SAPPORO HOLDINGS LIMITED
Annual Report 2005

Efficiency

Investment

The Keys to Growth

Reach

Innovation

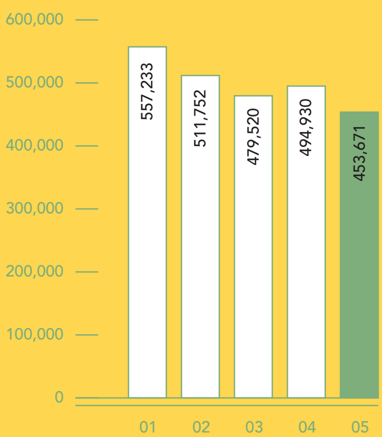
Financial Highlights

Years ended December 31

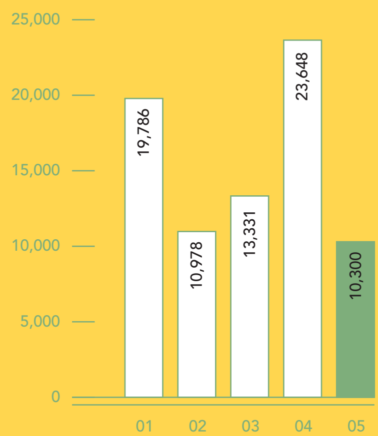
	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Net sales	**¥453,671**	¥494,930	**$3,842,394**
Net income	**3,630**	4,643	**30,743**
	Yen		U.S. dollars
Per share:			
Net income			
Primary	**¥10.20**	¥13.07	**$0.09**
Diluted	**9.18**	12.01	**0.08**
Cash dividends	**5.00**	5.00	**0.04**
	Millions of yen		Thousands of U.S. dollars
Shareholders' equity	**¥111,411**	¥ 92,263	**$ 943,599**
Total assets	**563,845**	602,112	**4,775,518**
Capital expenditures	**16,218**	10,269	**137,359**
Depreciation and amortization	**22,075**	25,330	**186,966**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥118.07=US$1, the exchange rate prevailing on December 31, 2005.

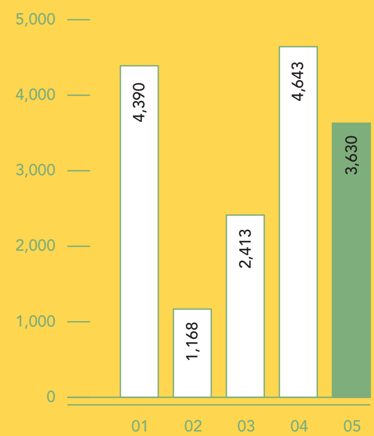
Net Sales (¥ Million)



Operating Income (¥ Million)



Net Income (¥ Million)



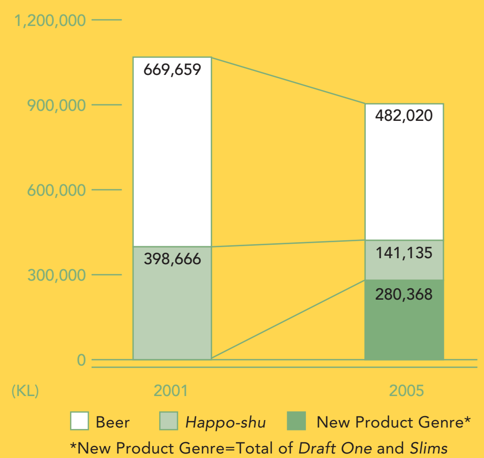
Contents

Building on Progress Today...

A Changing Market

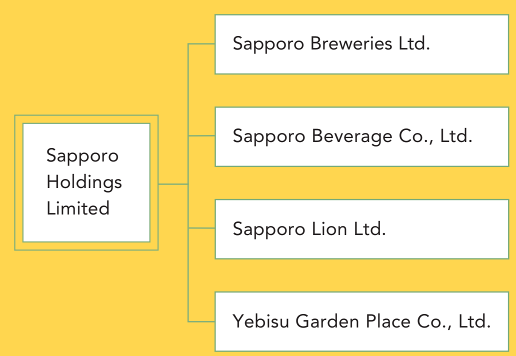
The Sapporo Group's operating environment has undergone major changes in recent years, including lower overall demand due largely to a decline in Japan's drinking-age population, as well as changes in consumer values and Japan's distribution and tax systems. This climate, in turn, has demanded that the Sapporo Group initiate business transformations of its own.

Domestic and International Shipment Volume



New Corporate Structure

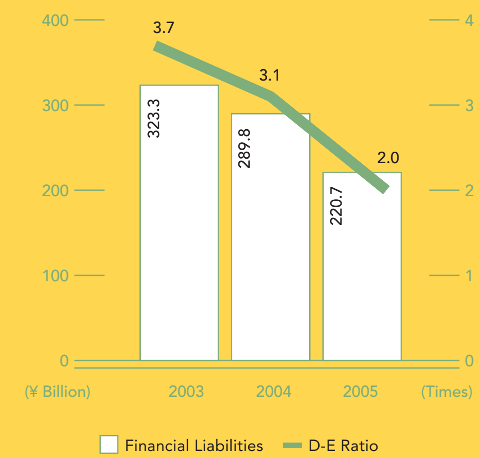
Along these lines, the Sapporo Group adopted a holding company framework in July 2003. This put in place a structure capable of leveraging speedy, flexible management through the independence and autonomy of Group companies, together with the capturing of Group synergies, to drive improvements in Group value.



Stronger Financial Base

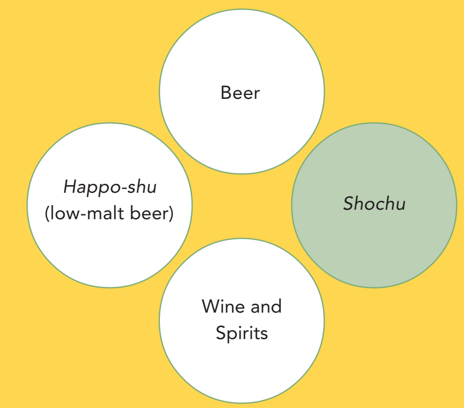
Following adoption of this new framework, we effectively utilized resources to improve return on invested capital and lower financial liabilities to suitable levels. The result was improvements in financial liabilities that far exceeded targets, as we made real progress in strengthening our financial position.

Financial Liabilities/D-E Ratio



New Fields

We are accelerating the development of new and related businesses that exhibit synergies in terms of our management resources and expertise. As a first step, Sapporo Breweries entered the *shochu* (Japanese distilled spirits) business in April 2006. Looking ahead, we will pursue alliances and M&As to promote the creation of future growth drivers.



Sapporo History

The Birth of *Sapporo Lager*

In 1876, the Hokkaido Development Commission (*Kaitakushi*) established the Hokkaido Development Commission Beer Factory, employing as brewmaster Seibei Nakagawa, who had recently returned from studying the art of beer making in Germany. The following year, *Sapporo Lager* was born, prominently displaying the Pioneer's symbol, the North Star. It was thus that *Sapporo Beer* was born.

The Birth of *Yebisu Beer*

In 1887, the Japan Beer Brewery Company was established by a group of entrepreneurs from Yokohama and Tokyo. In 1890, *Yebisu Beer* was launched, marking another milestone in the history of Sapporo Breweries. *Yebisu Beer* subsequently garnered strong support as a beer originating from Tokyo. The Ebisu name was later to be used for a nearby train station and neighborhood in Tokyo.

The Formation of DaiNippon Beer Company Ltd.

In 1906, Kyohei Magoshi, president of the Japan Beer Brewery Company, merged the Japan, Sapporo and Osaka brewing companies to form DaiNippon Beer Company Ltd., with a 70% share of the Japanese beer market. DaiNippon Beer Company Ltd. made a major contribution to the development of Japan's beer industry by improving brewing techniques and the natural ingredients used, as well as in other ways.

The Launch of Sapporo Breweries Ltd.

In 1949, DaiNippon Beer Company Ltd. was divided into two companies, Nippon Breweries, Ltd. and Asahi Breweries, Ltd. While Nippon Breweries, Ltd. assumed ownership of the *Sapporo* and *Yebisu* trademarks, it restarted its business by introducing a new brand name, *Nippon Beer*. The *Sapporo Beer* label was later revived in 1956 in Hokkaido, with Nippon Breweries, Ltd. renaming itself Sapporo Breweries Ltd. in 1964.

The Launch of Sapporo Lion Ltd.

The foundation of Sapporo Lion Ltd. dates back to the opening of Japan's first beer hall, the Yebisu Beer Hall, in 1899 by Japan Beer Brewery Company. The restaurants business was passed on to DaiNippon Beer Company Ltd. and became a company called Kyoei Corporation in 1936. In 1979, this company was renamed Sapporo Lion Ltd.

The Launch of Sapporo Beverage Co., Ltd.

Sapporo Beverage was spawned from a 1957 joint venture (terminated in 1973) between Sapporo Breweries and Canada Dry. From 1985, the company operated as Sapporo Beer's Beverage Co., Ltd., and assumed its present trade name in 2004.

The Launch of Yebisu Garden Place Co., Ltd.

In 1985, the decision was made to redevelop the former site of Japan Beer Brewery Company's factory, which was constructed in 1889 in Tokyo's Ebisu district. Yebisu Development Co., Ltd. was established to oversee this project in 1986. In 1992, the company was renamed Yebisu Garden Place Co., Ltd.

Greater Efficiency

Aggressive Investment

Wider Business Reach

Innovation Through R&D

The New Medium-Term Management Plan

...With Initiatives for Growth Tomorrow

In February 2006, Sapporo Holdings announced a new three-year, medium-term management plan. Guided by this plan, the Sapporo Group is making a clean break from the reforms of the past, all the while bolstering its management base and creating growth drivers for the future. Positioning the next three years as a second stage of growth following the transition to a holding company structure in July 2003, the company is boldly promoting sustainable growth and working to optimize its enterprise value.

Message From the President

2005 in Review

March 30, 2006 marked one year to the date since my appointment as President and Representative Director, Group CEO of Sapporo Holdings. The past year saw the environment surrounding our four key operations—Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate—grow more acute, with greater bipolarization in consumption trends, further erosion of borders that once separated certain sectors, and more diversification in customer tastes. Conditions like these demand a company's full capabilities, among them the ability to accurately develop products and services that are sure to go over well with customers; the nurturing capacity to establish products as brands; and cost competitiveness.

(¥ Million)

	2003	2004	2005
Net Sales	479,520	494,930	**453,671**
Operating Income	13,331	23,648	**10,300**
Ordinary Income	6,788	18,005	**6,602**
Financial Liabilities	323,369	289,854	**220,723**
D-E Ratio (Times)	3.7	3.1	**2.0**
ROE (%)	2.5	5.2	**3.6**
Return on Invested Capital (ROIC) (%)*	3.1	6.0	**3.0**

**ROIC= Earnings before interest and taxes (Ordinary income + Interest expenses)/ Invested capital (Shareholders' equity + Financial liabilities)*

Takao Murakami
President and Representative Director, Group CEO

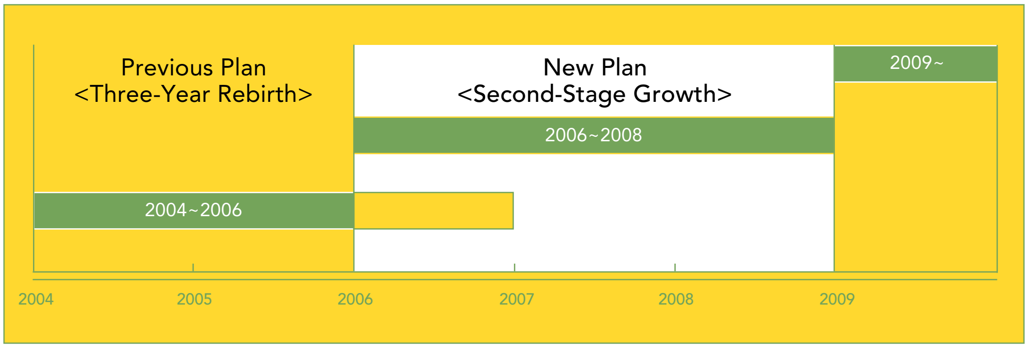
In this market environment, Sapporo Holdings posted consolidated net sales of ¥453,671 million, down 8.3% from the previous year, and operating income of ¥10,300 million, down 56.4%. Net income, meanwhile, declined 21.8% to ¥3,630 million. The decline in net sales stemmed from slumping sales volumes in Alcoholic Beverages and Soft Drinks. Lower earnings resulted largely from higher brand creation costs in Alcoholic Beverages. As in the previous year, we declared a full-year dividend of ¥5.0 per share. ROE was 3.6%.

The New Medium-Term Management Plan

2005 was the second year of our management plan ending in 2006. The Group enacted initiatives vital to meeting two critical objectives—improve ROIC and reduce financial liabilities to appropriate levels. While our financial liabilities target was met in 2004, we succeeded in lowering levels even more, thereby further improving our financial position. Regarding ROIC, while we achieved our target in 2004, decreased earnings in 2005 pulled ROIC lower. This was an unsatisfactory result.

