2019		53,887	40,958	(1,792)	51,521	(863)	(68)	30,428	–	29,497

	Note	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2019		161,501	3,234	164,735
Profit		4,356	(536)	3,820
Other comprehensive income	32	11,748	348	12,095
Comprehensive income		16,104	(188)	15,915
Purchase of treasury shares	25	(9)	–	(9)
Disposal of treasury shares	25	39	–	39
Dividends	26	(3,277)	(12)	(3,289)
Changes due to sale of consolidated subsidiaries		(245)	(2,580)	(2,826)
Share-based payment transactions	35	(41)	–	(41)
Transfer to retained earnings		–	–	–
Total transactions with owners		(3,534)	(2,592)	(6,126)
Balance as of December 31, 2019		174,071	454	174,524

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

For the fiscal year ended December 31, 2019

(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 comprehensive income	Remeasurements of defined benefit plans	Total
Balance as of January 1, 2019		491,891	374,242	(16,629)	420,491	(13,553)	(1,717)	219,495	–	204,226
Profit					39,763					
Other comprehensive income	32					5,678	1,094	58,521	41,941	107,235
Comprehensive income		–	–	–	39,763	5,678	1,094	58,521	41,941	107,235
Purchase of treasury shares	25			(85)						–
Disposal of treasury shares	25		3	357						–
Dividends	26				(29,917)					–
Changes due to sale of consolidated subsidiaries					(2,240)					–
Share-based payment transactions	35		(373)							–
Transfer to retained earnings					42,201			(260)	(41,944)	(42,201)
Total transactions with owners		–	(371)	272	10,044	–	–	(260)	(41,944)	(42,201)
Balance as of December 31, 2019		491,891	373,871	(16,357)	470,299	(7,874)	(623)	277,756	–	269,259

	Note	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of January 1, 2019		1,474,221	29,521	1,503,741
Profit		39,763	(4,892)	34,871
Other comprehensive income	32	107,235	3,174	110,409
Comprehensive income		146,998	(1,718)	145,280
Purchase of treasury shares	25	(85)	–	(85)
Disposal of treasury shares	25	360	–	360
Dividends	26	(29,917)	(107)	(30,025)
Changes due to sale of consolidated subsidiaries		(2,240)	(23,555)	(25,795)
Share-based payment transactions	35	(373)	–	(373)
Transfer to retained earnings		–	–	–
Total transactions with owners		(32,256)	(23,663)	(55,918)
Balance as of December 31, 2019		1,588,963	4,140	1,593,103

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, 2018	(Millions of yen) December 31, 2019	(Thousands of U.S. dollars) December 31, 2019
Cash flows from operating activities				
Profit before tax		10,629	11,588	105,781
Loss before tax from discontinued operations		(1,137)	(5,102)	(46,572)
Depreciation and amortization		28,512	28,242	257,805
Impairment losses		5,430	1,342	12,253
Loss on sale of discontinued operations		–	4,886	44,602
Interest and dividend income		(1,123)	(1,185)	(10,820)
Interest expenses		2,368	2,248	20,521
Share of loss (profit) of investments accounted for using equity method		(19)	(18)	(161)
Loss (gain) on sale and retirement of property, plant and equipment, and intangible assets		(659)	(1,599)	(14,596)
Decrease (increase) in trade and other receivables		4,209	849	7,753
Decrease (increase) in inventories		70	(210)	(1,913)
Increase (decrease) in trade and other payables		(830)	(754)	(6,883)
Increase (decrease) in accrued alcohol tax		(1,950)	(1,414)	(12,905)
Other		(2,968)	274	2,498
Subtotal		42,533	39,149	357,362
Interest and dividends received		1,150	1,188	10,847
Interest paid		(2,197)	(2,101)	(19,177)
Income taxes paid		(10,657)	(2,167)	(19,782)
Net cash provided by (used in) operating activities		30,830	36,069	329,250
Cash flows from investing activities				
Purchase of property, plant and equipment		(13,581)	(14,995)	(136,879)
Proceeds from sale of property, plant and equipment		1,729	387	3,531
Purchase of investment property		(4,712)	(13,211)	(120,593)
Purchase of intangible assets		(2,220)	(2,917)	(26,627)
Purchase of investment securities		(6,345)	(1,710)	(15,605)
Proceeds from sale of investment securities		1,455	1,045	9,539
Purchase of investments in subsidiaries resulting in change in scope of consolidation	33	–	(1,633)	(14,908)
Payments for sale of investments in subsidiaries resulting in change in scope of consolidation	33	–	(491)	(4,485)
Proceeds from sale of discontinued operations	33	–	1,798	16,414
Purchase of trust beneficiary right (investment property)		(2,523)	–	–
Proceeds from sale of trust beneficiary right (investment property)		7,239	8,586	78,375
Payments for loans receivable		(139)	(182)	(1,666)
Collection of loans receivable		4,081	129	1,177
Other		(3,712)	(1,735)	(15,836)
Net cash provided by (used in) investing activities		(18,727)	(24,930)	(227,563)

		(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	Note	December 31, 2018	December 31, 2019	December 31, 2019
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	33	(264)	920	8,402
Net increase (decrease) in commercial papers	33	(3,500)	(6,500)	(59,334)
Proceeds from long-term borrowings	33	12,000	21,370	195,071
Repayments of long-term borrowings	33	(22,524)	(21,486)	(196,128)
Proceeds from issuance of bonds	33	20,021	20,000	182,565
Redemption of bonds	33	(10,068)	(10,013)	(91,403)
Dividends paid		(3,133)	(3,290)	(30,035)
Repayments of lease liabilities	33	(7,038)	(7,016)	(64,040)
Purchase of treasury shares		(20)	(9)	(85)
Other		6	39	360
Net cash provided by (used in) financing activities		(14,521)	(5,984)	(54,626)
Effect of exchange rate changes on cash and cash equivalents		(130)	71	645
Net increase (decrease) in cash and cash equivalents		(2,548)	5,226	47,706
Cash and cash equivalents at beginning of period	8	12,537	9,989	91,181
Cash and cash equivalents at end of period	8	9,989	15,215	138,887

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, 2019, 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). 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.

(2) Approval of financial statements

The Group's consolidated financial statements presented herein were approved by the Company's Board of Directors on March 27, 2020.

(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, 2019 have been translated from Japanese yen amounts into U.S. dollar amounts at the rate of ¥109.55=U.S. $1.00, the exchange rate as of December 31, 2019.

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, expected 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 recognition. 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	2-22 years
Other	2-31 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

(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 measurable 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 and discontinued operations

i) 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.

ii) Discontinued operations

The Group recognizes any component of a company that either has been disposed of or is classified as held for sale, which falls under any of the following, as a discontinued operation.

・ A separate major line of business or geographical area of operations

・ Part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

・ A subsidiary acquired exclusively with a view to resale

The post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the disposal of the disposal group(s) constituting the discontinued operation are presented separately from continuing operations as profit from discontinued operations in the Consolidated Statement of Profit or Loss. The disclosures for prior periods have also been re-presented accordingly.

(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

The standards and interpretations newly established or revised by the date the consolidated financial statements were authorized for issuance 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.

The Group's reportable 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 three businesses: "Alcoholic Beverages Business," "Food & Soft Drinks Business," and "Real Estate Business."

The "Alcoholic Beverages Business" segment manufactures and sells alcoholic beverages and operates various styles of restaurants.

The "Food & Soft Drinks Business" segment manufactures and sells food and soft drinks.

The "Real Estate Business" segment's activities include leasing of real estate.

(Changes to reportable segments)

Under the new management structure launched in January 2017, the Group set forth, in the First Medium-Term Management Plan of the Long-Term Management Vision "SPEED150" announced in November 2016, that the Group will "strengthen its platform functions" through "the strategic shift of resources, and business structural reforms and the promotion of segment management," which will spur the Group's growth.

To secure reliable growth while continuing to nurture and strengthen Group brands, the Group has restructured its business organization to promote the growth of international business along specific business lines for the purpose of further strengthening management oversight of each business, and in the fiscal year ended December 31, 2019, the five previous reportable segments of "Japanese Alcoholic Beverages Business," "International Business," "Food & Soft Drinks Business," "Restaurants Business," and "Real Estate Business" have been changed into the three new reportable segments of "Alcoholic Beverages Business," "Food & Soft Drinks Business," and "Real Estate Business."

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

Segment information for the fiscal year ended December 31, 2018 has been prepared on the new basis of segmentation following the changes.

During the fiscal year ended December 31, 2019, the Group transferred all the shares in Country Pure Foods, Inc. (the holding company managing the North American soft drinks business, which falls under the "Food & Soft Drinks Business" segment) held by the Company to BPCP CPF Holdings Inc. Accordingly, the profit or loss of the North American soft drinks business is not included in the segment information because the North American soft drinks business has been classified as a discontinued operation.

