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Sapporo Group Management Plan 2010–2011 Shifting into a new growth trajectory

We are pleased to announce our *Sapporo Group Management Plan 2010–2011* (“*Management Plan 2010–2011*”).

Our ultimate aim at Sapporo Group has always been to provide our customers with new excitement and enjoyment, reflecting our basic management philosophy, “To make people’s lives richer and more enjoyable.” It was with this objective firmly in mind that we formulated a medium- to long-term management vision—our *New Management Framework*—back in 2007 with an eye to our 140th anniversary in 2016. *Management Plan 2010–2011* is our newest action plan based on this longer-term framework and represents a revised version of last February’s two-year rolling plan for 2009–2010.

Having used the past two years as a phase of earnings-base strengthening, we will now shift the Sapporo Group into a growth phase designed to ensure solid earnings growth from a longer-term perspective.

Our operating environment remains extremely challenging and there is still considerable uncertainty on the horizon, but we are confident that *Management Plan 2010–2011* will represent another important step forward in our efforts to keep the Sapporo Group’s corporate value on a continuous upward path.

I. Overview of 2009

1. Progress towards key objectives

1) Capitalizing on our strengths and bolstering our earnings base

We largely achieved our profit targets for 2009 despite a number of significant headwinds, with cost structure reforms across our entire operations helping to increase our adaptability to change, strengthen our earnings base, and improve our brand power with an eye to future growth.

Key areas of success

- Our Japanese Alcoholic Beverages business focused its marketing efforts on our mainstay *Yebisu* and *Mugi to Hop* brands and proved successful in boosting our market share in both sectors. Wine and shochu also generated higher earnings as we made definitive progress strengthening our operating base in those areas. And with group-wide cost-cutting initiatives proving successful in lowering the breakeven profit line, operating income was effectively up versus the previous year excluding the impact of changes to accounting and taxation standards.
- In our International Alcoholic Beverages business, Canadian subsidiary Sleeman Breweries achieved double-digit (year-over-year) growth in sales volume on the back of stronger marketing efforts, thereby remaining well ahead of growth in total beer demand as it has done since we acquired it in 2006.
- Our Soft Drinks business booked positive operating income growth for a second consecutive year as we continued to implement cost structure reforms, ongoing since last year, throughout the entire value chain.

2) Laying a platform for sustainable growth

With a view to medium-term growth, we continued to put priority on sectors offering future growth potential, strategic partnerships, and synergies between our existing assets and

strengths in line with our *New Management Framework's* strategic emphasis on forging strategic alliances and international expansion.

Key areas of success

- Expansion of our yogurt, dessert and chilled beverages business by taking a 49% stake in Azumino Food as part of our joint venture with Marudai Food Co, Ltd.
- We embarked on a strategic capital and business alliance with Pokka Corporation (21.41% stake) and began working to maximize synergies in our Soft Drinks business and other operations.
- Our strategic alliance with Vietnam National Tobacco Corp. (Vinataba) has granted us access to the high-growth-potential Vietnamese beer market, with a new brewery scheduled to go into operation in autumn 2011.

2. Financial goals

Sales fell short of our target for 2009, but we met our ordinary income target in achieving a third consecutive year of positive growth. Operating income was also effectively up versus the previous year excluding the impact of changes to accounting and taxation standards.^{*1} Equity-method income increased versus 2008 as a result of our strategic capital and business alliances with Pokka Corporation and Azumino Food.

(Yen in billions)

	2008 results	Initial 2009 targets	2009 results
Consolidated net sales (incl. liquor taxes)	¥ 414.5	¥ 408.3	¥ 387.5
Alcoholic Beverages (Japan)	299.6	295.6	282.9
Alcoholic Beverages (International)	25.0	22.1	22.5
Soft Drinks	36.8	35.5	30.7
Restaurants	29.5	30.5	28.0
Real Estate	23.4	24.6	23.2
Consolidated operating income	14.6	12.0	12.8
Alcoholic Beverages (Japan)	7.7	5.6	7.4
Alcoholic Beverages (International)	0.9	0.9	0.6
Soft Drinks	0.2	0.3	0.3
Restaurants	0.5	0.7	(0.1)
Real Estate	7.6	7.7	7.5
Corporate and intercompany eliminations	(2.3)	(3.2)	(2.9)
Consolidated ordinary income	10.5	8.5	10.7
Consolidated net income	7.6	3.0	4.5