Volatility of this kind in operating performance suggests to me that the Sapporo Group's profit structure is not yet on a solid footing. What this means is that we are still highly susceptible to the impact of changes in the external environment. At the same time, another problem I see is the Group's strong dependency on its Alcoholic Beverages business. To address these concerns, I believe we must take a different approach from the past to promote sustainable growth of the Sapporo Group. I am convinced that taking steps to further enhance the Group's management base and create future growth drivers are necessary to the effort to boost enterprise value.

Based on this reasoning, we have launched a new medium-term plan one year earlier than scheduled. Following on from the previous plan, where a "three-year rebirth" was the major theme, the purpose of this latest plan will be to build the Group structure needed to achieve second-stage growth.



Review of the Previous Medium-Term Management Plan

The Sapporo Group assumed its current holding company structure in July 2003 by launching a new framework built on four main operations—Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate. With 2004 through 2006 as a time for its "three-year rebirth," the Group conducted business guided by the previous business plan.

The two years since the start of the plan have seen major swings in operating results. Nevertheless, reductions in fixed costs and interest-bearing liabilities, alongside other structural reforms, helped put in place a base for moving to the next stage of growth. This progress, as well as the rapidly changing environment for operating companies, and the different timing requirements of each business, prompted the decision to speed up initiatives at the earliest possible stage to lay the groundwork today for sustainable growth in the future. To this end, although the current plan is still under way, we drafted a new medium-term plan starting in 2006 with the goal of improving future Group value.

<2004 Highlights>

	(YoY Changes)
Effect of higher sales volumes in Alcoholic Beverages, Soft Drinks, etc.	¥10.7 billion
Benefits of cost reductions at all operating companies	¥9.2 billion
Decrease in sales of real estate for sale	(¥8.1 billion)
Sales promotion expenses, etc.	(¥0.6 billion)

>> Initiated structural reforms with sale of hotel business, posting a gain of ¥6.8 billion on a sale price of ¥50.1 billion.

>> Applied impairment accounting earlier than required, removing future risks. Booked charges of ¥13.5 billion, including losses on sale of real estate.

>> Full-year contribution from the 2003 closure of two breweries in Alcoholic Beverages yielded a ¥2.3 billion reduction in fixed manufacturing costs.

>> Reduced financial liabilities by ¥33.5 billion from the previous year-end.

<2005 Highlights>

	(YoY Changes)
Lower sales in Alcoholic Beverages and Soft Drinks	(¥7.3 billion)
Higher sales promotion expenses	(¥6.0 billion)
Benefits of cost reductions at all operating companies	¥0.8 billion
Other	¥1.1 billion

>> In Alcoholic Beverages, forward-looking investments in the form of sales promotion expenses enabled *Draft One* and *Slims* to build market share in the new product genre market, lifting sales volume 21% year on year.

>> By responding to bipolarization in consumption trends, *Yebisu* sales volume rose 1% year on year despite an 8% decline in overall beer demand.

>> Earnings declined in Soft Drinks due to a change in product mix and other factors, despite unchanged sales volume. Nonetheless, major strides were made in lowering the breakeven point by closing the Kanagawa Plant and implementing other reforms to improve the profit structure. (Full-year contribution of cost reductions from closure of ¥0.4 billion a year)

>> Continuation from 2004 of a recovery in the Restaurants segment lifted same-store sales 2% year on year; together with a strong performance at new format outlets, operating income increased ¥0.3 billion.

>> Overall occupancy rates in real estate leasing operations improved, with mainstay Yebisu Garden Place achieving an occupancy rate of nearly 100%.

>> Sharply reduced financial liabilities, as in 2004; financial liabilities stood at ¥220.7 billion at December 31, 2005, down ¥69.1 billion year on year.

The New Medium-Term Management Plan

The quantitative targets for the new medium-term management plan are found in the charts on page seven. In the drive to meet these targets, we plan to pursue nine basic Group strategies.

1) Basic Policy Regarding Customers

Through all the Group's businesses, the Sapporo name will be synonymous with contributing to enrichment and enjoyment in various lifestyle scenes throughout people's lives. As always, efforts at each operating company will focus on strengthening communication with customers and boosting the contribution made by each company.

2) Strike a Balance Between Growth and Financial Soundness With New Investments

When organizational realignment took place in 2003, one key proposition was to bolster the financial position by reducing financial liabilities. The next three years will see further reductions in financial liabilities skillfully balanced with the enactment of strategic investments vital to supporting future growth.

3) Strengthen Framework of Four Businesses

Rebuild Alcoholic Beverages and Real Estate businesses to ensure more consistent earnings and structurally reform Soft Drinks and Restaurants businesses to improve earnings. Taking optimal advantage of benefits offered by its present structure, the Group will balance the need for cohesiveness with individual autonomy, boosting management efficiency by maximizing synergies both between Sapporo Holdings and each operating company, and among the operating companies themselves. In tandem, Sapporo Holdings will play a pivotal role in supporting reform initiatives being unveiled at a faster pace at each operating company.

4) Structurally Reform Operating Companies

Strive to quicken the pace of structural reforms at each operating company. Improve earnings bases in existing businesses, maximize and effectively utilize management resources, and nurture growth businesses for the future, all through far-reaching business growth projects formed between Sapporo Holdings and the operating companies.

5) Raise Group Earnings

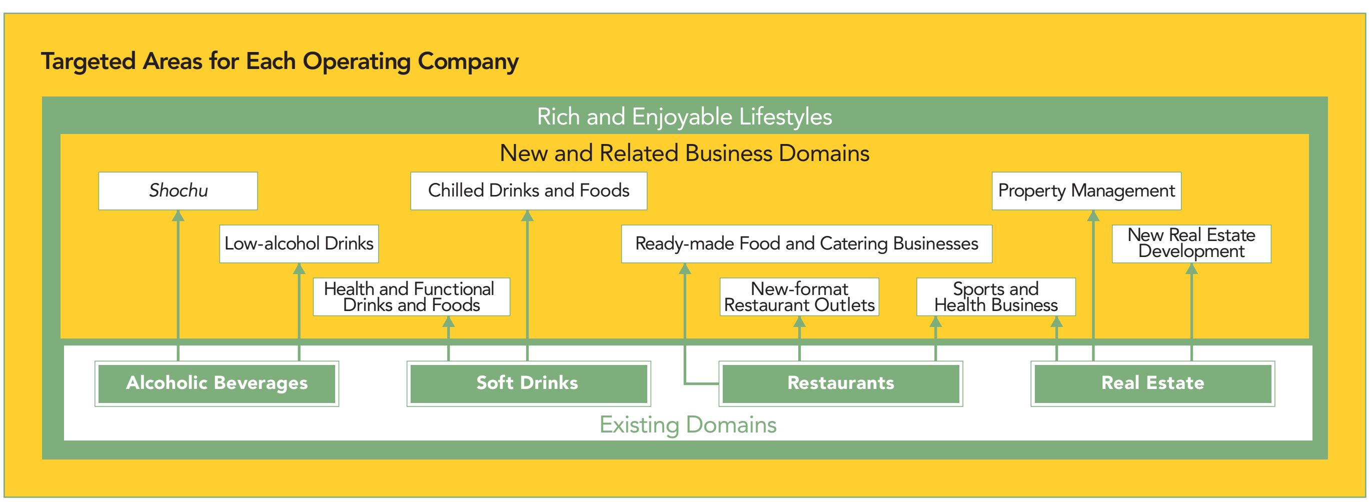
The Sapporo Group has realized about ¥10.0 billion in cost reductions over the last two years. The goal during the next three years is to duplicate that success by the end of 2008, by focusing primarily on reducing manufacturing costs and logistics expenses, using personnel expenses and sales promotion expenses more efficiently, and improving the efficiency of back-office operations. In doing so, we will implement Group management that will strengthen our earnings base and make us more resilient to changes in the operating environment.

6) Increase Strategic Investments

Create growth drivers to support sustainable Group growth by making investments of ¥70.0 billion over the next three years in strategic initiatives and facilities. Some specific investment areas will include alliances and M&As, exemplified by entry into the *shochu* business, greater investment in R&D, and investments in real estate development to maximize use of Group assets. While making these investments, utilize cash flows over the same three-year period to reduce financial liabilities by ¥40.0 billion.

7) Develop New and Related Businesses

To create growth drivers for the future, each operating company will accelerate efforts to develop new and related businesses that exhibit synergies in terms of management resources and expertise with current businesses. To this end, strategic investments will be made chiefly in areas such as R&D, alliances, and M&As.



8) Strengthen R&D and Product Development Capabilities

Further strengthen alliances between R&D divisions involved in forward-looking projects, with Sapporo Holdings serving in a coordinating capacity, with a view to establishing joint Group research centers. At the same time, further bolster functions found in projects designed to strengthen the Group's product development capabilities. Also create new value propositions in the same vein as *Draft One* and *The Fruit Sparkling*.

9) Promote CSR-based Management

The Sapporo Group's 130-year history is both a testament to its existence in harmony with society, as well as to the fact that the Group is considered a vital part of society. CSR is regarded as a key strategy supporting sustainable growth of the Group. Therefore, CSR-based management befitting Sapporo will be promoted across the Group.

From these nine basic strategies, the Group, centered on Sapporo Holdings, will strive to raise performance in its four main operations over the next three years and promote Group growth over the medium and long terms to maximize enterprise value. In this way, the Group hopes to meet the expectations of its many and varied stakeholders.

Group Sales and Earnings Targets

	2008 Targets	2005
Consolidated Net Sales (¥ Billion)	520.0	453.6
Consolidated Operating Income (¥ Billion)	28.0	10.3

Group Financial Targets

	2008 Targets	2005
Financial Liabilities (¥ Billion)	180.0	220.7
D-E Ratio (Times)	1.5	2.0
ROE (%)	10	3.6

In Closing

2006 will see my second year as President and Representative Director, Group CEO coincide with the first year of our new medium-term management plan. Both for me personally and for the Sapporo Group, this promises to be an extremely important year. In fulfilling its duty as the Group's publicly owned representative company, Sapporo Holdings recognizes that the return of profits to shareholders is its paramount management concern. While maintaining a stable dividend as our fundamental policy, we will determine dividends with reference to our operating results and financial position.

April 1, 2006

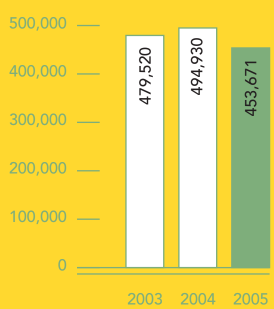
Takao Murakami

President and Representative Director, Group CEO

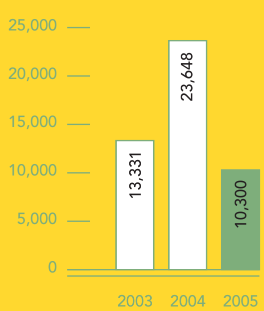
At a Glance

Sapporo Holdings Limited

Net Sales (¥ Million)



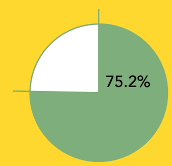
Operating Income (¥ Million)



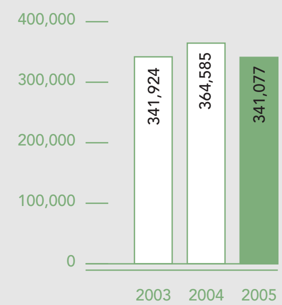
Operating Revenues (¥ Million)

Sapporo Breweries Ltd.

Alcoholic Beverages

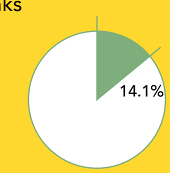


Share of Net Sales

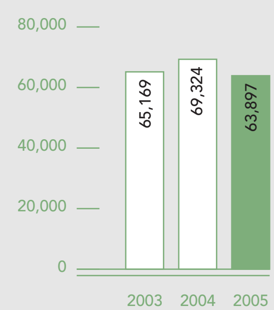


Sapporo Beverage Co., Ltd.

Soft Drinks

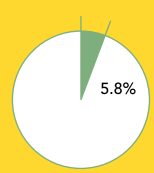


Share of Net Sales

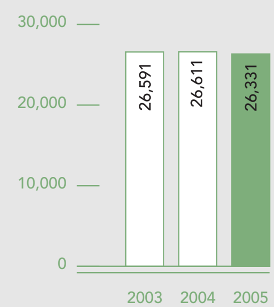


Sapporo Lion Ltd.

Restaurants

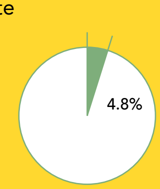


Share of Net Sales

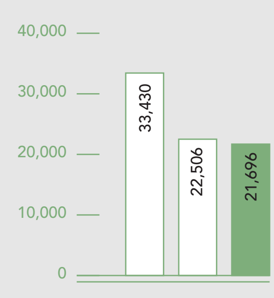


Yebisu Garden Place Co., Ltd.