(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, 2018

(Millions of yen)

	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other	Total	Adjustment	Consolidated
Revenue							
Revenue from external customers	330,009	133,384	24,483	6,033	493,908	–	493,908
Intersegment revenue	408	275	2,824	21,585	25,093	(25,093)	–
Total	330,417	133,659	27,307	27,618	519,001	(25,093)	493,908
Operating profit (loss)	3,856	1,910	12,047	177	17,990	(6,401)	11,588
Other items							
Depreciation and amortization	13,470	6,677	5,177	41	25,364	1,514	26,879
Impairment losses	5,112	450	–	–	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, 2019

(Millions of yen)

	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other	Total	Adjustment	Consolidated
Revenue							
Revenue from external customers	324,438	136,876	24,690	5,892	491,896	–	491,896
Intersegment revenue	579	295	2,704	22,203	25,780	(25,780)	–
Total	325,017	137,171	27,393	28,095	517,676	(25,780)	491,896
Operating profit (loss)	7,877	(1,151)	12,714	(169)	19,272	(7,065)	12,208
Other items							
Depreciation and amortization	12,983	6,839	5,200	36	25,057	1,752	26,809
Impairment losses	669	648	–	–	1,317	25	1,342
Share of profit of investments accounted for using equity method	17	–	0	–	18	–	18

For the fiscal year ended December 31, 2019

(Thousands of U.S. dollars)

	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other	Total	Adjustment	Consolidated
Revenue							
Revenue from external customers	2,961,553	1,249,435	225,373	53,787	4,490,148	–	4,490,148
Intersegment revenue	5,283	2,694	24,678	202,672	235,327	(235,327)	–
Total	2,966,835	1,252,129	250,052	256,459	4,725,474	(235,327)	4,490,148
Operating profit (loss)	71,907	(10,502)	116,060	(1,541)	175,923	(64,490)	111,434
Other items							
Depreciation and amortization	118,513	62,424	47,464	324	228,725	15,994	244,720
Impairment losses	6,108	5,914	–	–	12,023	230	12,253
Share of profit of investments accounted for using equity method	158	–	4	–	161	–	161

"Other" is an operating 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, 2018	December 31, 2019	December 31, 2019
Japan	419,662	420,664	3,839,923
North America	50,175	48,260	440,527
Other	24,071	22,972	209,698
Total	493,908	491,896	4,490,148

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

Non-current assets

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Japan	432,210 (72,244)	447,380 (80,965)	4,083,797 (739,065)
North America	44,782 (2,725)	28,945 (23)	264,215 (211)
Other	9,157 (758)	6,632 (291)	60,539 (2,658)
Total	486,148 (75,728)	482,957 (81,279)	4,408,551 (741,934)

(Note) The amounts in parentheses are the financial instruments, deferred tax assets, etc. of the geographical area included in the non-current assets, as of December 31, 2018, and December 31, 2019.

(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, 2018	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2019
KOKUBU GROUP CORP.	Alcoholic Beverages, Food & Soft Drinks	61,682	60,329	550,695

7. Business Combinations

During the fiscal year ended December 31, 2018

The Group acquired trust beneficiary rights in investment and rental property. Details are disclosed under "15. Investment Property, (1) Changes in investment property."

During the fiscal year ended December 31, 2019

There was no significant business combination to be reported.

8. Cash and Cash Equivalents

A breakdown of cash and cash equivalents is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Cash and deposits	10,971	15,331	139,947
Time deposits maturing over three months	(982)	(116)	(1,060)
Total	9,989	15,215	138,887

Cash outflow for leases is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Total cash outflow for leases	14,298	14,733	134,484

9. Trade and Other Receivables

A breakdown of trade and other receivables is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Notes and accounts receivable - trade	93,460	92,646	845,695
Allowance for doubtful accounts	(120)	(117)	(1,067)
Total	93,340	92,529	844,628

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)
	December 31, 2018	December 31, 2019	December 31, 2019
Stocks	59,483	69,264	632,258
Bonds	5,000	5,000	45,641
Derivative assets	217	12	112
Accounts receivable - other	3,821	4,435	40,482
Loans receivable	555	312	2,852
Guarantee deposits	5,985	5,961	54,417
Other	1,193	242	2,209
Allowance for doubtful accounts	(1,260)	(1,095)	(9,999)
Total	74,995	84,131	767,971

Current assets	4,790	5,403	49,319
Non-current assets	70,205	78,728	718,652
Total	74,995	84,131	767,971

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 December 31, 2018

(Millions of yen)

Issuer	Amount
FUJIO FOOD SYSTEM Co., Ltd.	5,582
Resorttrust, Inc.	5,400
Imperial Hotel, Ltd.	4,678
SHIBUYA CORPORATION	2,471
TAISEI CORPORATION	1,882
Marubeni Corporation	1,803
Dai Nippon Printing Co., Ltd.	1,587
Central Japan Railway Company	1,529
Rengo Co., Ltd.	1,389
Keikyu Corporation	1,356

As of December 31, 2019

Issuer	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
FUJIO FOOD SYSTEM Co., Ltd.	10,823	98,795
Resorttrust, Inc.	6,218	56,755
Imperial Hotel, Ltd.	4,948	45,164
SHIBUYA CORPORATION	2,146	19,585
Dai Nippon Printing Co., Ltd.	2,045	18,668
Marubeni Corporation	1,892	17,270
TAISEI CORPORATION	1,818	16,595
DAISYO CORPORATION	1,679	15,326
Keikyu Corporation	1,592	14,532
Central Japan Railway Company	1,452	13,254

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, 2018	December 31, 2019	December 31, 2019
Fair value	1,452	1,053	9,612
Cumulative gains (losses)	822	435	3,970

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, 2018	December 31, 2019	December 31, 2019
Derecognized financial assets	9	82	748
Financial assets held at fiscal year-end	968	963	8,793

11. Inventories

A breakdown of inventories is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Merchandise and finished goods	22,876	23,426	213,839
Raw materials and supplies	14,233	13,102	119,596
Total	37,109	36,528	333,435

The amount of inventories recognized in cost of sales in the fiscal years ended December 31, 2018, and December 31, 2019, was 340,196 million yen and 314,366 million yen (2,869,610 thousand U.S. dollars), respectively.

The amount of inventory valuation losses recognized as an expense in the fiscal years ended December 31, 2018, and December 31, 2019, was 1,069 million yen and 1,282 million yen (11,705 thousand U.S. dollars), respectively.

12. Other Assets

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

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Prepaid expenses	4,942	4,283	39,094
Income taxes receivable	2,236	88	806
Long-term prepaid expenses	4,530	3,425	31,267
Other investments	3,010	3,035	27,707
Other	2,125	2,704	24,680
Total	16,842	13,535	123,555
Current assets	8,316	6,090	55,594
Non-current assets	8,526	7,445	67,961
Total	16,842	13,535	123,555

13. 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, 2018	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
Acquisitions	542	320	188	6,149	–	14,684	21,883
Acquisitions through business combinations	910	446	78	296	1,159	–	2,889
Transfer from construction in progress	5,793	9,620	826	–	–	(16,240)	–
Depreciation	(4,130)	(5,731)	(936)	(6,713)	–	–	(17,511)
Impairment losses	(364)	(479)	(91)	(334)	(70)	–	(1,337)
Sales and disposals	(281)	(86)	(15)	(64)	(64)	(1)	(511)
Exchange differences on translation of foreign operations	19	237	5	74	275	19	630
Change in scope of consolidation	(2,607)	(4,447)	(158)	(468)	(1,325)	(97)	(9,102)
Other changes	(184)	54	16	(779)	–	(1,710)	(2,604)
As of December 31, 2019	53,046	30,992	2,699	23,416	33,730	3,131	147,014

(Thousands of U.S. dollars)

As of December 31, 2018	486,974	283,505	25,422	230,525	308,124	59,124	1,393,665
Acquisitions	4,943	2,921	1,720	56,133	–	134,035	199,752
Acquisitions through business combinations	8,310	4,067	710	2,706	10,581	–	26,375
Transfer from construction in progress	52,884	87,814	7,544	–	–	(148,242)	–
Depreciation	(37,703)	(52,316)	(8,545)	(61,279)	–	–	(159,843)
Impairment losses	(3,320)	(4,375)	(827)	(3,047)	(638)	–	(12,208)
Sales and disposals	(2,568)	(782)	(140)	(585)	(583)	(5)	(4,663)
Exchange differences on translation of foreign operations	177	2,164	49	679	2,511	170	5,750
Change in scope of consolidation	(23,797)	(40,591)	(1,445)	(4,269)	(12,095)	(885)	(83,082)
Other changes	(1,684)	490	148	(7,114)	–	(15,614)	(23,774)
As of December 31, 2019	484,213	282,902	24,635	213,744	307,900	28,583	1,341,977

(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, 2018	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
As of December 31, 2019	183,064	226,007	15,774	40,382	34,749	3,131	503,109

(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, 2019	1,671,058	2,063,051	143,987	368,620	317,202	28,583	4,592,501

(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, 2018	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
As of December 31, 2019	130,019	195,015	13,075	16,967	1,019	–	356,095

(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, 2019	1,186,846	1,780,149	119,352	154,876	9,302	–	3,250,524

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

(2) Right-of-use assets

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

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Right-of-use assets for which buildings and structures are the underlying asset	16,266	15,871	144,878
Right-of-use assets for which machinery and vehicles are the underlying asset	2,971	2,137	19,504
Right-of-use assets for which tools, furniture and fixtures are the underlying asset	4,833	4,458	40,695
Right-of-use assets for which land is the underlying asset	1,183	949	8,666
Total right-of-use assets	25,254	23,416	213,744

(3) Borrowing costs

The amount of borrowing costs capitalized as part of the cost of a qualifying asset in the fiscal years ended December 31, 2018, and December 31, 2019, was 12 million yen and 12 million yen (110 thousand U.S. dollars), respectively. The capitalization rate applied in the fiscal years ended December 31, 2018, and December 31, 2019, was 0.6% and 0.6%, respectively.