*Assumed 2009 exchange rates: US\$=¥90, CAN\$=¥75; Actual 2009 exchange rates: US\$=¥93.65, CAN\$=¥82.30

	2008 results	Initial 2009 targets	2009 results
Consolidated operating margin (excl. liquor taxes)	5.2%	4.2%	4.9% ^{*2}
Financial liabilities (in billions)	¥189.2	¥188.0	¥197.5
D/E ratio	1.6	1.6	1.7
ROE	6.3%	2.6%	3.9%

*1. Changes to accounting and taxation standards meant that operating income for 2009 was ¥2.4 billion lower than it would have been under the previous standards, reflecting an increase in depreciation expenses as well as operating expenses and other items associated with the disposal of obsolete inventories.

*2. Under the previous accounting and taxation standards, our consolidated operating margin (excluding liquor taxes) for 2009 would have been 5.8%.

II. Medium-term growth scenarios

1. Sapporo Group's management philosophy

Sapporo Group's business operations are grounded in the following philosophy and management policy.

Management philosophy

To make people's lives richer and more enjoyable.

Fundamental management policy

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

2. Baseline growth scenarios

The Sapporo Group's *New Management Framework* (formulated in 2007) lays out a long-term management policy for enhancing corporate value through group-wide growth.

The *New Management Framework's* targets (to be achieved by 2016)

Net sales: ¥600 billion

Operating income: ¥40 billion

The following sections outline our medium-term growth scenarios for each of our business segments as well as our strategic initiatives aimed at meeting these targets. Strategic issues are to be resolved as quickly as possible.

1) Alcoholic Beverages (Japan)

Vision: *Boosting growth and profitability through high-value-added across our entire line*

- With a further decline in total demand appearing likely, we must work to expand our operations and secure our competitive advantage through effective promotion of our existing brands and the creation of new value-added products and markets by capitalizing on Sapporo Group's collective strengths.
- A tighter focus on value-added should help reinforce our competitive advantage and thereby provide a solid platform for earnings growth.

Key strategic issues

- We will be seeking to create a new market for beers and beer-type beverages through product development and marketing strategies aimed at offering new value.
- We are working to strengthen our brand power and forge strategic alliances in the wine and *shochu* sectors and create new value in the RTD (ready-to-drink) sector with an eye to building our non-beer alcoholic beverages business into a ¥2 billion / year operation (in terms of operating profit).
- We are also working to improve procurement and logistical efficiency by harnessing group synergies (with our Soft Drinks business etc.) and entering into new external alliances.

2) Alcoholic Beverages (International)

Vision: *Expanding our coverage and activities in the North American and Asian markets*

- Our international expansion efforts will center around the North American and Asian markets with a particular focus on Canada, the US, Vietnam, and Singapore.
- We will also be looking beyond the beer market by focusing significant resources on soft drinks, foods, and restaurants.

Key strategic issues

- Our expansion efforts in the North American market will focus on creating and expanding new demand through organizational strengthening and stronger marketing at Sleeman and Sapporo USA and exploring further strategic M&A opportunities.
- To grow our business in Asia, we will be launching operations in Vietnam and looking to make rapid inroads throughout ASEAN nations and other parts of the Asian market.

3) Soft Drinks

Vision: *Building brands with unique value and expanding through strategic alliances and M&As*

- We will be working to build our market presence by capitalizing on Sapporo Group's unique strengths in creating new high-value-added products.
- We will also be exploring strategic capital and business alliances with an eye to boosting this business's contribution to the overall bottom line.

Key strategic issues

- We must seek to take full advantage of our existing strategic capital and business alliances while simultaneously exploring new partnership and M&A opportunities.
- We will also look beyond the non-chilled soft drinks segment in exploring options such as chilled drinks and foods as well as overseas expansion opportunities.
- In the foods sector we intend to forge alliances that recognize our superior technologies and leverage these relationships into the development of appealing new products.
- We will also be working to harness group synergies in such areas as procurement, logistics, product development, and marketing.