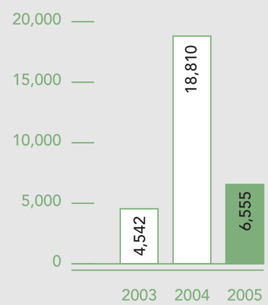
Real Estate



Share of Net Sales

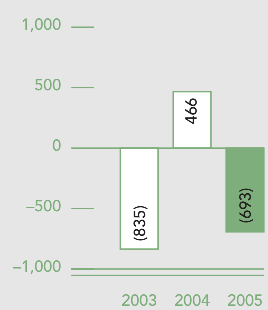


Operating Income (Loss) (¥ Million) | **Products and Services** | **Highlights**



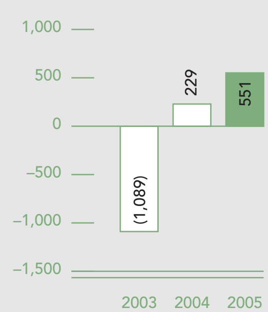
- Beer
- *Happo-shu* (low-malt beer)
- Wine and spirits
- *Shochu* (Japanese distilled spirits)

- In the second year after its launch, *Draft One* continued to record steady growth, as did *Slims*, a new product aimed at more health-conscious consumers. This performance resulted in overall growth of 21% in new product genres.
- Although overall beer demand in Japan fell 8% year on year, sales of *Yebisu* beer grew 1% thanks to successful measures in response to increasing bipolarization in consumption trends.



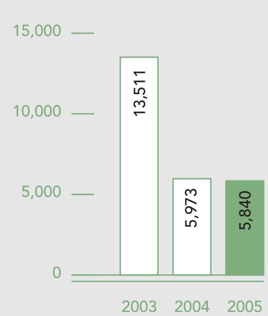
- Fruit juice-based soft drinks
- Mineral water products

- In Soft Drinks, sales volume remained almost on a par with the previous year despite forecasts to the contrary due to the impact of record-breaking temperatures the previous summer. Operating income, meanwhile, declined due to changes in the product mix and other factors.
- In efforts to reform the earnings structure, major strides were made toward lowering the breakeven point through closure of the Kanagawa Plant and other measures.



- Ginza Lion, the paragon of Japan's beer hall chains
- The Agura chain of Japanese-style beer halls
- The Brasserie chain of French-style beer halls

- Economic recovery in Japan and other factors helped the restaurant sector stay firmly on a recovery track. The Group's Restaurants business saw a 2% year-on-year increase in same-store sales, for a second consecutive year of same-store sales growth.
- While 13 new outlets were opened, the Group pushed forward with closing those outlets that showed no prospects of a quick turnaround in earnings. The Group had a total of 202 restaurant outlets as of December 31, 2005, 5 fewer than the previous year.



- Yebisu Garden Place
- Sapporo Factory

- The real estate sector began to see both improved occupancy rates for offices buildings located mainly in and around Tokyo, as well as a halt in once-declining rent levels. The Group's real estate leasing operations also saw improved occupancy rates, and mainstay Yebisu Garden Place achieved an occupancy rate of nearly 100%.
- Construction continues on the Ginza 7-chome Multifaceted Building (Ginza, Tokyo), scheduled to open its doors in fall 2006.

Sapporo Breweries Ltd.

In Alcoholic Beverages, we pursued Sapporo's unique value proposition in a drive to gain unmatched positioning and capture market share in beer, *Happo-shu* (low-malt beer) and new product genres, as well as other alcoholic beverage categories. Looking ahead, this segment will continue its contribution to earnings as one of the Sapporo Group's core operations.

Operating Targets From Medium-Term Management Plan

	2008 Targets	2005
Operating Income (¥ Billion)	20.0	6.5
Operating Income Ratio (%)	5.3	1.9

Review of Operations

In Japan, overall demand for beer and *Happo-shu* declined 8% for the year despite an ongoing economic recovery. The entry of rivals into the new product genre market, one which Sapporo pioneered with the creation of *Draft One*, sparked a flurry of activity, lifting the share of this market as a whole from around 5% in the previous year to about 16%. Overall demand for beer, *Happo-shu* and new product genres nonetheless edged nearly 3% lower on the year.

This climate notwithstanding, *Draft One*, as the forerunner in the new product genre market, posted a nearly 10% jump in growth from a year earlier. *Yebisu Beer*, the premier name in premium beer, also staved off competition from rival brands, bucking weak overall beer demand to record growth in market share for the 13th consecutive year. During the year, we revamped core brands and launched new product genre offerings, and also nearly completed efforts to source 100% of our malt and hops from contract growers*—a noteworthy achievement for any beer producer in the world. In fact, Sapporo Breweries' reputation grew during the year for its one-of-a-kind emphasis on quality ingredients and its image as a company that actively addresses safety and reliability concerns from the consumers' perspective.

Despite these pluses, lackluster *Happo-shu* sales and other factors pulled sales in the Alcoholic Beverages segment (including sales from Sapporo Breweries) down 6.5% to ¥341,077 million. Operating income declined 65.2% to ¥6,555 million because of this as well as higher sales promotion expenses.

** Total completion as of January 2006 manufacturing report.*

The Medium-Term Management Plan ~Recognizing the Environment

We recognize that the Alcoholic Beverages business is facing an external environment of the type described below. This recognition served as the basis for formulation of a new medium-term management plan.

[Environment Surrounding Alcoholic Beverages]

- Increasingly borderless in certain sectors of the market, diversification of drinking scenes, emergence of low-alcohol and light drinks
- Increasing health consciousness and desire for genuine quality
- Slight downward trend in demand but active seniors and women are new drivers of demand
- Sapporo's share of Japan's alcoholic beverages market is around 8%, but there are ample opportunities to grow

Medium-Term Management Plan ~Basic Strategies

Amid this operating environment, we established five strategies as part of our new management plan in a bid to achieve growth for Sapporo Breweries and the Alcoholic Beverages business:

1) Assuming a severe external environment, create an operating structure with the ability to generate sustained cash flows.
2) Clarify the mission of each business to create strategic resources and concentrate investments on targeted domains in order to develop corporate brands and rapidly establish new earnings bases.
3) Improve brand mix and build and strengthen core brands in each price range to increase business stability.
4) Capitalizing on product development strengths, increase and strengthen core brands in the premium price range (occupied by *Yebisu Beer*) and standard price range.
5) Reduce costs further by continuously reforming structures in each value chain to substantially lower the breakeven point.

Medium-Term Management Plan ~Key Initiatives

We consider the following seven specific key initiatives vital to implementing the above basic strategies:

1) Comprehensively evaluate businesses from both a qualitative and quantitative standpoint, taking into account factors such as level of market appeal, competitive advantage, and return on investment, to reshape the business portfolio.
2) Bolster newly entered *shochu* and low-alcohol beverage businesses, quickly nurturing both into core businesses that contribute to earnings.
3) Focus strategic investments on entry into new businesses, manufacturing reforms and R&D.
4) Reduce fixed costs and turn more advertising and personnel expenses into variable expenses to substantially lower the breakeven point.
5) Underpinned by a focus on sourcing all malt and hops from contract growers under a collaborative contract farming system and a distinctive emphasis on delicious, safe and reliable ingredients, strengthen the corporate brand.
6) Improve earnings in wine and spirits through structural reforms.
7) Grow profits through an overseas strategy for expanding business in the U.S. and Canada.

We have earned wide recognition in Japan for the qualities that have come to define the Sapporo brand—handpicked natural ingredients and a focus on taste. In remaining committed to these defining qualities, we will continue our quest to raise both enterprise and Group value.

Collaborative Contract Farming System

Since its earliest days, Sapporo Breweries has had a strong commitment to the quality of ingredients and the products made from them. It remains a company dedicated, without compromise, to the pursuit of better quality as well as to outstanding safety, reliability and taste. Against a backdrop of increasing consumer interest and awareness concerning food safety, Sapporo Breweries in September 2003 declared its intention to source all of its malt and hops from contract growers by 2006. True to its word, Sapporo Breweries achieved this goal in January 2006.

Through close cooperation with growers to produce high-quality raw materials, this system allows Sapporo Breweries to ascertain the grower, cultivation method and even the specific field used for ingredients. In short, it is a commitment to delivering even more flavorful and reliable products to customers.

Sapporo Breweries has thus built a sophisticated and sound management system that demands nothing less than fine-quality raw materials, whether they are produced in Japan or overseas, and trustworthy growers. Sapporo Breweries is at the vanguard of the beer industry worldwide in its dedication to quality right from the time the first seed is sown. Moving forward, we will continue to put in place systems and structures that keep us at the forefront of the beer industry.

The Japanese Beer Industry and Sapporo Breweries

Liquor Tax in Japan

In Europe, the U.S. and elsewhere, the tax rate on alcoholic beverages is based on alcohol content. Japan, however, has used a different system. The country's Liquor Tax Law divided alcoholic beverages into 10 categories, including sake, *shochu*, beer, and whiskey, according to differences such as ingredients and production methods. Changes were made to this law in May 2006, with the introduction of four broad tax classifications: "sparkling," which includes beer and *Happo-shu*; "fermented," including wine and sake; "distilled," a category which includes whiskey and *shochu*; and "hybrid," including liqueurs. The new "sparkling" category is further divided into four sub-categories—beer, two types of *Happo-shu* and other sparkling alcoholic beverages—according to the ingredients and malt content.

Generally, European countries and the U.S. levy high tax rates on whiskey and other distilled spirits but low tax rates apply to beer and fermented alcoholic beverages such as wine. Japan, however, imposes its highest tax rate on beer, making the retail price of beer in Japan the highest among major industrialized countries.

A Changing Market

Beer is by far Japan's most popular alcoholic beverage, accounting for more than three-fourths of total sales of these beverages. To respond to this enormous consumer need while holding down the price, Sapporo Breweries and other major Japanese brewers started selling *Happo-shu,* which reduces the tax by adding corn starch, barley and rice to hold the malt content under 25%*. A new product genre, which has an even lower tax rate and price, has been developed using methods and ingredients that do not belong in either the beer or *Happo-shu* categories. Demand has risen steadily for *Happo-shu* and this new product genre since their launch, with consumers attracted by the affordability of these products. These two versions of beer are now firmly established as alcoholic beverage markets in their own right and are generating significant growth in sales volumes.

** A beverage is classified as Happo-shu when the malt content is less than 67%, although most have a content of under 25%.*

Draft One

Sapporo Breweries developed *Draft One*, a new product genre, by using pea protein instead of malt when fermenting beer yeast. *Draft One* went on sale in Japan in February 2004. Another product made from pea protein, *Slims*, made its debut in May 2005. This beverage responds to the increasing health consciousness and preference for low-calorie beverages among consumers. Sapporo Breweries has garnered massive support from customers with these two products. Both are malt-free beverages that are at least 40% cheaper than conventional beer yet boast quality and taste that match the real thing.

Domestic Liquor Tax **(post-May 2006 amendment to Liquor Tax Law)**

Malt Content	67% or more	Under 25%	–
	Beer An alcoholic beverage produced by fermenting malt, beer yeast, hops, water and other ingredients	***Happo-shu***1* A sparkling beverage that uses raw materials that are not classified as ingredients for beer	**Other Sparkling Alcoholic Beverages*2** A beverage made by fermenting beer yeast using pea protein
Liquor Tax *(Per 350ml can)*	¥77.00	¥46.99	¥28.00

**1 Generally, Happo-shu with a malt content less than 25%* **2 Draft One*

Soft Drinks

Sapporo Beverage Co., Ltd.

Sales and earnings both declined during the year, impacted by intensifying competition and other factors. Guided by the new medium-term management plan, we will strive over the next three years to expand the Soft Drinks business domain and make operations profitable by energizing existing business, conducting extensive cost reductions and aggressively pursuing alliance and M&A opportunities.

Operating Targets From Medium-Term Management Plan

	2008 Targets	2005
Operating Income (Loss) (¥ Billion)	2.5	(0.6)
Operating Income Ratio (%)	3.1	(1.1)

Review of Operations

Backed by sales of sugar-free beverages, overall demand in the soft drinks market grew by an estimated 2% year on year, despite forecasts to the contrary due to the impact of record-breaking temperatures the previous summer. In this environment, although we took steps in the growing green tea category to expand sales of key brands and introduce higher added value, Sapporo Beverage was nonetheless impacted by greater competition. In the carbonated beverage and juice categories, where Sapporo Beverage is particularly at home, we posted improved year-on-year performance in both fields, supported by products that showcase our distinctive advantages.

Sales in the Soft Drinks segment (including sales from Sapporo Beverage) were ¥63,897 million, down 7.8% from the previous year. We posted an operating loss of ¥693 million, a decline of ¥1,159 million from the previous year's profit.

Growth Strategies and Key Initiatives

With a scale of ¥3.9 trillion, Japan's soft drinks market is forecast to see greater erosion of borders in certain sectors and bipolarization in consumption trends, alongside more M&As and business alliances between manufacturers and sellers/distributors. Modest growth, however, is expected to continue. Given these conditions, our goal is to achieve growth under two major strategies outlined in the new medium-term management plan—"strengthen existing business domains" and "target new business domains."

Under "strengthen existing business domains," we will pursue the following initiatives:

1) In the dry-storage market, concentrate investments on existing brands with potential and nurture as core brands.
2) Focus more on nurturing and strengthening value-added products in existing product fields.
3) Bolster the Group R&D framework to enhance new product development capabilities.
4) Develop products for different business formats and sales channels.
5) Consider M&As and alliances to strengthen the direct sales system in the vending machine business.
6) Establish and refine the SCM system, review unprofitable domains, and raise productivity by rightsizing the workforce.