14. 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, 2018	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
Acquisitions	–	2,436	–	78	2,514
Acquisitions through business combinations	1,003	14	–	194	1,211
Amortization	–	(1,801)	(263)	(311)	(2,375)
Impairment losses	–	(3)	–	–	(3)
Sales and disposals	–	(29)	–	(0)	(29)
Exchange differences on translation of foreign operations	(27)	1	(49)	(46)	(120)
Change in scope of consolidation	(3,847)	(3)	(2,568)	(875)	(7,293)
Other changes	–	(0)	–	14	13
As of December 31, 2019	18,358	4,963	–	3,881	27,202

(Thousands of U.S. dollars)

Carrying amount	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2018	193,784	39,690	26,289	44,071	303,834
Acquisitions	–	22,240	–	711	22,951
Acquisitions through business combinations	9,155	125	–	1,774	11,054
Amortization	–	(16,439)	(2,403)	(2,840)	(21,682)
Impairment losses	–	(31)	–	–	(31)
Sales and disposals	–	(263)	–	(4)	(267)
Exchange differences on translation of foreign operations	(242)	11	(446)	(419)	(1,096)
Change in scope of consolidation	(35,114)	(26)	(23,443)	(7,990)	(66,572)
Other changes	–	(4)	–	124	120
As of December 31, 2019	167,580	45,303	–	35,424	248,307

(Millions of yen)

Cost	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of January 1, 2018	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
As of December 31, 2019	21,819	25,569	–	11,558	58,330

(Thousands of U.S. dollars)

Cost	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2019	199,172	233,402	–	105,508	532,448

(Millions of yen)

Accumulated amortization and impairment losses	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of January 1, 2018	–	19,725	824	6,889	27,438
As of December 31, 2018	3,461	19,653	1,090	7,455	31,660
As of December 31, 2019	3,461	20,606	–	7,678	28,284

(Thousands of U.S. dollars)

Accumulated amortization and impairment losses	Goodwill	Intangible assets			Total
		Software	Customer relationships	Other	
As of December 31, 2019	31,593	188,099	–	70,083	258,182

Internally generated intangible assets are mainly software. Their cost at December 31, 2018, and December 31, 2019, was 12,358 million yen and 12,459 million yen (113,732 thousand U.S. dollars), respectively and their accumulated amortization and impairment losses at December 31, 2018, and December 31, 2019, totaled 11,621 million yen and 11,929 million yen (108,889 thousand U.S. dollars), respectively.

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

Of the above intangible assets, there were no intangible assets with indefinite useful lives at December 31, 2019. The 785 million yen carried at December 31, 2018 as intangible assets with indefinite useful lives for trademarks acquired as a result of purchasing a North American soft drink company was not carried at December 31, 2019 due to the sale of said company. The Group deems the trademarks to be intangible assets with indefinite useful lives because they are basically perpetual as long as said business 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 of the trademarks recognized in conjunction with Anchor Brewing Company’s acquisition was 2,736 million yen (24,979 thousand U.S. dollars) (December 31, 2018: 2,864 million yen). The trademarks are being amortized using the straight-line method; their remaining amortization period is 30 years. The 2,880 million yen of the customer relationships carried at December 31, 2018 as a result of the acquisition of the North American soft drink company was not carried at December 31, 2019 due to the sale of said company.

(3) Major intangible assets with indefinite useful lives and impairment test of such assets

During 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 (January 1, 2017 (at the beginning of the fiscal year ended December 31, 2017): 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% (December 31, 2017: 9.5%) discount rate. 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.

During the fiscal year ended December 31, 2019

Not applicable.

15. 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, 2018	During the fiscal year ended December 31, 2019	During the fiscal year ended December 31, 2019
Balance at beginning of period	219,658	215,522	1,967,342
Acquisitions	4,178	15,374	140,335
Acquisitions through business combination (Note)	2,520	–	–
Sales and disposals	(6,204)	(6,778)	(61,876)
Depreciation	(4,629)	(4,528)	(41,337)
Balance at end of period	215,522	219,589	2,004,464

(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. The consideration paid was 2,520 million yen 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, 2018	During the fiscal year ended December 31, 2019	During the fiscal year ended December 31, 2019
Balance at beginning of period	367,154	366,480	3,345,322
Balance at end of period	366,480	374,458	3,418,150

Accumulated depreciation and impairment loss	(Millions of yen)		(Thousands of U.S. dollars)
	During the fiscal year ended December 31, 2018	During the fiscal year ended December 31, 2019	During the fiscal year ended December 31, 2019
Balance at beginning of period	147,497	150,958	1,377,980
Balance at end of period	150,958	154,869	1,413,685

(2) Fair value

Investment property's fair value is presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Investment property	385,992	402,111	3,670,573

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, 2018, and December 31, 2019, are recognized in Level 3 of the fair value hierarchy.

The fair value hierarchy is disclosed under "36. 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, 2018	December 31, 2019	December 31, 2019
Rental income	23,174	23,501	214,519
Direct operating expenses	12,957	13,098	119,566

The direct operating expenses do not include expenses arising from investment property that did not generate rental income.

16. Impairment Losses

(1) Breakdown of recognized impairment losses by main asset class and segment

For the fiscal year ended December 31, 2018

Segment	Cash-generating unit	Impairment losses (Millions of yen)	Class of assets
Alcoholic Beverages	Alcoholic Beverages (North America)	4,377	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 impairment loss on goodwill and a 916 million yen impairment loss on intangible assets.

The recoverable amount was measured at 6,544 million yen 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.

For the fiscal year ended December 31, 2019

No significant impairment losses were incurred.

(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) As of December 31, 2018	As of December 31, 2019	(Thousands of U.S. dollars) As of December 31, 2019
Alcoholic Beverages (North America)	6,728	7,494	68,407
Soft Drinks (North America)	3,913	–	–
Food & Soft Drinks (Japan & Asia)	10,208	10,208	93,183
Restaurants	380	656	5,991
Total	21,229	18,358	167,580

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, 2018: 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, 2018: 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.

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.

Soft Drinks (North America)

For the fiscal year ended December 31, 2018

Recoverable amounts were measured based on value in use.

Value in use was measured by discounting future cash flows at 10.0%. 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 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.

For the fiscal year ended December 31, 2019

Not applicable.

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 5.2% (December 31, 2018: 5.8%). 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, 2018: 0%).

In the fiscal year ended December 31, 2019, the recoverable amount exceeded the carrying amount by 1,739 million yen (15,876 thousand U.S. dollars). If the discount rate hypothetically increases by 0.2 percentage points, an impairment loss may be incurred.

17. Investments Accounted for Using Equity Method

Carrying amounts of investments in associates accounted for using the equity method are presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Carrying amount of investments in associates	410	428	3,908

The Group's share of profit and other comprehensive income of associates accounted for using the equity method is presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Group's share of profit of associates accounted for using equity method	19	18	161
Total	19	18	161

18. 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, 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	(574)	–	28	4,610
Retirement benefit liability	3,071	645	1,646	–	5,362
Accrued expenses	2,283	(120)	–	120	2,283
Gift coupon gains or losses	1,244	(134)	–	–	1,110
Tax loss carryforwards	933	(83)	–	148	998
Provision for bonuses	792	(279)	–	–	513
Marketable securities	20	2,961	–	–	2,981
Other	1,903	(68)	–	166	2,001
Total	15,402	2,348	1,646	462	19,860
Deferred tax liabilities					
Fixed assets	18,385	(70)	–	(278)	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	532	26	(354)	1,141
Total	40,948	(956)	(4,056)	(651)	35,286
Net deferred tax assets (liabilities)	(25,546)	3,304	5,702	1,113	(15,426)

(Note) "Other" mainly includes changes related to discontinued operations, deferred tax assets/liabilities recognized in conjunction with acquisition of subsidiaries through business combinations and exchange differences on translation of foreign operations.