4) Restaurants

Vision: *Strengthening brand recognition and the earnings base through customer contact points*

- We will continue to expand the number of dominant restaurant locations with a primary focus on the Greater Tokyo, Sapporo and Nagoya areas by developing a variety of dining formats and opening new locations at a wider range of price points.
- Restaurants offer a valuable opportunity to boost brand recognition through face-to-face communication with our customers and provide a platform for stable earnings.

Key strategic issues

- Scrap-and-build process to be accelerated, earnings base to be strengthened through a tighter focus on low-cost operations.
- Restaurant portfolio should be balanced in terms of both restaurant types and price points, and can perhaps be expanded via a carefully considered M&A strategy.
- Overseas restaurants to be opened as our overseas alcoholic beverages business continues to expand.

5) Real Estate

Vision: *Enhancing profitability of existing group properties and expanding by acquiring and developing new properties*

- We will strengthen the Sapporo Group's earnings base by enhancing the profitability of existing properties to bolster our current operating base while expanding the business by acquiring and developing new properties.

Key strategic issues

- We will enhance the value of our existing properties in Ginza, Ebisu, Sapporo and other key areas.
- We will shore up and enhance earnings from *Yebisu Garden Place* through renovations aimed at improving the property's overall appeal.
- We will continue to view the Ebisu area as a strategic priority while seeking to acquire new properties in inner Tokyo and enhancing property values by tapping into synergies with our current property holdings.

III. Sapporo Group Management Plan 2010–2011

1. Basic strategies for 2010–2011

We will proceed with the following two basic strategies in 2010–2011 as we move out of our structural reform / profit consolidation phase into a new growth phase based on the aforementioned medium-term scenarios.

Launching our growth strategy

We will embark on initiatives based on the medium-term growth scenarios and strategic issues for each of our business segments to ensure that the Sapporo Group's total value continues to increase over the medium- to long-term.

Strengthening our existing operations

In each of our business segments, we will focus enterprise resources on our brands and other areas of strength and improve adaptability to operating environment changes, assuming that the deflationary climate will persist, while building competitive advantages.

2. Basic investment strategies

Management Plan 2010–2011 allows for a total of ¥65 billion in strategic investment over the two-year period through December 2011 to support strategic initiatives aimed at generating growth. This will be funded from cash flow generated by existing operations. We also intend to securitize certain group assets for the purpose of generating additional cash flow.

Our strategic investments will center around:

- (1) Improving brand value and expanding the scale of our food-value creation business (alcoholic beverages, soft drinks, foods)
- (2) Developing our existing property assets and acquiring new assets

3. Financial targets

(Yen in billions)

	2010 targets	2011 targets
Consolidated net sales (incl. liquor taxes)	¥ 394.5	¥ 406.0
Alcoholic Beverages (Japan)	285.0	290.0
Alcoholic Beverages (International)	26.0	27.5
Soft Drinks	32.0	34.0
Restaurants	27.0	28.0
Real Estate	24.5	26.5
Consolidated operating income	13.5	17.0
Alcoholic Beverages (Japan)	7.5	8.5
Alcoholic Beverages (International)	1.0	1.5
Soft Drinks	0.7	1.5
Restaurants	0.2	0.5
Real Estate	8.0	10.0
Corporate and intercompany eliminations	(3.9)	(5.0)
Consolidated ordinary income	11.0	13.5
Consolidated net income	4.8	6.0

*Exchange rates used for 2010, 2011: US\$=¥90, CAN\$=¥82

	2010 targets	2011 targets
Consolidated operating margin (excl. liquor taxes)	5.0%	6.0%
Financial liabilities ^{*2} (in billions)	210.0	217.0
D/E ratio	1.7	1.7
ROE	4.0%	5.0%

*1. "Corporate and intercompany eliminations" includes marketing costs and other up-front investment in relation to our operations in Vietnam.

*2. Financial liabilities do not reflect debt-reduction effects of aforementioned asset securitizations.