Initiatives under "target new business domains" will include:

1) Make greater use of M&As and alliances to drive business growth.
2) Advance into the chilled drinks, chilled foods and health and functional drink fields.

By breathing new life into existing businesses, enacting sweeping cost reductions and broadening our business fields, we will work consistently toward completing the new medium-term plan and achieving profitable operations.

Restaurants

Sapporo Lion Ltd.

Founded 107 years ago, Sapporo Lion serves as an important channel for serving customers the Group's mainstay alcohol, soft drink and food products. Mindful of this role, we are steadily implementing measures highlighted in the new medium-term management plan to expand business scope and improve our earnings base.

Operating Targets From Medium-Term Management Plan

	2008 Targets	2005
Operating Income (¥ Billion)	1.5	0.5
Operating Income Ratio (%)	4.3	2.1

Review of Operations

While the restaurant industry continues both to contract and face competition from other industries, signs of recovery have emerged in existing store sales in formats with relatively high alcoholic beverage sales. With "reinvigorating beer halls" as a key slogan, we worked in this climate to boost earnings at existing outlets and to increase sales at newly opened outlets. The result was a second consecutive year of growth in same-store sales, as well as the opening of 13 new restaurant outlets. We also closed 18 unprofitable and other outlets, leaving a total of 202 outlets as of December 31, 2005.

The foregoing resulted in sales in the Restaurants segment (including Sapporo Lion sales) of ¥26,331 million, down 1.1% from the previous year. Operating income, however, climbed 140.6% to ¥551 million.

Growth Strategies and Key Initiatives

Despite a contraction in market scale in the restaurant sector as a whole, take-out businesses and other peripheral markets are steadily growing. Major companies are increasingly dominating the market. In response, we are taking Sapporo Lion's management on the offensive. From this stance, we are addressing four basic strategies in the medium-term management plan:

1) Leverage strength as a leader in beer halls to reinvigorate existing outlets and continue to open new outlets to raise store earnings.
2) Expand new format outlets such as Kakoiya and Tomoru.
3) Continue to develop formats for greater diversification in business development.
4) Step up cost-reduction efforts through greater use of Web-based ordering and other initiatives as well as standardization within business formats.

Accompanying these four basic strategies are the following seven key initiatives:

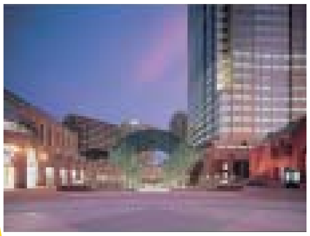
1) Use customer database to reinvigorate existing outlets.
2) Use M&As to expand formats and business fields.
3) Enter the catering business and develop business targeted at seniors through this business.
4) Expand the ready-made meal business.
5) Use Web-based ordering and foodstuff traceability systems to expand outside sales.
6) Promote food safety using the contract farming system for foodstuffs.
7) Integrate management of sports clubs, health clubs and restaurants.

In this way, we are expanding Sapporo Lion's business scope and refining its earnings base, all befitting the company's role as an important channel for serving customers the Group's mainstay alcohol, soft drink and food products.

Real Estate

Yebisu Garden Place Co., Ltd.

Compared to the Group's other three core operations, the Real Estate business operates on a different timetable with relatively low volatility, making it a consistent source of earnings. As we aggressively push ahead with real estate development primarily focused on prime real estate holdings, our goal is to develop a business model focused on development and creation to generate greater cash flows.



Operating Targets From Medium-Term Management Plan

	2008 Targets	2005
Operating Income (¥ Billion)	7.0	5.8
ROA* (%)	7.8	6.7

** Note: ROA based on EBITDA*

Review of Operations

Japan's real estate sector saw improvements both in occupancy rates for office buildings located mainly in the Tokyo metropolitan area, and in rent levels in certain regions. At Yebisu Garden Place and other leased office buildings, we took steps to maintain or improve operating rates. In parallel, we sponsored events and fairs, and carried out store renewals at Yebisu Garden Place and Sapporo Factory, two properties with commercial facilities. These and other actions were part of an ongoing effort to differentiate our facilities from those of rival properties, thereby enhancing their capacity to attract customers.

These actions notwithstanding, sales in the Real Estate segment (including Yebisu Garden Place sales) edged 3.6% lower year on year to ¥21,696 million. Operating income was down 2.2% to ¥5,840 million.

Growth Strategies and Key Initiatives

As external real estate conditions continue to improve, we are pursuing three basic strategies in the Real Estate business as part of the medium-term management plan:

1) As a structural reform measure, move from a property management and operation business model to one focused on development and creation to promote new value.
2) Upgrade existing leased properties and develop new properties to expand asset-based business; also, develop non-asset-based businesses such as sports and health, property management and construction management.
3) Continue implementing measures to improve financial soundness in tandem with development investments in asset-based business.

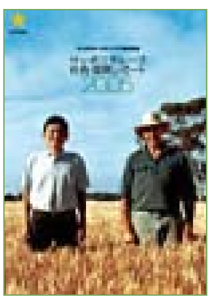
To accompany these basic strategies, we have also laid out four key initiatives:

1) Strengthen asset management for and generate higher profit margins from leased properties, including Yebisu Garden Place, Sapporo Factory and existing properties in Ginza.
2) Actively develop the Group's real estate holdings, making optimal use of real estate at the Group level.
3) Advance projects such as construction of the Ginza 7-chome Multifaceted Building, extension of Sapporo Factory and utilization of the former site of Sapporo Breweries company housing, and move forward with commercializing new properties.
4) Extend sports club facilities in Sapporo and collaborate with subsidiary Sapporo Sports Plaza Corporation to strengthen operating base in sports business.

Along these lines, we will actively promote real estate development centered on prime real estate holdings as we develop a business model focused on development and creation to generate greater cash flows.

A Responsible Corporate Citizen

The Sapporo Group's management philosophy is to make people's lives richer and more enjoyable. Anchored by this philosophy, we practice CSR-based management that serves as the foundation for consistent growth and earnings. Under its medium-term management plan, Sapporo Holdings will strengthen CSR as one of its key strategies for supporting sustainable growth of the Sapporo Group. Sapporo Holdings believes that this approach will raise the enterprise value of the Group as a whole and meet the expectations of stakeholders from a long-term perspective.



★ *Social and Environmental Report 2005*

★ *Enjoy Alcohol in a Responsible Way*
Sapporo has published a booklet to educate and enlighten customers on alcohol and its proper use.

Raising Enterprise Value by Adhering to Corporate Ethical Standards

The Sapporo Group continues to raise its enterprise value and build cordial relations with society based on the Sapporo Group Code of Business Conduct. As well as having a Whistle-Blower's Hotline and Helpline system, we established in March 2005 the Group CSR Promotion Committee. The goal of these and other initiatives is to conduct business activities of the Sapporo Group in a sound manner by preventing impropriety as well as by ensuring the early detection and containment of any such acts should they occur.

Customers and the Sapporo Group

In March 2005, we established the Quality Assurance Department as part of our ongoing efforts to improve quality at every stage of the Sapporo Group's operations, from raw materials to finished products. In another quality-related initiative, we are fashioning a collaborative contract farming system to ensure greater traceability with respect to the products of our beer and *Happo-shu* operations. Steady progress is being made in line with our plans in this regard. So that customers get the most out of our products, we also actively supply information concerning responsible drinking. At the same time, structures are in place to reflect customer feedback in products and services as well as to safeguard customers' personal information. In these and other ways, we are working to earn the absolute trust of customers.

The Environment and the Sapporo Group

Guided by the Sapporo Group's basic environmental philosophy, the Environment Protection Committee of each operating company sets environmental action plans and goals. Working toward their respective goals, each company is engaged in environmental protection activities appropriate to their operations. Measures include resource and energy conservation, actions to help prevent global warming, the reduction of industrial waste and product recycling. In tandem with these measures, the Sapporo Group is improving communication with stakeholders, such as by publishing a social and environmental report, while also working with stakeholders to reduce the environmental impact of business operations. Through these activities, we are determined to help create a sustainable society.

Corporate Governance and Compliance

The Sapporo Group regards strengthening and enhancing corporate governance as one of its top management priorities. As such, the Group strives both to improve management transparency and enhance management supervision functions critical to attaining its business targets. The Group is also determined to bolster compliance to ensure continuous growth in its enterprise value.

The Corporate Governance Framework

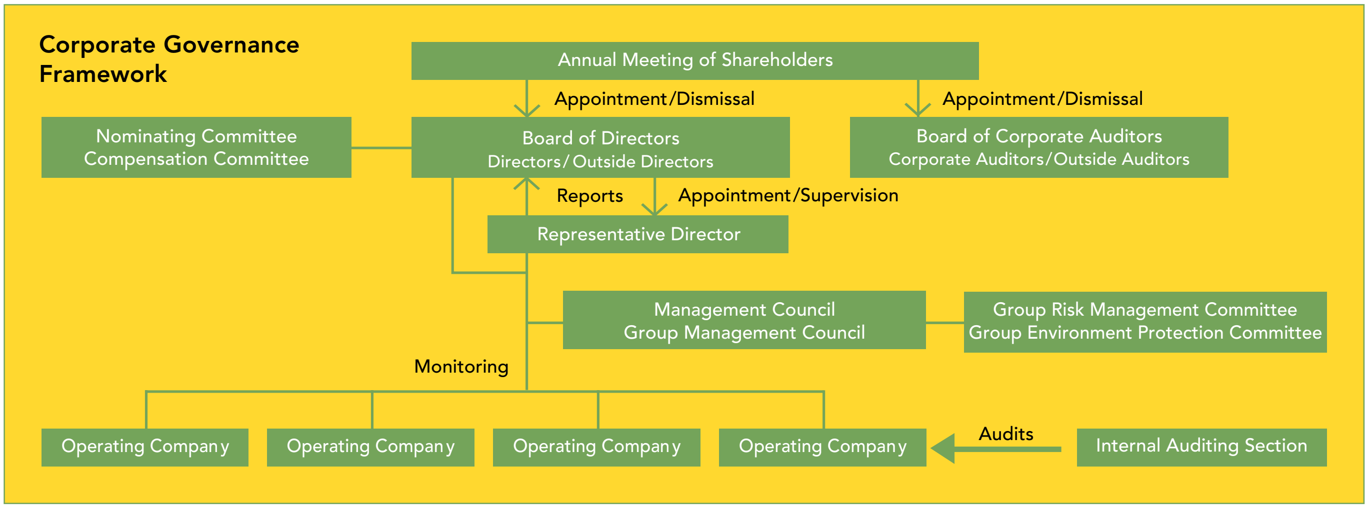
Sapporo Holdings became the holding company of the Sapporo Group on July 1, 2003, but continues to use the previous corporate auditor system. As of March 30, 2006, the Board of Directors had six members, one of whom is an outside director, and the Board of Corporate Auditors had four members, two of whom come from outside the company. While Sapporo Holdings has not fully adopted the Committee System, it has established a Nominating Committee and a Compensation Committee with the goals of increasing transparency in respect to the nomination and remuneration of directors and preserving a sound management structure.

Supervision of Operating Companies by Sapporo Holdings

The holding company system means that supervisory functions (holding company) and the execution of day-to-day operations (operating companies) are completely separate at the Sapporo Group. The Group has also established a Group Management Council responsible for ensuring flexible decision-making and coordinated strategies for the entire Group. The council tracks business progress at each operating company and meets to discuss key issues at each, related to business execution. Moreover, each operating company president commits to achieving certain management objectives, thus clarifying his company's share of responsibilities for the Group's management goals.

Status of Internal Control System

In tandem with adoption of a holding company framework in July 2003, the Sapporo Group has put in place Group management and operational regulations—particularly procedural regulations for delegating decision-making authority between the holding company (Sapporo Holdings) and the operating companies, and the division of operational tasks among each organization. Along with the formulation of other internal rules, these and other steps have been taken to bolster the Group's system of internal controls. Sapporo Holdings' Group Audit Department, meanwhile, conducts internal audits that encompass the operating companies, subsidiaries and all other members of the Sapporo Group.