For the fiscal year ended December 31, 2019

(Millions of yen)

	January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	December 31, 2019
Deferred tax assets					
Fixed assets	4,610	143	–	–	4,753
Retirement benefit liability	5,362	731	(2,028)	22	4,087
Accrued expenses	2,283	44	–	(218)	2,110
Gift coupon gains or losses	1,110	(103)	–	–	1,007
Tax loss carryforwards	998	138	–	(390)	747
Provision for bonuses	513	15	–	6	534
Marketable securities	2,981	471	–	–	3,452
Other	2,001	(1,041)	–	44	1,004
Total	19,860	399	(2,028)	(536)	17,693
Deferred tax liabilities					
Fixed assets	18,037	334	–	(1,102)	17,269
Valuation differences	10,873	–	2,951	18	13,841
Reserve for advanced depreciation of fixed assets	5,234	(1,771)	–	–	3,463
Other	1,141	(286)	13	(172)	695
Total	35,286	(1,724)	2,963	(1,257)	35,268
Net deferred tax assets (liabilities)	(15,426)	2,122	(4,991)	721	(17,575)

For the fiscal year ended December 31, 2019

(Thousands of U.S. dollars)

	January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	December 31, 2019
Deferred tax assets					
Fixed assets	42,083	1,305	–	–	43,388
Retirement benefit liability	48,941	6,679	(18,509)	198	37,310
Accrued expenses	20,843	402	–	(1,987)	19,259
Gift coupon gains or losses	10,135	(941)	–	–	9,194
Tax loss carryforwards	9,111	1,262	–	(3,557)	6,816
Provision for bonuses	4,687	130	–	55	4,873
Marketable securities	27,212	4,297	–	–	31,509
Other	18,271	(9,508)	–	399	9,162
Total	181,283	3,627	(18,509)	(4,891)	161,510
Deferred tax liabilities					
Fixed assets	164,651	3,044	–	(10,061)	157,635
Valuation differences	99,253	–	26,933	161	126,347
Reserve for advanced depreciation of fixed assets	47,776	(16,169)	–	–	31,608
Other	10,417	(2,616)	117	(1,572)	6,346
Total	322,098	(15,740)	27,050	(11,472)	321,935
Net deferred tax assets (liabilities)	(140,815)	19,367	(45,558)	6,581	(160,425)

(Note) “Other” mainly includes changes related to discontinued operations, 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.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Deductible temporary differences	12,567	12,092	110,376
Tax loss carryforwards	3,810	4,804	43,848

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)
	December 31, 2018	December 31, 2019	December 31, 2019
1st year	187	507	4,628
2nd year	497	431	3,935
3rd year	493	385	3,514
4th year	724	808	7,372
After 5th year	1,909	2,673	24,399
Total	3,810	4,804	43,848

(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 not recognized as deferred tax liabilities at December 31, 2018 and December 31, 2019, was 54,080 million yen and 49,532 million yen (452,143 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, 2018	December 31, 2019	December 31, 2019
Current income tax expense	5,326	6,382	58,252
Deferred income tax expense	(3,304)	(2,122)	(19,374)
Total	2,023	4,259	38,879

(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, 2018, and December 31, 2019, was 30.9% and 30.6%, respectively. 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, 2018	December 31, 2019
Effective statutory tax rate	30.9%	30.6%
Effect of nontaxable income and nondeductible expenses in determining taxable profit	5.9%	5.9%
Unrecognized deferred tax assets	(28.3)%	14.0%
Tax credits	(3.7)%	(5.4)%
Effect of changes in tax rates	0.3%	(0.1)%
Impairment of goodwill	10.2%	–%
Overseas consolidated subsidiaries' tax rate differences	2.9%	0.5%
Income taxes for prior periods	(0.6)%	(3.2)%
Other	1.5%	(5.5)%
Actual tax rate	19.0%	36.8%

19. Bonds and Borrowings

(1) Breakdown of bonds and borrowings

A breakdown of bonds and borrowings is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Current portion of bonds payable	10,006	19,998	182,548
Bonds payable	59,826	59,809	545,956
Short-term borrowings	14,936	12,774	116,606
Commercial papers	28,500	22,000	200,822
Current portion of long-term borrowings	20,422	17,349	158,363
Long-term borrowings	94,657	95,411	870,933
Total	228,346	227,341	2,075,226

Current liabilities	73,863	72,121	658,338
Non-current liabilities	154,483	155,220	1,416,888
Total	228,346	227,341	2,075,226

Bonds and borrowings are classified as financial liabilities measured at amortized cost.

Short-term borrowings and long-term borrowings' average interest rates at December 31, 2018, were 1.16% and 0.63%, respectively.

Short-term borrowings and long-term borrowings' average interest rates at December 31, 2019, were 0.48% and 0.87%, respectively.

Long-term borrowings' maturity dates range from 2020 to 2035.

(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) December 31, 2018	(Millions of yen) December 31, 2019	(Thousands of U.S. dollars) December 31, 2019
Sapporo Holdings Limited (the Company)	28th Series of Unsecured Straight Corporate Bonds	December 5, 2013	December 4, 2020	0.61	None	9,984	9,993 (9,993)	91,214 (91,214)
	29th Series of Unsecured Straight Corporate Bonds	September 12, 2014	September 12, 2019	0.31	None	9,992 (9,992)	–	–
	30th Series of Unsecured Straight Corporate Bonds	September 10, 2015	September 10, 2020	0.33	None	9,981	9,992 (9,992)	91,213 (91,213)
	31st Series of Unsecured Straight Corporate Bonds	March 22, 2016	March 22, 2021	0.25	None	9,975	9,986	91,159
	32nd Series of Unsecured Straight Corporate Bonds	June 1, 2017	June 1, 2022	0.15	None	9,963	9,974	91,041
	33rd Series of Unsecured Straight Corporate Bonds	September 5, 2019	September 4, 2026	0.20	None	–	9,946	90,786
	34th Series of Unsecured Straight Corporate Bonds	September 5, 2019	September 5, 2029	0.30	None	–	9,940	90,739
	Euro-yen Convertible Bonds with Share Acquisition Rights due 2021	April 27, 2018	April 27, 2021	–	None	19,875	19,929	181,916
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	61 (13)	47 (13)	433 (120)
Total	–	–	–	–	–	69,832 (10,006)	79,808 (19,998)	728,504 (182,548)

(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

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Land	2,051	2,051	18,720
Investment securities	7,490	8,008	73,099
Other	1,250	886	8,089
Total	10,791	10,945	99,907

Secured liabilities

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Short-term borrowings	5,430	8,850	80,785
Long-term borrowings	12,749	9,249	84,429
Total	18,179	18,099	165,214

In addition to the above, POKKA INTERNATIONAL PTE. LTD.'s cash and deposits (27 million yen at December 31, 2018; 27 million yen (246 thousand U.S. dollars) at December 31, 2019) were pledged as collateral for a line of credit (874 million yen at December 31, 2018; 874 million yen (7,978 thousand U.S. dollars) at December 31, 2019). Short-term borrowings were outstanding under the line of credit (4 million yen at December 31, 2018; 4 million yen (37 thousand U.S. dollars) at December 31, 2019).

20. 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.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Depreciation of right-of-use assets			
Right-of-use assets for which buildings and structures are the underlying asset	3,631	4,272	38,994
Right-of-use assets for which machinery and vehicles are the underlying asset	814	770	7,032
Right-of-use assets for which tools, furniture and fixtures are the underlying asset	2,023	1,647	15,032
Right-of-use assets for which land is the underlying asset	22	24	221
Total depreciation	6,490	6,713	61,279
Expense relating to short-term leases under recognition exemptions	1,708	2,187	19,967
Expense relating to leases of low-value assets under recognition exemptions	4,671	4,735	43,220
Expense relating to variable lease payments	882	795	7,257
Income from subleasing right-of-use assets	399	400	3,651

(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 restaurant or café 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, 2018

(Millions of yen)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Limited	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, 2019

(Millions of yen)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Limited	1,900	466	2,366
POKKA CREATE CO., LTD.	1,565	149	1,714
Total	3,465	615	4,080

For the fiscal year ended December 31, 2019

(Thousands of U.S. dollars)

	Fixed payments	Variable payments	Total payments
Sapporo Lion Limited	17,341	4,255	21,597
POKKA CREATE CO., LTD.	14,284	1,360	15,643
Total	31,625	5,615	37,240

(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.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Amounts scheduled to be payable under residual value guarantees	1,669	1,522	13,890

(5) Sale and leaseback transactions (Lessee)

Not applicable in the fiscal year ended December 31, 2019.

(6) Finance leases (Lessor)

Finance income on net investments in leases and income relating to variable lease payments are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Finance income on net investments in leases	4	7	60
Income relating to variable lease payments	18	20	186

(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 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, 2019

(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	299	209	124	85	69	190	976
Lease payments	13,235	8,317	4,408	3,667	2,783	5,891	38,301

As of December 31, 2019

(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	2,732	1,910	1,133	772	629	1,735	8,911
Lease payments	120,816	75,917	40,236	33,473	25,405	53,777	349,625

(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.

21. Trade and Other Payables

A breakdown of trade and other payables is presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Notes and accounts payable - trade	35,292	34,475	314,701

Trade and other payables are classified as financial liabilities measured at amortized cost.

22. 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.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Present value of defined benefit obligations	51,056	51,595	470,976
Fair value of plan assets	(39,340)	(46,589)	(425,272)
Net defined benefit liability	11,715	5,007	45,705

Retirement benefit asset	–	–	–
Retirement benefit liability	11,715	5,007	45,705
Net defined benefit liability	11,715	5,007	45,705

Amounts recognized as expenses on the Consolidated Statement of Profit or Loss in relation to defined benefit plans are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Current service cost	1,593	1,696	15,485
Interest expenses and interest income	33	34	310
Total	1,626	1,730	15,794

Changes in the present value of defined benefit obligations are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Balance at beginning of period	51,352	51,056	466,048
Current service cost	1,593	1,696	15,485
Interest expenses	334	321	2,930
Remeasurements	506	1,229	11,223
Actuarial gains and losses arising from changes in demographic assumptions	306	(3)	(24)
Actuarial gains and losses arising from changes in financial assumptions	103	957	8,735
Other	97	275	2,513
Benefits paid	(2,729)	(2,974)	(27,148)
Other changes	–	267	2,439
Balance at end of period	51,056	51,595	470,976

Changes in the fair value of plan assets are presented below.