4. Business plans

(1) Alcoholic Beverages (Japan)

1) Marketing strategies

(a) Enhancing brand power by focusing resources on core products

Backed by a communication message of *Bringing more cheer to your "Cheers!"* (translated from the Japanese), we will be focusing our marketing efforts on our ability to impress customers with the taste of our products.

- *Sapporo Black Label*: We intend to step up our trial tasting while positioning this brand as a refined adult beverage through a new brand communication strategy
- *Yebisu*: Promotion of the *Yebisu* brand to celebrate its 120th year on the market, more proactive communication aimed at further boosting brand recognition and value
- *Mugi to Hop*: We aim to outpace the new genre market's overall growth rate by appealing to our product's unique characteristics

(b) Creation and development of growth brands

- We intend to build the market for our calorie-reduced new-genre product *Off No Zeitaku* (launched in 2009) and commence mail-order sales for our *Silk Ebisu* brand (which received favorable reviews upon its launch last year). We are also planning to launch a new product development project aimed at leveraging Sapporo Group's collective knowledge into the development of products that are truly worthy of the Sapporo name and attractive to discerning consumers.

(c) Branching out into new areas

- We will be working to make our wine business more profitable through a further strengthening of our imported wine brands and a renewed focus on the rapidly growing preservative-free wine segment.
- We will also be positioning for sustainable growth in the *shochu* sector by focusing on high value-added products and fostering brands from a medium-term perspective.
- We will be aiming to enhance our presence in the RTD segment by developing new products based on new value propositions.

2) Cost structure reforms

- We are working to improve cost efficiency through an active approach to cost management that seeks to control input costs while allocating our marketing budget as effectively as possible.
- We are also working to improve the overall efficiency of production and logistics, with plans to consolidate beer production lines where appropriate or necessary.

(2) Alcoholic Beverages (International)

1) Growing our North American business

(a) Marketing strategies

- Sleeman will continue to strive for growth above the market average through further investment in marketing of premium brands.
- Sapporo USA will continue to position itself for additional growth by expanding its focus beyond the Japanese market to encompass the general and Asian markets.

(b) Bolstering our production capabilities

- Capacity shortfalls resulting from Sleeman's rapid expansion will be addressed through additional capital investment, consignment production, and by pursuing appropriate M&A opportunities.

(c) Cost structure reforms

- We will strive for further improvements in product quality and cost efficiency by reducing manufacturing costs while adopting a careful approach to quality and process management.

2) Expanding into the Asian market

(a) Building our presence in Vietnam

- We are preparing to launch our Vietnam beer operations in earnest based on our strategic alliance with Vinataba.
- We will begin exports to and sales of beer in Vietnam in the first half of 2010 as we continue to develop marketing strategies and a distribution network with a view to developing the business further. We will also consider a further expansion of our production bases aimed at achieving true nationwide coverage.
- We will begin constructing our local production facilities during 2010 with a view to commencing operating by autumn 2011.

(b) Expanding our operations in Singapore

- We intend to collaborate with Pokka Corporation to utilize that company's strong sales presence in the Asian soft drink market to boost our beer sales in the Singapore household market while seeking to penetrate markets in adjacent nations.

(3) Soft Drinks

1) Marketing strategies

(a) Enhancing our brand power

- We intend to strengthen our brand power by concentrating our marketing budget and sales efforts on our existing core brands.
- We will also be working to improve our product development infrastructure with an eye to the creation of new high value-added products.

(b) Strengthening our strategic alliances

- We will be using our strategic alliances to gain greater access to customers while developing a product lineup that is attractive to even the most discerning consumer.

2) Cost structure reforms

(a) Implementing a cost structure reform program

- A select-and-focus approach (selectively focusing resources on key areas) will be used to implement cost structure reforms throughout the entire value chain.

(b) Generating synergies from strategic alliances

- Sapporo Group as a whole will be cooperating with Pokka Corporation in such areas as vending machines, product development, sales & manufacturing, production line optimization, procurement cost reduction, and logistics with a view to unleashing synergy effects as rapidly as possible.

3) Developing our foods business

(a) Expanding our confectionery business (Sapporo Fine Foods)

- A tripling of production capacity in 2009 will now enable us to launch new products in our *Sapporo Potekaru* line of non-oil-fried potato chips throughout Greater Tokyo. We intend to launch further new items and expand into other regions if sales prove sufficiently promising.