Management

(As of March 30, 2006)

Board of Directors

Takao Murakami
President and
Representative Director,
Group CEO

Shinji Saito
Representative Director and
Executive Managing Director

Hiroaki Eto
Director *

Yoshiyuki Mochida
Director

Kazuo Ushio
Director

Yukio Ashibu
Director

Board of Corporate Auditors

Satoshi Noguchi
Kunie Okamoto **
Norio Henmi **
Kazunori Kai

* Outside Director
** Outside Auditor

Five-Year Summary

Years ended December 31

	Millions of yen				
	2005	2004	2003	2002	2001
Net sales	**¥453,671**	¥494,930	¥479,520	¥511,752	¥557,233
Alcoholic Beverages	**341,077**	364,585	341,924	374,524	417,906
Soft Drinks	**63,897**	69,324	65,169	70,512	68,608
Restaurants	**26,331**	26,611	26,591	28,050	29,041
Real Estate	**21,696**	22,506	33,430	24,999	27,968
Other	**670**	11,904	12,406	13,667	13,710
Operating cost and expenses	**443,371**	471,282	466,189	500,774	537,447
Operating income	**10,300**	23,648	13,331	10,978	19,786
Income (loss) before income taxes and minority interests	**6,573**	7,762	2,270	(3,349)	3,102
Net income	**3,630**	4,643	2,413	1,168	4,390

	Yen				
Per share:					
Net income:					
Primary	**¥ 10.20**	¥ 13.07	¥ 6.95	¥ 3.45	¥ 12.96
Diluted	**9.18**	12.01	–	–	12.90
Shareholders' equity	**305.00**	259.81	245.80	314.69	312.71
Cash dividends	**5.00**	5.00	5.00	5.00	5.00

	Millions of yen				
Year-end data:					
Shareholders' equity	**¥111,411**	¥ 92,263	¥ 87,364	¥106,527	¥105,945
Total assets	**563,845**	602,112	630,637	717,486	729,601
Financial liabilities	**220,723**	289,854	323,369	384,303	372,864
ROE (%)	**3.6**	5.2	2.5	1.1	4.2
Capital expenditures	**16,218**	10,269	10,081	13,640	12,256
Depreciation and amortization	**22,075**	25,330	28,435	31,463	32,322

Management's Discussion and Analysis

Sapporo Holdings Limited and the Sapporo Group

The Sapporo Group adopted a holding company framework on July 1, 2003. Under this new framework, Sapporo Holdings Limited (the Company), as the holding company, oversees four main operating companies in the Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate businesses. Aiming to be powerful companies in their respective industries, the four main operating companies are implementing management reforms and building new business models.

In terms of the scope of consolidation, the Company had 14 consolidated subsidiaries and 4 equity-method affiliates in the year ended December 31, 2005.

Operational Overview

The Japanese economy shook off early weakness in imports and production in 2005, as capital investment continued to grow. Together with firm consumer spending and other factors, a sense prevailed that business conditions in the country had indeed turned toward a modest recovery.

In this climate, the operating environment in the alcoholic beverage, soft drink, restaurant and other industries where the Group is active grew more acute, with greater bipolarization in consumption trends and more diversification in customer tastes. These conditions tested the full capabilities of companies in each area, including their ability to accurately develop products and services sure to go over well with customers, their nurturing capacity to establish these products and services as brands, and companies' cost competitiveness.

Consolidated Operating Results

Net Sales

Net sales declined ¥41,259 million, or 8.3%, to ¥453,671 million, largely as a result of lower total sales volume in beer, *Happo-shu* and new product genres. Sales in the "Other" business segment were also lower due to the December 2004 sale of the hotel business.

Cost of Sales and Gross Profit

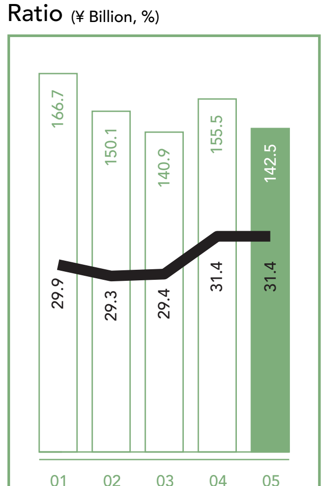
Tracking the decline in sales, the cost of sales fell ¥28,235 million, or 8.3%, from the previous year to ¥311,191 million. The cost of sales ratio was unchanged from a year earlier, at 68.6%.

Gross profit decreased ¥13,024 million, or 8.4%, to ¥142,480 million. The gross profit ratio was 31.4%, identical to that of the previous year.

Net Sales and Cost of Sales Ratio (¥ Billion, %)

Net Sales (¥ Billion)
Cost of Sales Ratio (%)

Gross Profit and Gross Profit Ratio (¥ Billion, %)



Gross Profit (¥ Billion)
Gross Profit Ratio (%)

Selling, General and Administrative Expenses and Percentage of Net Sales (¥ Billion, %)

Selling, General and Administrative Expenses (¥ Billion)
Percentage of Net Sales (%)

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses edged up ¥324 million, or 0.2%, to ¥132,180 million. This increase mainly reflected a year-on-year decline of ¥3,574 million in sales incentives and commissions offset by an increase of ¥3,937 million in advertising and promotion expenses.

Operating Income

Impacted by the foregoing results, operating income decreased ¥13,348 million, or 56.4%, to ¥10,300 million. The operating income ratio, meanwhile, fell 2.5 percentage points to 2.3%.

Other Income (Expenses)

Other expenses decreased ¥12,159 million to ¥3,727 million. In addition to reductions in interest-bearing debt and the closure and sale of the site of Sapporo Beverage's former Kanagawa Plant, other contributors to an increase in other income included the sale of a former company housing site.

Other expenses stemmed from losses posted mainly for the disposal of production equipment, as well as an impairment loss due to a decline in the market value and profitability of certain properties. The latter was the result of the earlier-than-required application of impairment accounting for fixed assets enacted last year.

In net financial income (expenses), calculated as the sum of interest and dividend income minus interest expenses, efforts to reduce interest-bearing debt and other actions led to expenses of ¥2,672 million, down from ¥4,122 million in the previous year.

Income Before Income Taxes and Minority Interests

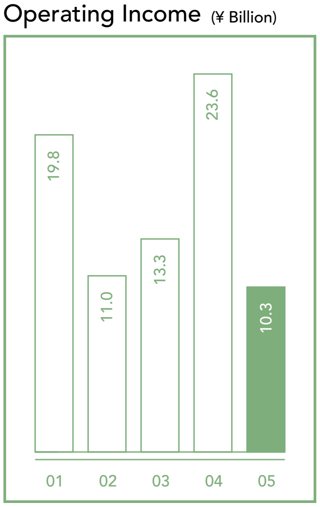
As a result of the above and other factors, income before income taxes and minority interests declined ¥1,189 million, or 15.3%, to ¥6,573 million.

Income Taxes and Net Income

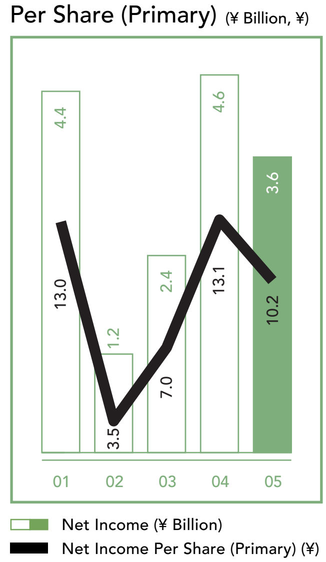
Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, reversals of prior period income taxes and deferred income taxes, totaled ¥2,943 million. The statutory tax rate for income before income taxes and minority interests was 44.8%. Prior-year reversals came mostly from revisions to taxable income reported by the Company on its fiscal 2003 tax return.

As a result, net income was ¥3,630 million, down 21.8% from the previous year. Diluted net income per share declined ¥2.83 to ¥9.18, while ROE decreased from 5.2% to 3.6%. Cash dividends for 2005 were ¥5.0 per share, and the payout ratio was 54.5%.

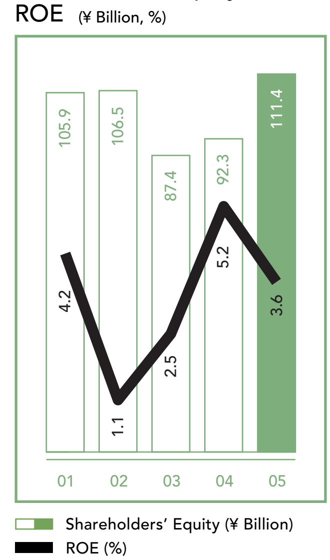
Operating Income (¥ Billion)



Net Income and Net Income Per Share (Primary) (¥ Billion, ¥)



Shareholders' Equity and ROE (¥ Billion, %)



Segment Information

Alcoholic Beverages

While the market was invigorated by the entry of other companies into the new product genre market that the Company pioneered with the creation of *Draft One*, the ongoing decline in beer and *Happo-shu* sales pulled total domestic demand lower in 2005. *Draft One*, meanwhile, saw a nearly 10% jump in sales volume despite the aggressive entry of rivals into the new product genre market. *Slims*, a product first sold in May, also proved a hit with customers, breaking new ground as the only product for health-conscious consumers in this market. Consequently, total sales volume for new product genres rose 21% over the previous year.

In the *Black Label* brand, a drive to underscore the appeal of the Sapporo Breweries' collaborative contract farming system garnered strong support from loyal customers, holding the year-on-year decline in sales to 9%, the same as for overall domestic beer demand.

In *Happo-shu*, *Hokkaido Namashibori*, the core brand in this category, underwent a revamp in November that included the use of malt grown solely in Hokkaido, as Sapporo Breweries showcased its one-of-a-kind emphasis on quality ingredients. These efforts notwithstanding, the impact of new product genres caused overall *Happo-shu* demand to fall 37%.

The brand strength of *Yebisu Beer*, widely considered to be Japan's preeminent premium beer brand, continues to run in a class of its own. Amid lackluster overall domestic beer demand, *Yebisu Beer* sales volume grew by 1%, expanding its market share for the 13th consecutive year.

All told, total sales volume for beer, *Happo-shu* and new product genres was 7% lower year on year. As a result, segment operating revenues declined ¥23,508 million, or 6.5%, to ¥341,077 million. Operating income decreased ¥12,255 million, or 65.2%, to ¥6,555 million.

Soft Drinks

Supported chiefly by sales of green tea, mineral water and other sugar-free beverages, overall demand in the soft drinks market grew by an estimated 2% year on year, despite forecasts to the contrary due to the impact of record-breaking temperatures the previous summer.

Sapporo Beverage took steps to reinforce its offerings in the growing sugar-free beverages category, as well as to expand sales in the carbonated beverage and juice categories, two areas where it is particularly at home. In the growing green tea beverage category, while the Company moved assertively to expand sales particularly of its key *Gyokuro-Iri O-Cha* brand, the fiercely competitive environment held overall sales lower year on year.

Operating revenues declined ¥5,427 million, or 7.8%, to ¥63,897 million, and the segment posted an operating loss of ¥693 million, a decline of ¥1,159 million from the previous year's profit.

Restaurants

Amid ongoing market contraction, the restaurant industry continues to face stiff competition from convenience stores and other industry sectors. Nevertheless, signs of recovery began to emerge in existing store sales in formats with relatively high alcoholic beverage sales.

In this climate, Sapporo Lion strove to boost earnings at existing outlets and to increase sales at newly opened outlets. The result was a second consecutive year of growth in same-store sales, with sales higher not only at beer halls in the Tokyo metropolitan area but also at Japanese dining formats and major outlets in regional cities. Sapporo Lion opened 13 new restaurant outlets and closed 18 during the year. In addition to the termination of contracts for some outlets operating under franchise agreements, the closures included those outlets showing no prospects of a quick turnaround in earnings. All told, Sapporo Lion counted a total of 202 remaining outlets as of December 31, 2005.

Segment operating revenues were ¥26,331 million, edging ¥280 million, or 1.1%, lower year on year. The segment recorded a substantial improvement in earnings, with operating income up ¥322 million, or 140.6%, to ¥551 million.

Real Estate

In Japan's real estate sector, improvements both in occupancy rates for office buildings found chiefly in the Tokyo metropolitan area and in rent levels in certain regions, fueled a general sense that the sector's long downtrend had finally leveled off. At Yebisu Garden Place and other leased office buildings, Yebisu Garden Place made capital investments to further enhance amenities at these properties and engaged in active leasing activities in an effort to maintain or improve operating rates.

At Yebisu Garden Place and Sapporo Factory, two properties with commercial facilities onsite, the operating company sponsored events and fairs, and carried out store renewals, in a drive to improve customer services and promote sales. These and other actions were part of an effort to differentiate Sapporo facilities from those of rival properties, thereby enhancing their capacity to attract customers. In real estate development, construction continues on the Ginza 7-chome Multifaceted Building, a new commercial building.

These actions notwithstanding, a substantial year-on-year decrease in sales from real estate for sale caused operating revenues in the Real Estate segment to decline ¥810 million, or 3.6%, to ¥21,696 million. Operating income was down ¥133 million, or 2.2%, to ¥5,840 million.

Other

Sales in this segment declined in step with the sale on December 1, 2004 of The Westin Tokyo by the segment's mainstay hotel business. As a result, segment operating revenues declined ¥11,234 million, or 94.4%, to ¥670 million. The segment operating loss was ¥130 million.

(Millions of yen)

	Operating Revenues	Operating Income/Loss	Depreciation and Amortization Expenses	Capital Expenditures
Alcoholic Beverages	341,077	6,555	13,840	12,143
Soft Drinks	63,897	(693)	215	274
Restaurants	26,331	551	636	1,158
Real Estate	21,696	5,840	7,337	1,544
Other	670	(130)	47	1,099

Assets, Liabilities and Shareholders' Equity

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

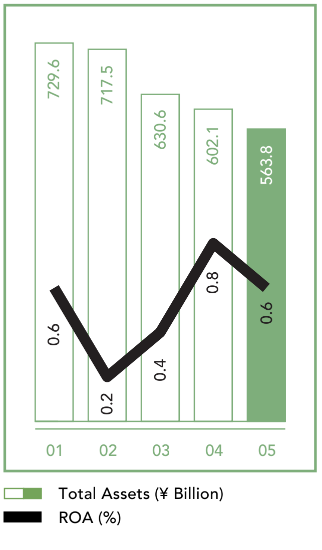
The Company strives to secure fund procurement channels and liquidity to make certain that ample funds are on hand to cover present and future operating activities, as well as the repayment of debts and other funding needs. Necessary funds are procured mainly from cash flows from operating activities, loans primarily from financial institutions, and the issuance of corporate bonds.