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Balance at beginning of period	45,069	39,340	359,110
Interest income	1,034	990	9,033
Remeasurements			
Return on plan assets	(6,229)	6,808	62,149
Company contributions	1,925	2,024	18,472
Benefits paid	(2,459)	(2,574)	(23,493)
Balance at end of period	39,340	46,589	425,272

The values of the key actuarial assumption used to determine the present value of defined benefit obligations are presented below.

As of	December 31, 2018	December 31, 2019
Discount rate (%)	0.4 to 0.7%	0.4 to 0.5%

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.

As of		(Millions of yen)		(Thousands of U.S. dollars)
		December 31, 2018	December 31, 2019	December 31, 2019
Discount rate	0.5 percentage point increase	(3,042)	(3,038)	(27,734)
	0.5 percentage point decrease	3,315	3,311	30,224

The following table presents the fair value of plan assets by major category.

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, 2019

(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	1,294	–	1,294
Equity instruments	14,166	–	14,166
Domestic stocks	4,631	–	4,631
Foreign stocks	9,535	–	9,535
Debt instruments	17,378	–	17,378
Domestic bonds	13,754	–	13,754
Foreign bonds	3,624	–	3,624
Life insurance general accounts	–	10,557	10,557
Other	–	3,194	3,194
Total	32,838	13,751	46,589

As of December 31, 2019

(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 price in an active market	Total
Cash and cash equivalents	11,808	–	11,808
Equity instruments	129,307	–	129,307
Domestic stocks	42,273	–	42,273
Foreign stocks	87,034	–	87,034
Debt instruments	158,634	–	158,634
Domestic bonds	125,549	–	125,549
Foreign bonds	33,085	–	33,085
Life insurance general accounts	–	96,369	96,369
Other	–	29,153	29,153
Total	299,749	125,522	425,272

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, 2020, the Group plans to contribute 1,214 million yen (11,082 thousand U.S. dollars) to the plans.

The weighted-average durations for the defined benefit obligations at December 31, 2018, and December 31, 2019, were 9.1 to 13.5 years and 8.8 to 13.4 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, 2018, and December 31, 2019, were 3,963 million yen and 4,207 million yen (38,402 thousand U.S. dollars), respectively.

The above amounts include amounts recognized as expenses in relation to public plans.

23. Other Financial Liabilities

A breakdown of other financial liabilities is presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Derivative liabilities	650	277	2,525
Accounts payable - other	24,337	24,332	222,106
Deposits received	7,226	6,856	62,581
Guarantee deposits received	45,573	46,516	424,610
Other	1,852	1,665	15,198
Total	79,639	79,645	727,019
Current liabilities	33,905	33,021	301,425
Non-current liabilities	45,733	46,624	425,594
Total	79,639	79,645	727,019

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.

24. Other Liabilities

A breakdown of other liabilities is presented below.

As of	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Accrued expenses	18,330	18,187	166,014
Accrued alcohol tax	32,363	30,971	282,708
Accrued consumption taxes	4,946	4,716	43,049
Employees’ bonuses	2,180	2,267	20,692
Employee compensated absence liabilities, etc.	973	1,013	9,247
Other	7,458	7,578	69,173
Total	66,251	64,731	590,883
Current liabilities	63,260	61,903	565,066
Non-current liabilities	2,991	2,828	25,817
Total	66,251	64,731	590,883

25. Equity

The number of shares authorized and shares issued are presented below.

(Thousands of shares)

For the fiscal year ended	December 31, 2018	December 31, 2019
Number of shares authorized	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 are ordinary shares with 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, 2018	December 31, 2019
At beginning of period	902	908
Additions	8	4
Reductions	(2)	(13)
At end of period	908	898

The additions to treasury share holdings were odd-lot share purchases of 8,000 shares in the fiscal year ended December 31, 2018, and 4,000 shares in the fiscal year ended December 31, 2019. The reductions in treasury share holdings in the fiscal year ended December 31, 2018, consisted of odd-lot share sales of 1,000 shares and disposal of 1,000 shares in conjunction with rights exercised by the Board Benefit Trust (BBT). In the fiscal year ended December 31, 2019, the reductions consisted of odd-lot share sales of 0 thousand shares and disposal of 13,000 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.

26. Dividends

Dividends paid are presented below.

For the fiscal year ended December 31, 2018

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, 2019

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	29,916	42.00	383.39	December 31, 2018	March 29, 2019

Dividends whose effective date falls in the following fiscal year are presented below.

For the fiscal year ended December 31, 2018

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 28, 2019	Ordinary shares	3,277	42.00	December 31, 2018	March 29, 2019

For the fiscal year ended December 31, 2019

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 27, 2020	Ordinary shares	3,277	29,916	42.00	383.39	December 31, 2019	March 30, 2020

27. 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, 2018	December 31, 2019	December 31, 2019
Revenue recognized from contracts with customers	469,765	467,534	4,267,764
Revenue recognized from other sources	24,143	24,362	222,386
Total	493,908	491,896	4,490,151

Revenue recognized from other sources is mostly rental income recognized pursuant to IFRS 16. Said rental income included 570 million yen and 563 million yen (5,143 thousand U.S. dollars) of income relating to variable lease payments in the fiscal years ended December 31, 2018, and December 31, 2019, respectively.

ii) Revenue disaggregated by geographical area and segment

For the fiscal year ended December 31, 2018

(Millions of yen)

	Japan	North America	Other	Total
Alcoholic Beverages Business	275,616	50,057	4,336	330,009
Food & Soft Drinks Business	113,532	118	19,733	133,384
Real Estate Business	24,483	–	–	24,483
Other	6,032	–	2	6,033
Total	419,662	50,175	24,071	493,908
Revenue recognized from contracts with customers	395,519	50,175	24,071	469,765
Revenue recognized from other sources	24,143	–	–	24,143

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, 2019

(Millions of yen)

	Japan	North America	Other	Total
Alcoholic Beverages Business	273,193	48,119	3,126	324,438
Food & Soft Drinks Business	116,960	111	19,805	136,876
Real Estate Business	24,690	–	–	24,690
Other	5,821	30	41	5,892
Total	420,664	48,260	22,972	491,896
Revenue recognized from contracts with customers	396,302	48,260	22,972	467,534
Revenue recognized from other sources	24,362	–	–	24,362

For the fiscal year ended December 31, 2019

(Thousands of U.S. dollars)

	Japan	North America	Other	Total
Alcoholic Beverages Business	2,493,777	439,242	28,533	2,961,553
Food & Soft Drinks Business	1,067,636	1,010	180,789	1,249,435
Real Estate Business	225,373	–	–	225,373
Other	53,137	274	376	53,787
Total	3,839,923	440,527	209,698	4,490,148
Revenue recognized from contracts with customers	3,617,541	440,527	22,972	4,267,764
Revenue recognized from other sources	222,386	–	–	222,386

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 Alcoholic Beverages Business, Food & Soft Drinks 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.

Alcoholic Beverages Business

In the Alcoholic Beverages Business segment, Sapporo Breweries Limited 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 in Japan. Overseas, 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. In the restaurants business, Sapporo Lion Limited operates eating and drinking establishments in various formats, most notably the Lion chain of beer halls and restaurants.

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.

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.

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.

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. Shinsyu-ichi Miso Co., Ltd. manufactures and sells food. Overseas, POKKA CORPORATION (SINGAPORE) PTE. LTD. manufactures and sells soft drinks and food in Singapore; and POKKA ACE (MALAYSIA) SDN. BHD. and POKKA (MALAYSIA) SDN. BHD. manufacture and sell soft drinks in Malaysia.

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.

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.

The Alcoholic Beverages 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.

	(Millions of yen)			(Thousands of U.S. dollars)
As of	January 1, 2018	December 31, 2018	December 31, 2019	December 31, 2019
Receivables from contracts with customers				
Notes and accounts receivable - trade	98,325	93,340	92,529	844,628
Total	98,325	93,340	92,529	844,628

(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 any significant consideration from contracts with customers 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.

28. Employee Benefit Expenses

A breakdown of employee benefit expenses is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Wages and salaries	56,369	57,855	528,118
Social security expenses	7,627	7,884	71,971
Retirement benefit expenses	2,614	2,898	26,454
Total	66,609	68,638	626,543

29. Research and Development Expenses

Research and development expenses recognized as expenses in the fiscal years ended December 31, 2018, and December 31, 2019, were 2,840 million yen and 2,994 million yen (27,333 thousand U.S. dollars), respectively.

30. Other Operating Income and Other Operating Expenses

A breakdown of other operating income is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Gain on sale of fixed assets	1,279	2,055	18,760
Valuation gain on exchange of production equipment	709	–	–
Compensation income	–	348	3,178
Other	1,021	1,124	10,263
Total	3,009	3,528	32,201

A breakdown of other operating expenses is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Loss on sale and retirement of property, plant and equipment, and intangible assets	618	454	4,146
Impairment losses	5,430	1,342	12,253
Other	532	1,247	11,384
Total	6,580	3,044	27,783

31. 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, 2018	December 31, 2019	December 31, 2019
Interest income			
Financial assets measured at amortized cost	145	140	1,280
Dividend income			
Financial assets measured at fair value through other comprehensive income	978	1,045	9,540
Foreign exchange gain	–	19	176
Other	16	23	206
Total	1,139	1,227	11,202

(2) Finance costs

For the fiscal year ended	(Millions of yen)		(Thousands of U.S. dollars)
	December 31, 2018	December 31, 2019	December 31, 2019
Interest expenses			
Financial liabilities measured at amortized cost	1,362	1,287	11,750
Lease liabilities	629	577	5,266
Foreign exchange loss	126	–	–
Total	2,117	1,864	17,016

At December 31, 2018, interest rates on lease liabilities ranged from 0.45% to 6.24%.