(b) Developing our yogurt, dessert and chilled beverages business (Azumino Food)

- We will be working to expand our sales routes, achieve further brand penetration, and boost our sales revenue with a particular emphasis on drinks containing tapioca.
- We will also be working to harness intra-group synergies by making full use of Sapporo Breweries technologies.

(4) Restaurants

1) Business structure reforms

(a) Cost reductions

- Personnel costs to be made less sensitive to sales revenue through a hiring freeze and more efficient shift and rostering arrangements.
- Unit input costs to be reduced through use of common ingredients, furniture & fixtures, and consumables wherever possible, while efforts will be made to negotiate lower rents.
- Food and labor costs to be reduced in line with medium-term cost structure reforms.
- Around ten unprofitable restaurants will be closed in the first half of the year with a view to improving overall profitability as rapidly as possible.
- We will reduce food costs and personnel expenses as part of medium-term cost structure reforms.

2) Positioning for growth

(a) Launching new restaurants

- New *Yebisu Bar* establishments to be opened with a view to achieving stronger synergy effects (Sapporo Breweries).
- New establishments to be limited to around 400 *tsubo* (1,320m²) in size

(5) Real Estate

1) Boosting value of existing properties

(a) Yebisu Garden Place

- Rents to be maintained at appropriate levels through an increased focus on value and tenant satisfaction, while occupancy rates are to be maintained through a proactive and flexible approach to tenant leasing.

(b) Sapporo Factory

- Office space to be expanded through facility renewal, with overall profitability to be boosted via an adaptable and targeted approach to tenant leasing.

2) Positioning for growth

(a) Real estate development

- Current development projects to be completed as quickly as possible
 - Shinjuku 6-chome office building: to be completed in June 2010
 - PAL Urayasu (fitness club): to be completed by mid-2011.

(b) Acquiring new assets

- We will continue to view the Ebisu area as a strategic priority when acquiring central-Tokyo properties that meet our exacting investment standards.
- We intend to maximize profits by acquiring Shibuya-district property in the first half of 2010.

(6) Overall strategies

1) Harnessing and unleashing group synergies

- We will continue to integrate IT infrastructure with a view to greater information-sharing and cooperation, and we will aim for a further consolidation of support infrastructure consistent with our emphasis on low-cost operations.
- Our in-house education and training programs will continue to emphasize the ability to thrive within a dynamic organization.
- With a view to further boosting the value of the *Sapporo* and *Yebisu* brands as group assets, we will continue to stage the annual Sapporo beer festival in Sapporo (and other parts of Hokkaido) and the Ebisu Beer Festival in Ebisu (Tokyo).

2) Our commitment to corporate social responsibility (CSR)

- Our CSR initiatives will continue to focus on food security issues, alcohol-related problems, and environmental issues such as global warming.
- We will continue to provide in-house training aimed at promoting employee awareness of our CSR and compliance frameworks.

III. Returning profits to shareholders

1. Basic policy

Returning an appropriate level of earnings to shareholders is an important management policy for the Sapporo Group. Our basic objective is to maintain stable dividend payments wherever possible while paying due attention to group earnings and financial indicators.

Retained earnings are to be used in accordance with our *New Management Framework* to strengthen our financial base and make strategic investments in growth sectors with a view to maximizing corporate value in the longer term.

2. Dividend policy

We will pay a dividend of 7 yen per share from surplus for the year ended December 2009, and we intend to maintain this dividend level (at 7 yen per share) for 2010 as we continue to undertake the strategic investments and financial reinforcement measures that are necessary to boost earnings in line with our business plan.

We are confident that the various measures outlined in our *Management Plan 2010–2011* will move us a significant step closer towards our medium- to long-term goal of ensuring sustained improvement in Sapporo Group's corporate value.

*The earnings forecasts and forward-looking statements appearing in this document were prepared by Sapporo Group based on currently available information and its best assessment of potential risks and uncertainties. Actual outcomes may differ materially from forecasts due to changes in various underlying factors.