Assets

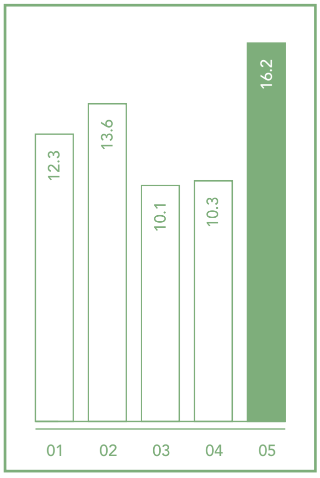
Cash and cash equivalents and time deposits stood at ¥25,442 million as of December 31, 2005, down ¥33,270 million from a year earlier, the result of funds from the sale of business operations in the previous year being appropriated for loan repayments and the redemption of corporate bonds. Notes and accounts receivable—trade declined ¥8,100 million to ¥71,726 million, in line with lower sales. In line with the closure of a soft drink manufacturing plant and sale of the site, as well as depreciation, property, plant and equipment, net fell ¥10,962 million to ¥340,771 million. Investment securities, meanwhile, rose ¥19,162 million to ¥50,849 million, reflecting higher market values for listed stockholdings.

As a result, total assets as of December 31, 2005, stood at ¥563,845 million, down 6.4% from a year ago.

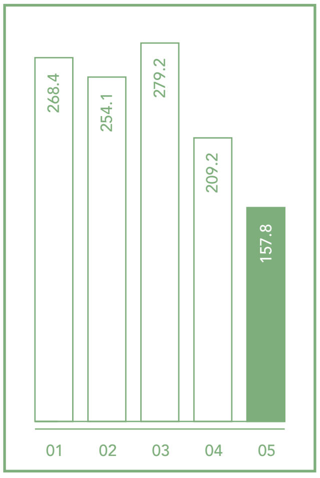
Total Assets and ROA (¥ Billion, %)



Capital Expenditures (¥ Billion)



Long-term Debt (¥ Billion)



Liabilities

Financial liabilities declined ¥69,131 million from the previous year to ¥220,723 million, reflecting both efforts to reduce financial liabilities by using cash on hand and the exercise of new share subscription rights attached to certain corporate bonds. Total liabilities decreased 11.3% to ¥452,434 million.

Shareholders' Equity

In line with the aforementioned exercise of new share subscription rights, common stock rose ¥2,764 million and capital surplus rose ¥2,768 million. Retained earnings, meanwhile, increased ¥1,855 million year on year to ¥9,963 million. Furthermore, the application of fair market accounting for financial instruments lifted the unrealized holding gain on securities ¥11,698 million to ¥16,502 million. Shareholders' equity stood at ¥111,411 million, up ¥19,148 million from the previous year.

Cash Flows

Consolidated cash and cash equivalents as of December 31, 2005 were ¥24,749 million, a decline of ¥33,957 million, or 57.8%, from the previous year-end. Factors behind this decrease are as follows.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥39,077 million, ¥6,835 million higher than in 2004. While income before income taxes and minority interests declined ¥1,189 million to ¥6,573 million, the increase in net cash resulted from a decrease of ¥8,139 million in notes and accounts receivable from the previous year-end, as well as an increase of ¥19,463 million in deposits received resulting from a higher volume of gift certificates handled.

Cash Flows From Investing Activities

Investing activities used net cash of ¥7,675 million, down ¥60,989 million from net cash provided in 2004. Proceeds from sales of property, plant and equipment of ¥6,922 million were offset by outflows of ¥10,718 million for purchases of property, plant and equipment, as well as ¥1,786 million for purchases of intangibles.

Cash Flows From Financing Activities

Financing activities used net cash of ¥65,533 million, ¥30,115 million more than in 2004. While proceeds from long-term debt provided cash of ¥12,500 million, the redemption of bonds used cash of ¥40,000 million and the repayment of long-term debt used cash of ¥36,130 million.

Management Indicators

Due to decreases in cash and cash equivalents and notes and accounts receivable—trade, the current ratio declined 15.2 percentage points from 78.8% in the previous year to 63.6%. Current liability levels nonetheless remain low due to the inclusion of ¥46,910 million in deposits received, an amount that also includes the balance of uncollected gift certificates.

The equity ratio, meanwhile, rose from 15.3% to 19.8%, reflecting both the decline in total assets and higher shareholders' equity.

Return on equity (ROE) declined from 5.2% to 3.6%, the result of a 21.8% decrease in net income from the previous year and an increase in shareholders' equity.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by shareholders' equity, decreased from 3.1 times to 2.0 times, the result of efforts at the Company to reduce financial liabilities.

Outlook for 2006

The Company is forecasting net sales of ¥465,000 million, up 2% from 2005, and a 10%, or ¥370 million, increase in net income to ¥4,000 million.

Regarding the annual dividend, the Company plans to set it at ¥5.0 per share, the same as in 2005. This is in accordance with the Company's basic policy, which is to maintain a stable dividend while taking into consideration factors such as operating results and financial condition, as it emphasizes an appropriate return of profits to shareholders.

Risk Factors

Major risks that could potentially impact the operating results and financial position of the Sapporo Group, including stock price, are found below. Forward-looking statements in the following text reflect the judgment of management as of December 31, 2005.

High Dependency on Specific Business Areas

In 2005, Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 75.2% of consolidated net sales. The Group could thus be significantly affected by the performance of this business.

Food Product Safety

Beyond quality issues originating solely at the Group, quality problems relating to generally available products and/or raw materials, as well as food poisoning and other incidents in the restaurants business, could adversely affect operating results.

Unauthorized Disclosure of Customer Information

Problems such as the unauthorized disclosure of personal information could lead to damage claims, loss of trust in the Sapporo Group and other consequences that may in turn lead to higher costs and lower earnings, which may adversely affect operating results.

Impact of Laws and Regulations

The unanticipated application of laws and regulations to Sapporo Group businesses in the future could restrict business operations, with an adverse affect on operating results.

Financial Liabilities

A rise in market interest rates, downgrading of the Company's credit rating and other factors could result in a heavier financial burden or less advantageous fund procurement terms and conditions. These changes could adversely affect the Group's operating results.

Application of Impairment Accounting

In the previous fiscal year, the Company began applying early impairment accounting to operating assets meeting the criteria for such treatment. Future declines in real estate prices, changes in the business environment and other factors could lead to the booking of losses on the sale of property, plant and equipment, which may negatively impact the operating results and financial position of the Sapporo Group.

Holding Company Risk

Sapporo Holdings derives income from brand licensing fees and commissions for management guidance, as well as interest and dividends paid by Group operating companies. Any deterioration in the financial position of Group operating companies could result in nonpayment, which may adversely affect Sapporo Holdings' business performance.

Dilution of Share Value

Requests by owners to redeem convertible bonds and convertible bonds with stock acquisition rights, as well as the exercise of related new share subscription rights, could potentially dilute the share value of Sapporo Holdings.

Consolidated Balance Sheets

December 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥ 24,748**	¥ 58,706	**$ 209,610**
Time deposits	**694**	6	**5,877**
Marketable securities (Note 4)	**28**	36	**236**
Notes and accounts receivable—trade	**71,726**	79,826	**607,488**
Less: Allowance for doubtful receivables	**(302)**	(286)	**(2,560)**
Inventories (Note 5)	**21,927**	23,054	**185,714**
Deferred tax assets (Note 11)	**1,346**	4,109	**11,400**
Refundable income taxes	**2,712**	553	**22,968**
Other current assets	**17,214**	18,105	**145,795**
Total current assets	**140,093**	184,109	**1,186,528**
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	**1,238**	1,353	**10,482**
Other	**49,611**	30,334	**420,187**
Long-term loans receivable	**10,843**	11,151	**91,834**
Less: Allowance for doubtful receivables	**(2,861)**	(2,856)	**(24,228)**
Deferred tax assets (Note 11)	**1,536**	2,334	**13,007**
Other investments	**20,605**	21,479	**174,517**
	80,972	63,795	**685,799**
Property, plant and equipment (Notes 6 and 7)**:**			
Land	**69,855**	70,354	**591,644**
Buildings and structures	**390,283**	389,852	**3,305,529**
Accumulated depreciation	**(173,275)**	(166,340)	**(1,467,565)**
Machinery and vehicles	**201,463**	206,028	**1,706,300**
Accumulated depreciation	**(155,187)**	(154,320)	**(1,314,367)**
Construction in progress	**3,672**	2,147	**31,099**
Other	**20,863**	21,273	**176,704**
Accumulated depreciation	**(16,903)**	(17,261)	**(143,165)**
Property, plant and equipment, net	**340,771**	351,733	**2,886,179**
Intangibles	**2,009**	2,475	**17,012**
	¥ 563,845	¥ 602,112	**$ 4,775,518**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 4,650**	¥ 4,650	**$ 39,383**
Current portion of long-term debt (Note 7)	**58,321**	75,958	**493,954**
Notes and accounts payable:			
Trade	**32,587**	34,790	**275,995**
Construction	**6,496**	7,945	**55,020**
Liquor taxes payable	**38,260**	43,380	**324,047**
Income taxes payable (Note 11)	**670**	2,548	**5,670**
Accrued bonuses (Note 2 (j))	**904**	3,001	**7,656**
Deposits received	**46,910**	27,448	**397,313**
Other current liabilities	**31,400**	33,894	**265,940**
Total current liabilities	**220,198**	233,614	**1,864,978**
Long-term debt (Note 7)	**157,752**	209,246	**1,336,088**
Dealers' deposits for guarantees	**33,961**	34,455	**287,630**
Employees' retirement benefits (Note 10)	**17,195**	16,658	**145,635**
Directors' and corporate auditors' severance benefits	**206**	215	**1,747**
Deferred tax liabilities (Note 11)	**7,668**	301	**64,948**
Other long-term liabilities	**15,454**	15,360	**130,893**
Contingent liabilities (Note 13)			
Shareholders' equity:			
Common stock (Notes 8 and 16)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2005 366,571,406 shares	**46,596**	–	**394,646**
— at December 31, 2004 356,179,485 shares	**–**	43,832	**–**
Capital surplus	**39,010**	36,242	**330,399**
Retained earnings (Note 8)	**9,963**	8,108	**84,379**
Unrealized holding gain on securities	**16,502**	4,804	**139,767**
Foreign currency translation adjustments	**(199)**	(386)	**(1,684)**
Treasury stock, at cost	**(461)**	(337)	**(3,908)**
Total shareholders' equity	**111,411**	92,263	**943,599**
	¥563,845	¥602,112	**$4,775,518**