At December 31, 2019, interest rates on lease liabilities ranged from 0.44% to 6.24%.

32. 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, 2018	December 31, 2019	December 31, 2019
Financial assets measured at fair value through other comprehensive income			
Amount arising during period	(13,283)	9,362	85,454
Tax effect	4,082	(2,951)	(26,933)
Net amount	(9,201)	6,411	58,521
Remeasurements of defined benefit plans			
Amount arising during period	(5,334)	6,622	60,450
Tax effect	1,646	(2,028)	(18,509)
Net amount	(3,688)	4,595	41,941
Exchange differences on translation of foreign operations			
Amount arising during period	(2,765)	348	3,176
Reclassification adjustments	–	537	4,906
Tax effect	–	–	–
Net amount	(2,765)	885	8,083
Effective portion of net change in fair value of cash flow hedges			
Amount arising during period	244	720	6,569
Reclassification adjustments	(288)	(503)	(4,590)
Tax effect	(26)	(13)	(117)
Net amount	(69)	204	1,864
Total other comprehensive income	(15,724)	12,095	110,409

33. Cash Flows

(1) Changes in liabilities arising from financing activities

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

(Note) Includes current portion of long-term borrowings and current portion of bonds payable.

During the fiscal year ended December 31, 2019

(Millions of yen)

Item	January 1, 2019	Changes from financing cash flows	Non-cash changes					December 31, 2019
			Acquisition of right-of-use assets	Currency translation gains (losses)	Changes in fair values	Change in scope of consolidation	Other	
Short-term borrowings	14,936	920	–	18	–	(3,100)	–	12,774
Commercial papers	28,500	(6,500)	–	–	–	–	–	22,000
Long-term borrowings (Note)	115,079	(116)	–	(181)	–	(2,023)	–	112,759
Bonds payable (Note)	69,832	9,987	–	–	–	–	(11)	79,808
Lease liabilities	31,238	(7,016)	6,149	86	–	296	(295)	30,459
Derivative liabilities (assets) held to hedge liabilities	125	–	–	–	(159)	307	–	272
Total	259,710	(2,724)	6,149	(77)	(159)	(4,520)	(306)	258,072

During the fiscal year ended December 31, 2019

(Thousands of U.S. dollars)

Item	January 1, 2019	Changes from financing cash flows	Non-cash changes					December 31, 2019
			Acquisition of right-of-use assets	Currency translation gains (losses)	Changes in fair values	Change in scope of consolidation	Other	
Short-term borrowings	136,336	8,402	–	167	–	(28,300)	–	116,606
Commercial papers	260,155	(59,334)	–	–	–	–	–	200,822
Long-term borrowings (Note)	1,050,468	(1,058)	–	(1,648)	–	(18,467)	–	1,029,295
Bonds payable (Note)	637,444	91,162	–	–	–	–	(102)	728,504
Lease liabilities	285,151	(64,040)	56,133		–	2,706	(2,692)	278,039
Derivative liabilities (assets) held to hedge liabilities	1,143	–	–	–	(1,455)	2,798	–	2,485
Total	2,370,696	(24,866)	56,133	(700)	(1,455)	(41,263)	(2,794)	2,355,750

(Note) Includes current portion of long-term borrowings and current portion of bonds payable.

(2) Changes in ownership interests in subsidiaries

1. Proceeds from and payments for acquisition of subsidiaries

During the fiscal year ended December 31, 2018

The Group acquired trust beneficiary rights in investment and rental property. Details are disclosed under “15. Investment Property, (1) Changes in investment property.”

During the fiscal year ended December 31, 2019

The Group acquired shares in Wild Rose Brewery Ltd. and two other companies and consolidated them. The following table presents the major breakdown of assets acquired and liabilities assumed when consolidation of said companies began as well as the relationship between the cost of shares of the companies and payments for the acquisition.

(Millions of yen)

Acquisition of subsidiaries	
Assets acquired	6,654
Liabilities assumed	5,428
Net assets of subsidiaries	1,226
Goodwill and other	905
Fair value of consideration paid	2,131
Cash and cash equivalents at the time of acquisition	497
Payments for acquisition	(1,633)

(Thousands of U.S. dollars)

Acquisition of subsidiaries	
Assets acquired	60,741
Liabilities assumed	49,552
Net assets of subsidiaries	11,189
Goodwill and other	8,259
Fair value of consideration paid	19,448
Cash and cash equivalents at the time of acquisition	4,541
Payments for acquisition	(14,908)

2. Proceeds from and payments for sale of subsidiaries

During the fiscal year ended December 31, 2018

Not applicable.

During the fiscal year ended December 31, 2019

The Group sold shares in Country Pure Foods, Inc. and 11 other companies. The following table presents the major breakdown of assets and liabilities when control of said subsidiaries was lost as well as the relationship between the consideration received and payments for sale of the subsidiaries.

(Millions of yen)

Sale of subsidiaries	
Assets sold	22,450
Liabilities sold	11,563
Net assets of subsidiaries	10,887
Fair value of consideration received	2,012
Cash and cash equivalents at the time of sale	705
Proceeds from sale of discontinued operations	1,798
Payments for sale	(491)

(Thousands of U.S. dollars)

Sale of subsidiaries	
Assets sold	204,934
Liabilities sold	105,551
Net assets of subsidiaries	99,382
Fair value of consideration received	18,364
Cash and cash equivalents at the time of sale	6,435
Proceeds from sale of discontinued operations	16,414
Payments for sale	(4,485)

34. 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, 2018	December 31, 2019	December 31, 2019
Profit from continuing operations attributable to owners of parent	8,922	7,742	70,668
Adjustment	13	19	176
Profit from continuing operations used to calculate diluted earnings per share	8,936	7,761	70,843
Loss from discontinued operations attributable to owners of parent	(401)	(3,386)	(30,904)
Loss from discontinued operations used to calculate diluted earnings per share	(401)	(3,386)	(30,904)

Weighted average number of ordinary shares outstanding during period (Thousands of shares)	77,891	77,893
Effects of dilutive potential ordinary shares (Thousands of shares)		
Convertible bonds with share acquisition rights	3,783	5,048
Board Benefit Trust (BBT)	25	18
Diluted weighted average number of ordinary shares outstanding during period (Thousands of shares)	81,699	82,959

	(Yen)		(U.S. dollars)
Basic earnings (loss) per share			
Continuing operations	114.55	99.39	907.25
Discontinued operations	(5.15)	(43.46)	(396.76)
Basic earnings per share	109.40	55.92	510.49
Diluted earnings (loss) per share			
Continuing operations	109.37	93.55	854.00
Discontinued operations	(4.91)	(40.81)	(372.54)
Diluted earnings per share	104.46	52.74	481.45

(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 deducted in calculating earnings per share for the fiscal years ended December 31, 2018, and December 31, 2019, was 148,386 shares and 140,336 shares, respectively.

35. Share-based Payment

(1) Overview of performance-based share-based remuneration plan

Effective May 31, 2016, the Company adopted a Board Benefit Trust plan (the "BBT Plan") as a remuneration 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 remuneration 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 remuneration 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. Remuneration 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, 2019 was 134,920 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, 2018	December 31, 2019	December 31, 2019
Total expenses recognized due to performance-based share-based remuneration plan	3	7	67

Share-based payment expenses are included in "selling, general and administrative expenses."

36. 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	December 31, 2018	December 31, 2019
Net debt/equity ratio (Note)	1.5	1.4

(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 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, 2018	December 31, 2019	December 31, 2019
Balance at beginning of period	1,319	1,380	12,598
Increase during period	154	175	1,602
Decrease during period (utilization)	(106)	(171)	(1,563)
Decrease during period (reversal)	(83)	(167)	(1,525)
Other changes	97	(5)	(45)
Balance at end of period	1,380	1,212	11,066

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 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	–	–	–	–

(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, 2019

(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	34,475	34,475	34,475	–	–	–	–	–
Short-term borrowings	12,774	12,774	12,774	–	–	–	–	–
Commercial papers	22,000	22,000	22,000	–	–	–	–	–
Long-term borrowings	112,759	112,947	17,186	19,322	16,540	21,523	17,375	21,001
Bonds payable	79,808	80,047	20,013	30,008	10,003	23	–	20,000
Lease liabilities	30,459	30,459	6,538	4,754	3,909	2,334	1,821	11,103
Accounts payable - other	24,332	24,332	24,072	131	80	36	11	1
Other (Note)	55,038	55,038	8,781	–	–	–	–	46,257
Derivative liabilities								
Currency forwards	–	–	–	–	–	–	–	–
Commodity futures	–	–	–	–	–	–	–	–
Interest rate swaps	112	112	5	66	42	–	–	–
Cross-currency interest rate swaps	163	163	163	–	–	–	–	–

As of December 31, 2019

(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	314,701	314,701	314,701	–	–	–	–	–
Short-term borrowings	116,606	116,606	116,606	–	–	–	–	–
Commercial papers	200,822	200,822	200,822	–	–	–	–	–
Long-term borrowings	1,029,295	1,031,008	156,882	176,373	150,985	196,464	158,605	191,699
Bonds payable	728,504	730,693	182,686	273,922	91,312	208	–	182,565
Lease liabilities	278,039	278,039	59,682	43,391	35,679	21,308	16,625	101,354
Accounts payable - other	222,106	222,106	219,739	1,191	734	331	97	13
Other (Note)	502,404	502,404	80,158	–	–	–	–	422,246
Derivative liabilities								
Currency forwards	–	–	–	–	–	–	–	–
Commodity futures	–	–	–	–	–	–	–	–
Interest rate swaps	1,024	1,024	43	599	382	–	–	–
Cross-currency interest rate swaps	1,486	1,486	1,486	–	–	–	–	–

(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, 2018	December 31, 2019	December 31, 2019
U.S. dollar (1% yen appreciation)	0	0	1

(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 the 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, 2018	December 31, 2019	December 31, 2019
Profit before tax	(62)	(82)	(753)

(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, 2018, or the fiscal year ended December 31, 2019.

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 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, 2019

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	12	–	12
Stocks	53,571	–	15,693	69,264
Total	53,571	12	15,693	69,265
Financial liabilities				
Derivative liabilities	–	277	–	277
Total	–	277	–	277

As of December 31, 2019

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	112	–	112
Stocks	489,011	–	143,246	632,258
Total	489,011	112	143,246	632,271
Financial liabilities				
Derivative liabilities	–	2,525	–	2,525
Total	–	2,525	–	2,525

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, 2018	December 31, 2019	December 31, 2019
Balance at beginning of period	17,389	14,477	132,151
Other comprehensive income (Note)	(3,283)	1,355	12,372
Purchase	500	1,279	11,675
Sale	(94)	(559)	(5,106)
Other changes	(35)	(859)	(7,846)
Balance at end of period	14,477	15,693	143,246

(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 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, 2019

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	312	–	312	–	312
Bonds	5,000	–	5,143	–	5,143
Total	5,312	–	5,455	–	5,455
Liabilities					
Long-term borrowings	112,759	–	112,958	–	112,958
Bonds payable	79,808	–	79,903	–	79,903
Total	192,567	–	192,861	–	192,861

As of December 31, 2019

(Thousands of U.S. dollars)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Long-term loans receivable	2,852	–	2,852	–	2,852
Bonds	45,641	–	46,945	–	46,945
Total	48,493	–	49,797	–	49,797
Liabilities					
Long-term borrowings	1,029,295	–	1,031,110	–	1,031,110
Bonds payable	728,504	–	729,376	–	729,376
Total	1,757,799	–	1,760,486	–	1,760,486

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 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, 2019

(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	774	719	54	–	–	–	–
Commodity price risk							
Commodity futures	–	–	–	–	–	–	–
Interest rate risk							
Interest rate swaps	21,640	8,190	8,950	4,500	–	–	–
Interest rate and currency risk							
Cross-currency interest rate swaps	1,804	1,804	–	–	–	–	–

As of December 31, 2019

(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	7,062	6,566	497	–	–	–	–
Commodity price risk							
Commodity futures	–	–	–	–	–	–	–
Interest rate risk							
Interest rate swaps	197,538	74,763	81,698	41,077	–	–	–
Interest rate and currency risk							
Cross-currency interest rate swaps	16,470	16,470	–	–	–	–	–

Currency forwards and currency swaps' main contract rates, commodity futures' main prices and interest rate swaps' main pay rates are presented below.

	As of December 31, 2018	As of December 31, 2019
Cash flow hedges		
Currency risk		
Currency forwards		
USD	108.15 yen to 110.87 yen	–
EUR	126.52 yen to 132.86 yen	120.89 yen
Commodity price risk		
Commodity futures		
Frozen concentrated orange juice futures	1.285 to 1.570 dollars/lb.	–
Interest rate risk		
Interest rate swaps		
Pay fixed, receive floating	0.40% to 2.16%	0.40% to 2.16%
Interest rate and currency risk		
Cross-currency interest rate swaps		
Receive JPY, pay USD	120.45 yen	120.45 yen
Pay fixed, receive floating	0.13%	0.13%

Amounts related to items designated as hedging instruments are presented below.

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, 2019

(Millions of yen)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	774	10	–	Other financial assets Other financial liabilities
Commodity price risk				
Commodity futures	–	–	–	Other financial liabilities
Interest rate risk				
Interest rate swaps	21,640	3	112	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	1,804	–	163	Other financial liabilities

As of December 31, 2019

(Thousands of U.S. dollars)

	Notional amount	Carrying amount		Consolidated Statement of Financial Position account
		Assets	Liabilities	
Cash flow hedges				
Currency risk				
Currency forwards	7,062	87	–	Other financial assets Other financial liabilities
Commodity price risk				
Commodity futures	–	–	–	Other financial liabilities
Interest rate risk				
Interest rate swaps	197,538	24	1,024	Other financial assets Other financial liabilities
Currency and interest rate risk				
Cross-currency interest rate swaps	16,470	–	1,486	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)
	December 31, 2018	December 31, 2019	December 31, 2019
	Cash flow hedge reserve	Cash flow hedge reserve	Cash flow hedge reserve
Cash flow hedges			
Currency risk			
Planned purchases	(8)	10	87
Commodity price risk			
Planned purchases	(172)	–	–
Interest rate risk			
Interest payable on borrowings	(134)	(110)	(-1,000)
Currency and interest rate risk			
Foreign currency borrowings and interest payable thereon	1	1	5

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, 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

(Note) The above are amounts before tax effects.

For the fiscal year ended December 31, 2019

(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	(19)	37	Finance costs
Commodity price risk – Commodity futures	721	(549)	Finance costs
Interest rate risk – Interest rate swaps	15	9	Finance costs
Currency and interest rate risk – Cross-currency interest rate swaps	(1)	–	Finance costs

For the fiscal year ended December 31, 2019

(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	(171)	333	Finance costs
Commodity price risk – Commodity futures	6,579	(5,009)	Finance costs
Interest rate risk – Interest rate swaps	140	86	Finance costs
Currency and interest rate risk – Cross-currency interest rate swaps	(6)	–	Finance costs

(Note) The above are amounts before tax effects.

ii) Derivatives not subject to hedge accounting

Details of derivatives are presented below.

	(Millions of yen)						(Thousands of U.S. dollars)		
As of	December 31, 2018			December 31, 2019			December 31, 2019		
	Notional amount	Over 1 year	Fair value	Notional amount	Over 1 year	Fair value	Notional amount	Over 1 year	Fair value
Currency forwards	3,693	–	99	3,013	–	(2)	27,500	–	(15)
Commodity options	170	–	(76)	–	–	–	–	–	–
Total	3,863	–	23	3,013	–	(2)	27,500	–	(15)

37. Subsidiaries

The status of major subsidiaries at December 31, 2019 is presented below.

Name	Location	Capital (Millions of yen)	Main business	Ownership of voting rights (%)	Relationship		
					Interlocking officer(s)	Financial support	Other business transaction
(Subsidiaries)							
Sapporo Breweries Limited	Shibuya-ku, Tokyo	10,000	Alcoholic Beverages	100.0	None	Yes	Contribution for the Group management, etc.
POKKA SAPPORO Food & Beverage Ltd.	Naka-ku, Nagoya	5,432	Food & Soft Drinks	100.0	None	Yes	Contribution for the Group management, etc.
Sapporo Lion Limited	Shibuya-ku, Tokyo	4,878	Alcoholic Beverages	100.0	None	None	Contribution for the Group management, etc.
Sapporo Real Estate Co., Ltd.	Shibuya-ku, Tokyo	2,080	Real Estate	100.0	Yes	Yes	Contribution for the Group management, etc.
Sapporo Group Management Ltd.	Shibuya-ku, Tokyo	25	Other	100.0	None	Yes	Undertaking of back-office operations Facilities leasing
Yebisu Winemart Co., Ltd.	Shibuya-ku, Tokyo	100	Alcoholic Beverages	100.0 (100.0)	None	None	—
POKKA CREATE CO., LTD.	Chiyoda-ku, Tokyo	100	Food & Soft Drinks	100.0 (100.0)	None	Yes	—
Foremost Blue Seal, Ltd.	Urasoe-shi, Okinawa	100	Food & Soft Drinks	99.8 (99.8)	None	None	—
TOKYO ENERGY SERVICE CO., LTD.	Shibuya-ku, Tokyo	490	Real Estate	100.0 (100.0)	None	None	—
Shinsyu-ichi Miso Co., Ltd.	Higashikurume-shi, Tokyo	72	Food & Soft Drinks	51.0	Yes	Yes	—
SAPPORO WELLNESS LAB LIMITED	Shibuya-ku, Tokyo	10	Other	100.0	Yes	Yes	—
SAPPORO U.S.A., INC.	New York, New York, USA	7,200 thousand USD	Alcoholic Beverages	100.0	None	None	—
Anchor Brewing Company, LLC	San Francisco, California, USA	105,676 thousand USD	Alcoholic Beverages	100.0 (100.0)	None	None	—
SAPPORO CANADA INC.	Toronto, Ontario, Canada	299,000 thousand CAD	Alcoholic Beverages	100.0	None	None	—
SLEEMAN BREWERIES LTD.	Guelph, Ontario, Canada	50,634 thousand CAD	Alcoholic Beverages	100.0 (100.0)	None	None	—
SAPPORO ASIA PRIVATE LTD.	Singapore	97,445 thousand USD	Alcoholic Beverages	100.0 (100.0)	None	None	—
SAPPORO VIETNAM LTD.	Long An, Vietnam	1,912,795 million VND	Alcoholic Beverages	100.0 (100.0)	None	None	—
POKKA CORPORATION (SINGAPORE) PTE. LTD.	Singapore	27 million SGD	Food & Soft Drinks	100.0 (100.0)	None	Yes	—
POKKA INTERNATIONAL PTE. LTD.	Singapore	5 million SGD	Food & Soft Drinks	100.0 (100.0)	None	None	—
POKKA ACE (MALAYSIA) SDN. BHD.	Selangor, Malaysia	27 million MYR	Food & Soft Drinks	50.0 (50.0)	None	None	—