Consolidated Statements of Income

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Net sales	**¥453,671**	¥494,930	¥479,520	**$3,842,394**
Operating cost and expenses:				
Cost of sales	**311,191**	339,426	338,573	**2,635,649**
Selling, general and administrative expenses (Note 2 (r))	**132,180**	131,856	127,616	**1,119,505**
Operating income	**10,300**	23,648	13,331	**87,240**
Other income (expenses):				
Interest and dividend income	**824**	742	706	**6,979**
Interest expense	**(3,496)**	(4,864)	(5,784)	**(29,606)**
Other, net (Note 9)	**(1,055)**	(11,764)	(5,983)	**(8,939)**
Income before income taxes and minority interests	**6,573**	7,762	2,270	**55,674**
Income taxes (Note 11)**:**				
Current	**29**	3,672	1,836	**254**
Deferred	**2,914**	(615)	(1,409)	**24,677**
	2,943	3,057	427	**24,931**
Minority interests	**–**	(62)	570	**–**
Net income (Note 14)	**¥ 3,630**	¥ 4,643	¥ 2,413	**$ 30,743**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Common stock:				
Balance at beginning of year	**¥43,832**	¥43,832	¥ 43,832	**$371,234**
Conversion of convertible bonds	**2,764**	–	–	**23,412**
Balance at end of year	**¥46,596**	¥43,832	¥ 43,832	**$394,646**
Capital surplus:				
Balance at beginning of year	**¥36,242**	¥36,232	¥ 32,242	**$306,952**
Shares issued in share exchange	**–**	–	3,990	**–**
Conversion of convertible bonds	**2,764**	–	–	**23,412**
Gain on decrease in treasury stock	**4**	10	–	**35**
Balance at end of year	**¥39,010**	¥36,242	¥ 36,232	**$330,399**
Retained earnings (Note 8)**:**				
Balance at beginning of year	**¥ 8,108**	¥ 4,953	¥ 30,281	**$ 68,674**
Net income	**3,630**	4,643	2,413	**30,743**
Increase resulting from inclusion of newly consolidated subsidiary	**–**	126	28	**–**
Increase resulting from initial application of equity method	**–**	190	–	**–**
Cash dividends	**(1,775)**	(1,778)	(1,693)	**(15,038)**
Decrease resulting from change in fiscal year-end of consolidated subsidiary	**–**	(26)	–	**–**
Decrease resulting from merger of consolidated subsidiaries	**–**	–	(26,076)	**–**
Balance at end of year	**¥ 9,963**	¥ 8,108	¥ 4,953	**$ 84,379**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 4,804**	¥ 2,895	¥ 460	**$ 40,688**
Net change during the year	**11,698**	1,909	2,435	**99,079**
Balance at end of year	**¥16,502**	¥ 4,804	¥ 2,895	**$139,767**
Foreign currency translation adjustments (Note 2 (m))**:**				
Balance at beginning of year	**¥ (386)**	¥ (349)	¥ (204)	**$ (3,266)**
Net change during the year	**187**	(37)	(145)	**1,582**
Balance at end of year	**¥ (199)**	¥ (386)	¥ (349)	**$ (1,684)**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (337)**	¥ (199)	¥ (84)	**$ (2,853)**
Net increase	**(124)**	(138)	(115)	**(1,055)**
Balance at end of year	**¥ (461)**	¥ (337)	¥ (199)	**$ (3,908)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 6,573**	¥ 7,762	¥ 2,270	**$ 55,674**
Depreciation and amortization	**22,075**	25,330	28,435	**186,966**
Loss on impairment of property, plant and equipment and leased assets	**838**	6,032	–	**7,096**
Increase in employees' retirement benefits	**537**	148	661	**4,549**
Increase (decrease) in allowance for doubtful receivables	**20**	252	(475)	**169**
Interest and dividend income	**(824)**	(742)	(706)	**(6,979)**
Interest expense	**3,496**	4,864	5,779	**29,606**
Gain on sales of property, plant and equipment	**(2,729)**	(2,410)	(18,685)	**(23,113)**
Loss on sales and disposal of property, plant and equipment	**3,160**	11,480	22,946	**26,764**
Gain on sales of investment securities	**(1,277)**	(454)	(1,179)	**(10,813)**
Loss on devaluation of investment securities	**400**	642	423	**3,389**
Loss on provision for cost reduction of property, plant and equipment	**279**	–	–	**2,367**
Write-off of deposit for trade	**243**	–	438	**2,062**
Gain on sale of business (The Westin Tokyo)	**–**	(6,820)	–	**–**
Decrease (increase) in notes and accounts receivable	**8,139**	(6,902)	1,466	**68,930**
Decrease in inventories	**1,127**	1,698	4,161	**9,545**
(Decrease) increase in notes and accounts payable	**(2,234)**	3,590	(6,198)	**(18,921)**
(Decrease) increase in liquor taxes payable	**(5,119)**	(313)	68	**(43,362)**
Increase (decrease) in deposits received	**19,463**	(2,382)	(2,535)	**164,845**
(Decrease) increase in other current liabilities	**(1,810)**	762	1,225	**(15,328)**
Other	**(5,982)**	(2,799)	(473)	**(50,673)**
Subtotal	**46,375**	39,738	37,621	**392,773**
Interest and dividends received	**822**	713	786	**6,965**
Interest paid	**(3,591)**	(5,131)	(7,202)	**(30,414)**
Income taxes paid	**(4,529)**	(3,078)	(729)	**(38,356)**
Net cash provided by operating activities	**39,077**	32,242	30,476	**330,968**
Cash flows from investing activities:				
Net (increase) decrease in time deposits	**(608)**	–	44	**(5,149)**
Purchases of investment securities	**(634)**	(362)	(2,371)	**(5,371)**
Proceeds from sales of investment securities	**2,236**	1,151	3,598	**18,936**
Proceeds from sale of business (The Westin Tokyo)	**–**	49,660	–	**–**
Purchases of property, plant and equipment	**(10,718)**	(7,757)	(8,424)	**(90,780)**
Proceeds from sales of property, plant and equipment	**6,922**	9,423	18,798	**58,625**
Purchases of intangibles	**(1,786)**	(594)	(399)	**(15,128)**
Increase in long-term loans receivable	**(647)**	(602)	(144)	**(5,483)**
Collection of long-term loans receivable	**568**	4,528	526	**4,814**
Other	**(3,008)**	(2,133)	(672)	**(25,472)**
Net cash (used in) provided by investing activities	**(7,675)**	53,314	10,956	**(65,008)**
Cash flows from financing activities:				
Net decrease in short-term bank loans	**–**	(636)	(14,585)	**–**
Proceeds from long-term debt	**12,500**	6,107	59,050	**105,869**
Repayment of long-term debt	**(36,130)**	(33,990)	(52,399)	**(306,004)**
Proceeds from issuance of bonds	**–**	20,100	–	**–**
Redemption of bonds	**(40,000)**	(20,000)	(50,000)	**(338,782)**
Refund of deposit for redemption of bonds	**–**	–	20,000	**–**
Cash dividends paid	**(1,783)**	(1,772)	(1,695)	**(15,099)**
Cash dividends paid to minority interests	**–**	–	(32)	**–**
Purchases of treasury stock	**(132)**	(167)	(96)	**(1,120)**
Proceeds from sales of treasury stock	**12**	21	–	**101**
Other	**–**	(5,081)	(3,001)	**–**
Net cash used in financing activities	**(65,533)**	(35,418)	(42,758)	**(555,035)**
Effect of exchange rate changes on cash and cash equivalents	**174**	(37)	(154)	**1,471**
Net (decrease) increase in cash and cash equivalents	**(33,957)**	50,101	(1,480)	**(287,604)**
Cash and cash equivalents at beginning of year	**58,706**	8,455	9,934	**497,214**
Cash and cash equivalents of additional consolidated subsidiaries	**–**	126	1	**–**
Cash and cash equivalents of subsidiaries excluded from consolidation	**–**	(0)	–	**–**
Increase in cash and cash equivalents upon change in fiscal year-end of consolidated subsidiaries	**–**	24	–	**–**
Cash and cash equivalents at end of year	**¥ 24,749**	¥ 58,706	¥ 8,455	**$ 209,610**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiary, in conformity with that of its country of domicile. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The relevant notes and consolidated statements of shareholders' equity have been prepared as additional information. In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the years ended December 31, 2003 and 2004 to the 2005 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2005 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥118.07=U.S.$1.00, the exchange rate prevailing on December 31, 2005.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances, transactions and profits have been eliminated in consolidation.

Effective the year ended December 31, 2005, one consolidated subsidiary has been excluded from the scope of consolidation reflecting its liquidation. Accordingly, the number of consolidated subsidiaries has decreased to 14. However, as the effect of this change was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2005 have not been restated.

The Company's remaining subsidiaries, whose gross assets, net sales, net income and retained earnings were not significant in the aggregate in relation to comparable balances in the consolidated financial statements, have not been consolidated.

(b) Investments in unconsolidated subsidiaries and affiliates

The Company's investment in one affiliate for the year ended December 31, 2003 and in three affiliates for the years ended December 31, 2005 and 2004 have been accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method are stated at cost determined by the moving-average method as, in the aggregate, they were not material.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Marketable and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity and other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value as of the end of the year, with any net unrealized gain or loss included as a separate component of shareholders' equity, net of the related taxes. Nonmarketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(e) Derivatives

Derivatives positions are stated at fair value.

(f) Inventories

Inventories are stated at cost determined principally by the average method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the manufacturing facilities for alcoholic beverages and soft drinks, and by the straight-line method for the real estate assets held and for buildings acquired in Japan subsequent to March 31, 1998. The annual provisions for depreciation have been computed over periods from 3 to 65 years for buildings and structures, and from 4 to 17 years for machinery and vehicles.

For property and equipment retired or otherwise disposed of, costs and related depreciation are charged to the respective accounts and the net difference, less any amount realized on disposal, is charged to operations.

Maintenance and repairs, including minor refurbishments and improvements, are charged to income as incurred.

(h) Intangibles

Intangibles with limited useful lives are amortized by the straight-line method over their estimated useful lives.

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is estimated as the average percentage of actual historical bad debts, which is then applied to the balance of receivables. In addition, an amount deemed necessary to cover uncollectible receivables is provided for specific doubtful accounts.

(j) Accrued bonuses

The accrual for employees' bonuses is based on an estimate of the amounts to be paid subsequent to the balance sheet date.

Effective the year ended December 31, 2004, the Company and one consolidated subsidiary have adopted a system of bonuses linked to each entity's earnings. The estimated amount to be paid under this new system is recorded as accrued bonuses. As a result of the adoption of this new system, accrued bonuses increased by ¥2,343 million at December 31, 2004 and income before income taxes and minority interests decreased by ¥2,256 million for the year ended December 31, 2004.

(k) Employees' retirement benefits

Employees' retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized past service cost. The net retirement benefit obligation at transition is being amortized over a period of 15 years by the straight-line method. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (10 years through 15 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (15 years).

One consolidated subsidiary adopted a defined contribution pension plan to replace its qualified pension plan. As a result, the retirement benefit obligation decreased by ¥2,339 million, the fair value of the plan assets decreased by ¥1,730 million, unrecognized actuarial gain or loss decreased by ¥514 million and employees' retirement benefits decreased by ¥95 million at December 31, 2003.

On December 1, 2003, the Company received approval from the Minister of Health, Labour and Welfare to transfer the substitutional portion of the past Welfare Pension Fund Plan to the government following enforcement of a law concerning defined benefit corporate pensions in Japan, the Defined Contribution Pension Law. On March 29, 2004, the Company returned the minimum actuarial liability to the government.

The difference between the equivalent amount to be returned, calculated as a result of applying the transitional measures prescribed in Section 47-2 of the Japanese Institute of Certified Public Accountants' Accounting Committee Report No. 13 "Practical Guidelines for Accounting for Retirement Benefits (Interim Report)" in 2002, and the actual amount returned was ¥114 million. This was recognized as an extraordinary gain in the fiscal year ended December 31, 2004.

On November 1, 2005, Sapporo Breweries Pension Fund, in which the Company and a consolidated subsidiary, Sapporo Breweries, are participants, adopted a new type of defined benefit pension plan similar to a cash-balance plan for their employees and changed the benefit rates for the beneficiaries. As a result, retirement benefit obligation (past service cost) decreased by ¥6,957 million ($58,919 thousand) at December 31, 2005. Past service cost is amortized by the straight-line method over a period of 15 years.

(l) Directors' and corporate auditors' severance benefits

Directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum severance payments. Provisions for these officers' severance benefits are made at estimated amounts.

Effective the year ended December 31, 2004, the Company and one consolidated subsidiary abolished their directors' and corporate auditors' severance benefit system. Accordingly, no additional provisions for these severance benefits have been recognized.

(m) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The resulting exchange gain or loss is credited or charged to income. Foreign currency translation adjustments arising from the translation of the financial statements of consolidated subsidiaries and affiliates accounted for by the equity method are recognized as a separate component of shareholders' equity.

(n) Income taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise tax. The Company and its consolidated subsidiaries have adopted deferred tax accounting. Income taxes are determined using the asset and liability approach whereby deferred tax assets and liabilities are recognized in respect of the temporary differences between the tax bases of the assets and liabilities and those reported in the financial statements.

(o) Research and development costs

Research and development costs are charged to income when incurred.

(p) Hedge accounting

Gain or loss on derivatives positions designated as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized. In addition, if an interest-rate swap meets certain conditions, the interest expense is computed at a combined rate and recognized.

(q) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the leasee are accounted for as finance leases.

(r) Adoption of the standard enterprise tax

With the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003, the system of the standard enterprise tax was implemented in Japan effective April 1, 2004. The Company and its consolidated subsidiaries calculated enterprise taxes based on "amount of added value" and "amount of capital" and they are included in "Selling, general and administrative expenses" from the year ended December 31, 2005 pursuant to "Practical Treatment for Presentation of External-Based Corporate Enterprise Taxes in the Statement of Income" (Accounting Standard Board, Practical Solution Report No. 12). As a result, selling, general and administrative expenses increased by ¥498 million ($4,219 thousand) and operating income and income before income taxes and minority interests decreased by ¥498 million ($4,219 thousand) for the year ended December 31, 2005.

3. Change in Method of Accounting

The Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended December 31, 2004. The effect of the adoption of this new standard was to decrease income before income taxes and minority interests by ¥6,032 million for the year ended December 31, 2004. The cumulative amount of an impairment loss is deducted directly from the acquisition cost of the related fixed asset. The effect of this adoption on each segment is outlined in Note 15.

4. Marketable Securities and Investment Securities

(a) Held-to-maturity debt securities with determinable fair value

No such securities existed at December 31, 2005 and 2004.