Name	Location	Capital (Millions of yen)	Main business	Ownership of voting rights (%)	Relationship		
					Interlocking officer(s)	Financial support	Other business transaction
POKKA (MALAYSIA) SDN. BHD.	Johor, Malaysia	60 million MYR	Food & Soft Drinks	100.0 (100.0)	None	None	―
SAPPORO LION (SINGAPORE) PTE. LTD.	Singapore	4 million SGD	Alcoholic Beverages	100.0 (100.0)	None	None	―
Other 35 companies	―	―	―	―	―	―	―

Name	Location	Capital (Millions of yen)	Main business	Ownership of voting rights (%)	Relationship		
					Interlocking officer(s)	Financial support	Other business transaction
(Associates) KEIYO UTILITY CO., LTD.	Funabashi-shi, Chiba	600	Alcoholic Beverages	20.0 (20.0)	None	None	―
THE CLUB AT YEBISU GARDEN CO., LTD.	Meguro-ku, Tokyo	200	Real Estate	30.0 (30.0)	None	None	―
Other six companies	―	―	―	―	―	―	―

(Notes) 1 Segment names are shown in the “main business” column.

2 Figures in parentheses in the “ownership of voting rights” column indicate the indirect ownership included in the above figure.

3 Sapporo Breweries Limited, POKKA SAPPORO Food & Beverage Ltd., Sapporo Real Estate Co., Ltd., Sapporo Group Management Ltd., and SAPPORO CANADA INC. are specified subsidiaries.

4 POKKA CORPORATION (SINGAPORE) PTE. LTD. absorbed POKKA INTERNATIONAL PTE. LTD. on January 1, 2020 and changed its name to Pokka Pte. Ltd.

5 Revenue (excluding intercompany revenue) of Sapporo Breweries Limited and POKKA SAPPORO Food & Beverage Ltd. accounts for more than 10% of consolidated revenue. Their key financial information (in accordance with Japanese GAAP) is presented below.

Key profit or loss information	Sapporo Breweries Limited	POKKA SAPPORO Food & Beverage Ltd.
(1) Net sales	247,896 million yen	79,488 million yen
(2) Ordinary profit	5,930 million yen	(3,057) million yen
(3) Profit	5,088 million yen	(2,555) million yen
(4) Net assets	53,134 million yen	22,466 million yen
(5) Total assets	212,591 million yen	66,775 million yen

38. Related Parties

(1) Related party transactions

No significant related party transactions.

(2) Key executives' remuneration

The Group's key executives' remuneration is presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
For the fiscal year ended	December 31, 2018	December 31, 2019	December 31, 2019
Short-term employee benefits	284	273	2,496

39. Commitments

Commitments pertaining to expenditures subsequent to the reporting date are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Acquisition of property, plant and equipment	3,960	4,475	40,851
Acquisition of investment property (Note)	4,127	1,340	12,236
Acquisition of intangible assets	269	328	2,995

(Note) The investment property acquisition commitments will become contractual liabilities related to maintaining or developing investment property.

40. Discontinued Operations

(1) Overview of discontinued operations

During the fiscal year ended December 31, 2019, the Group transferred all the shares in Country Pure Foods, Inc. (the holding company managing the North American soft drinks business, which falls under the "Food & Soft Drinks Business" segment) held by the Company to BPCP CPF Holdings Inc.

Accordingly, the profit or loss and cash flows related to the North American soft drinks business have been presented as discontinued operations.

(2) Profit or loss from discontinued operations

Profit or loss from discontinued operations	(Millions of yen)		(Thousands of U.S. dollars)
	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2019
Revenue	27,948	29,035	265,037
Cost of sales	26,579	26,604	242,845
Gross profit	1,369	2,431	22,193
Selling, general and administrative expenses	2,119	1,988	18,143
Other non-operating expenses	10	5,162	47,117
Operating loss	(760)	(4,718)	(43,067)
Finance costs	377	384	3,505
Loss before tax	(1,137)	(5,102)	(46,572)
Income tax expense (Note 2)	(251)	(1,593)	(14,541)
Loss from discontinued operations	(886)	(3,509)	(32,031)
Loss from discontinued operations attributable to			
Owners of parent	(401)	(3,386)	(30,904)
Non-controlling interests	(484)	(123)	(1,127)
Loss from discontinued operations	(886)	(3,509)	(32,031)

(Notes) 1 Includes loss on sale due to the transfer of Country Pure Foods, Inc. of 4,886 million yen (44,602 thousand U.S. dollars) for the fiscal year ended December 31, 2019.

2 Includes income tax expense related to the transfer of Country Pure Foods, Inc. of (1,563) million yen ((14,269) thousand U.S. dollars) for the fiscal year ended December 31, 2019.

(3) Cash flows from discontinued operations

Cash flows from discontinued operations	(Millions of yen)		(Thousands of U.S. dollars)
	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2019
Net cash provided by (used in) operating activities	1,648	2,057	18,774
Net cash provided by (used in) investing activities	(1,436)	599	5,466
Net cash provided by (used in) financing activities	(747)	476	4,346

(Note) Net cash provided by investing activities for the fiscal year ended December 31, 2019 includes proceeds from sale of shares in Country Pure Foods, Inc. of 1,798 million yen (16,414 thousand U.S. dollars).

41. Contingent Liabilities

(1) Guarantee liabilities

Guarantees of ordinary customers or suppliers' borrowings from financial institutions are presented below.

	(Millions of yen)		(Thousands of U.S. dollars)
As of	December 31, 2018	December 31, 2019	December 31, 2019
Ordinary customers/suppliers	100	83	755
Employees (home acquisition funding)	195	155	1,415
Total	295	238	2,171

(2) Litigation matters

Not applicable.

42. Significant Events after Reporting Period

Implementation of early retirement incentive program

At the Board of Directors meeting held on February 13, 2020, the Company resolved to implement an early retirement incentive program for employees of Sapporo Breweries Limited, the operating company in charge of the Alcoholic Beverages Business segment in the Group.

(Reason for implementation of early retirement incentive program)

In order to achieve the "Group Management Plan 2024," the Group will, in line with the basic policies (e.g., strengthening of the beer business, shift to growth fields such as food, and acceleration of global expansion), work to optimize the allocation of human resources. At this major turning point, the Group will implement the early retirement incentive program, as an option for employees who may be interested in a new career outside Sapporo Breweries, by expanding the current second career assistance program.

(Overview of early retirement incentive program)

(1) Eligibility criteria: Employees who have worked at Sapporo Breweries for ten years or more and are 45 years of age or older (employees in charge of certain duties are not eligible for this program)

(2) Target total number of applicants: Not set.

(3) Application period:

i) First round: May 1, 2020 to July 10, 2020

ii) Second round: October 1, 2020 to December 10, 2020

At the Board of Directors meeting held on March 27, 2020, the Company changed the first round from the period between April 1, 2020 and June 10, 2020 to the period between May 1, 2020 and July 10, 2020.

(4) Effective date of retirement:

i) First round: November 20, 2020

ii) Second round: May 20, 2021

(5) Details of assistance to be provided

A second career assistance grant will be added on to the retirement benefits of participants in this program, and reemployment assistance services will be provided to them.

(Effect on operating results)

As the application period has not yet commenced, any losses including the second career assistance grant are yet to be determined.

(2) Other information

Quarterly information in the fiscal year ended December 31, 2019, and other information

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Full year
Revenue (Millions of yen)	100,958	228,207	361,015	491,896
Profit (loss) before tax (Millions of yen)	(4,494)	(335)	7,000	11,588
Profit (loss) attributable to owners of parent (Millions of yen)	(3,590)	(810)	4,560	4,356
Basic earnings (loss) per share (Yen)	(46.09)	(10.41)	58.55	55.92

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (loss) per share (Yen)	(46.09)	35.68	68.94	(2.62)

Quarterly information in the fiscal year ended December 31, 2019, and other information

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Full year
Revenue (Thousands of U.S. dollars)	921,575	2,083,132	3,295,440	4,490,148
Profit (loss) before tax (Thousands of U.S. dollars)	(41,020)	(3,060)	63,895	105,781
Profit (loss) attributable to owners of parent (Thousands of U.S. dollars)	(32,767)	(7,398)	41,626	39,763
Basic earnings (loss) per share (U.S. dollars)	(421)	(95)	534	510

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (loss) per share (U.S. dollars)	(421)	326	629	(24)