(b) Other securities with determinable fair value

The aggregate acquisition cost, carrying value, gross unrealized gain and loss on other securities whose fair value was determinable at December 31, 2005 and 2004 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2005	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥14,347**	**¥42,114**	**¥27,767**	**$121,512**	**$356,687**	**$235,175**
Debt securities	**4**	**5**	**1**	**30**	**42**	**12**
Other	**119**	**177**	**58**	**1,013**	**1,499**	**486**
Subtotal	**¥14,470**	**¥42,296**	**¥27,826**	**$122,555**	**$358,228**	**$235,673**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 423**	**¥ 421**	**¥ (2)**	**$ 3,581**	**$ 3,568**	**$ (13)**
Debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**¥ 423**	**¥ 421**	**¥ (2)**	**$ 3,581**	**$ 3,568**	**$ (13)**
Total	**¥14,893**	**¥42,717**	**¥27,824**	**$126,136**	**$361,796**	**$235,660**

	Millions of yen		
December 31, 2004	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥11,297	¥19,997	¥8,700
Debt securities	9	10	1
Other	119	144	25
Subtotal	¥11,425	¥20,151	¥8,726
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 3,707	¥ 3,190	¥ (517)
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥ 3,707	¥ 3,190	¥ (517)
Total	¥15,132	¥23,341	¥8,209

(c) *The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2005 are summarized as follows:*

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Sales	**¥2,099**	¥1,198	¥3,602	**$17,778**
Gain on sales of securities	**1,277**	454	1,179	**10,813**
Loss on sales of securities	**45**	3	7	**382**

(d) *The carrying value of securities whose fair value was not determinable at December 31, 2005 and 2004 is summarized as follows:*

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 40**	¥ 143	**$ 339**
(2) Investments in subsidiaries and affiliates	**1,238**	1,353	**10,482**
(3) Other securities:			
Equity investments in unlisted companies	**5,160**	5,372	**43,704**
Domestic debt securities offered privately	**134**	172	**1,133**
Other	**1,587**	1,342	**13,445**

(e) *The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31, 2005 were as follows:*

	Millions of yen		Thousands of U.S. dollars (Note 1)	
December 31, 2005	Due within one year	Due after one year, but within five years	Due within one year	Due after one year, but within five years
Debt securities:				
Government and municipal bonds	**¥28**	**¥ –**	**$236**	**$ –**
Corporate debt securities	**–**	**35**	**–**	**296**
Other	**–**	**100**	**–**	**847**
Other	**–**	**–**	**–**	**–**
Subtotal	**¥28**	**¥135**	**$236**	**$1,143**

5. Inventories

Inventories at December 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Finished goods and merchandise	**¥ 7,643**	¥ 8,596	**$ 64,732**
Real estate for sale	**42**	43	**361**
Work in process	**4,261**	3,802	**36,087**
Raw materials	**9,331**	9,888	**79,031**
Supplies	**650**	725	**5,503**
	¥21,927	¥23,054	**$185,714**

6. Loss on Impairment of Property, Plant and Equipment

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the years ended December 31, 2005 and 2004:

Year ended December 31, 2005

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd.	Warehouse of			
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution	Lands	**¥314**	**$2,657**
			¥314	**$2,657**
Sapporo Breweries Ltd.	Idle real estate			
Idle real estate (Kitakanbara-gun, Niigata)		Lands	**¥208**	**$1,761**
			¥208	**$1,761**
Sapporo Logistics System Ltd.	Warehouse of	Leased assets		
Komaki Warehouse (Komaki-shi, Aichi)	physical distribution	(Buildings)	**¥243**	**$2,055**
			¥243	**$2,055**
Sapporo Breweries Ltd.	Restaurants	Lands	**¥ 7**	**$ 62**
Restaurants for lease (Iwamizawa-shi, Hokkaido and other)	for lease	Buildings	**23**	**191**
			¥ 30	**$ 253**
Sapporo Lion Ltd.	Restaurants	Buildings	**¥ 33**	**$ 279**
Restaurants for business (Chuo-ku, Tokyo)	for operations	Others	**10**	**91**
			¥ 43	**$ 370**
			¥838	**$7,096**

The Company and the consolidated subsidiaries decided the asset group in consideration of division on the management accounting. The idle estate and the real estate for lease are grouped with each estate, and the restaurants are mainly grouped with each store.

About the warehouses of physical distribution and the idle real estate, the amount by which the carrying amount of these assets exceeds its recoverable amount is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to further decline in land prices.

About leased assets and the restaurants for operation or lease, the amount by which the carrying amount of these assets exceeds the expected present value of these assets is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to a weak performance in profitability.

The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flows discounted by 5.9%.

Year ended December 31, 2004

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Warehouse of	Lands	¥1,671
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution	Buildings	333
			¥2,004
Sapporo Logistics System Ltd.	Warehouse for lease	Lands	¥ 625
KOBE Warehouse (Suma-ku, Kobe-shi)		Buildings	123
			¥ 748
Sapporo Breweries Ltd.	Idle real estate	Lands	¥2,362
Idle real estate (Kitakanbara-gun, Niigata)		Buildings	139
			¥2,501
Sapporo Breweries Ltd.	Restaurants		
Restaurants for lease (Funabashi-shi, Chiba and other)	for lease	Buildings	¥ 179
			¥ 179
Sapporo Lion Ltd. and others	Restaurants	Buildings	¥ 487
Restaurants for business (Takasaki-shi, Gunma and 24 others)	for operations	Others	113
			¥ 600
			¥6,032

About the warehouses of physical distribution, the warehouses for lease and the idle real estate, the amount by which the carrying amount of these assets exceeds its recoverable amount is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to further decline in land prices.

About the restaurants for operation or lease, the amount by which the carrying amount of these assets exceeds the expected present value of these assets is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to a weak performance in profitability.

The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flows discounted by 4%.

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans represent notes or overdrafts. The annual average interest rates applicable to short-term bank loans for the years ended December 31, 2005 and 2004 were 0.39% and 0.40%, respectively.

Long-term debt at December 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
1.2% convertible bonds due 2009	**¥ 19,720**	¥ 19,720	**$ 167,019**
2.225% bonds due 2005	**–**	10,000	**–**
1.62% bonds due 2005	**–**	10,000	**–**
0.86% bonds due 2006	**10,000**	10,000	**84,696**
1.27% bonds due 2007	**10,000**	10,000	**84,696**
0.87% bonds due 2005	**–**	10,000	**–**
1.22% bonds due 2005	**–**	10,000	**–**
Zero coupon convertible bonds with stock acquisition rights due 2007	**14,499**	20,000	**122,800**
Loans from banks and insurance companies maturing from 2004 to 2018 with weighted–average annual interest rates: 2005—1.31% 2004—1.24%			
Secured	**33,791**	34,691	**286,198**
Unsecured	**128,063**	150,793	**1,084,634**
	216,073	285,204	**1,830,043**
Less current portion	**(58,321)**	(75,958)	**(493,954)**
	¥157,752	¥209,246	**$1,336,089**

The aggregate annual maturities of long-term debt subsequent to December 31, 2005 are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥ 58,321	$ 493,955
2007	72,598	614,870
2008	27,966	236,858
2009	34,051	288,397
2010	11,484	97,267
2011 and thereafter	11,653	98,696
	¥216,073	$1,830,043

The 1.2% convertible bonds due 2009 were convertible into shares of common stock of the Company at the option of the holders at the conversion price of ¥991.00 per share at December 31, 2005, subject to adjustment in certain circumstances including the issuance of common stock at a price below the fair market price.

Zero coupon convertible bonds with stock acquisition rights due 2007, were convertible into shares of common stock of the Company at the option of the holders at the conversion price of ¥532.00 per share at December 31, 2005, subject to adjustment in certain circumstances including the issuance of common stock at prices below the fair market price and specific circumstances.

According to a clause covering the reset downward movement of the conversion price, the conversion price was changed from ¥576.00 to ¥532.00 per share effective July 4, 2005.

The assets pledged as collateral for short-term bank loans and long-term debt of ¥33,791 million ($286,198 thousand) and ¥34,691 million at December 31, 2005 and 2004, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Investment securities	**¥9,234**	¥5,082	**$78,211**
Property, plant and equipment, at net book value	**1,646**	1,549	**13,940**

8. Shareholders' Equity

The Commercial Code of Japan provides that an amount not exceeding one half of the issue price of new shares may, with the approval of the Board of Directors, be accounted for as capital surplus.

In December 2005, the Company issued 10,391,921 shares of common stock in conversions of convertible bonds into common stock. As a result, common stock and capital surplus increased by ¥2,764 million ($23,412 thousand), respectively.

Retained earnings include a legal reserve provided in accordance with the provisions of the Commercial Code. This reserve is not available for the payment of dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

9. Other Income (Expenses)—Other, Net

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Loss on sales and disposal of property, plant and equipment and intangibles, net	**¥ (431)**	¥ (9,070)	¥(4,260)	**$ (3,651)**
Gift coupon income, net	**330**	221	213	**2,798**
Equity in income of an affiliate	**(85)**	14	10	**(717)**
Gain on recognition of fixed assets for prior periods	**382**	–	–	**3,232**
Adjustment of gain on sales of property, plant and equipment for prior periods	**523**	–	–	**4,433**
Gain on sales of investment securities	**1,277**	454	1,179	**10,813**
Subsidy for removal construction	**96**	96	–	**809**
Gain on sale of business (The Westin Tokyo)	**–**	6,820	–	**–**
Gain on exemption from future payments of substitutional portion of the WPFP (Note 2 (k))	**–**	115	–	**–**
Loss on disposal of inventories	**(1,184)**	(1,662)	(1,757)	**(10,025)**
Loss on provision of cost deduction of property, plant and equipment	**(279)**	–	–	**(2,367)**
Loss on impairment of property, plant and equipment, and leased assets (Note 6)	**(838)**	(6,032)	–	**(7,096)**
Loss on devaluation of investment securities	**(400)**	(642)	(423)	**(3,389)**
Loss on sales of investment securities	**(45)**	(3)	(7)	**(382)**
Write-off of deposit for trade	**(243)**	–	(438)	**(2,062)**
Loss on provision of doubtful accounts	**(69)**	–	–	**(584)**
Loss on floriculture business	**–**	(1,014)	–	**–**
Loss on repayment of bonds	**–**	(891)	–	**–**
Loss on liquidation of affiliate	**–**	(78)	–	**–**
Business reorganization costs	**–**	–	(570)	**–**
Other	**(89)**	(92)	70	**(751)**
	¥(1,055)	¥(11,764)	¥(5,983)	**$ (8,939)**

10. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans covering substantially all employees. Additional benefits may be granted to employees according to the conditions under which termination occurs.

Employees' retirement benefits as of December 31, 2005 and 2004 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Retirement benefit obligation	**¥(57,563)**	¥(66,943)	**$(487,530)**
Fair value of pension plan assets	**28,226**	23,611	**239,060**
	(29,337)	(43,332)	**(248,470)**
Unrecognized net retirement benefit obligation at transition	**15,502**	17,052	**131,296**
Unrecognized actuarial gain or loss	**2,991**	9,037	**25,335**
Unrecognized past service cost	**(6,271)**	660	**(53,114)**
Prepaid pension cost	**(80)**	(75)	**(682)**
Employees' retirement benefits	**¥(17,195)**	¥(16,658)	**$(145,635)**

The Company and certain consolidated subsidiaries have recognized past service cost related to a change in the level of benefits offered under their lump-sum retirement payment plans.

The components of retirement benefit expenses for each of the three years in the period ended December 31, 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Service cost	**¥ 1,796**	¥1,800	¥2,071	**$15,211**
Interest cost	**1,287**	1,544	1,691	**10,897**
Expected return on plan assets	**(1,051)**	(983)	(935)	**(8,901)**
Amortization of net retirement benefit obligation at transition	**1,550**	1,572	1,559	**13,132**
Amortization of actuarial gain or loss	**711**	505	768	**6,020**
Amortization of past service cost	**(26)**	52	47	**(217)**
Other	**282**	190	396	**2,386**
	¥ 4,549	¥4,680	¥5,597	**$38,528**

"Other" includes early retirement benefits.

The assumptions used in calculation of the above information for each of the three years in the period ended December 31, 2005 were as follows:

	2005	2004	2003
Discount rate	**2.00%**	2.00%	2.0 – 2.5%
Expected rate of return on plan assets	**3.0 – 4.5%**	3.0 – 4.5%	3.0 – 4.5%
Period of recognition of past service cost	**15 years**	15 years	15 years
Method of amortization	**Straight-line method**	Straight-line method	Straight-line method
Period of recognition of actuarial gain or loss (amortized by the straight-line method over the average number of remaining years of service of the eligible employees commencing in the following year)	**10 – 15 years**	10 – 15 years	10 – 15 years
Period of recognition of net retirement benefit obligation	**15 years**	15 years	15 years

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 40.7% for the year ended December 31, 2005, and 43.9% for the years ended December 31, 2004 and 2003. This difference in tax rates arose as a result of the abolishment of the consolidated added value tax and the adoption of the standard enterprise tax effective April 1, 2004. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

Current income taxes for the year ended December 31, 2005 included adjustment of income taxes of prior periods by claims for refund of income taxes.

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2005 differ from the corresponding statutory tax rates for the following reasons:

	2005	2004	2003
Statutory tax rates	**40.7%**	43.9%	43.9%
Effect of:			
Disallowed expenses, including entertainment expenses	**6.9**	2.8	18.5
Dividends and other income deductible for income tax purposes	**(0.7)**	(2.7)	(5.2)
Inhabitants' per capita taxes	**3.0**	2.7	9.3
Unschedulable temporary differences	**9.3**	49.7	137.9
Changes in valuation allowance	**(18.7)**	(55.0)	(187.1)
Adjustment income taxes for prior years	**3.5**	–	–
Other, net	**0.8**	(2.0)	1.5
Effective tax rates	**44.8%**	39.4%	18.8%

The significant components of deferred tax assets and liabilities at December 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Deferred tax assets:			
Property, plant and equipment	**¥ 11,769**	¥ 11,133	**$ 99,680**
Employees' retirement benefits	**6,849**	6,502	**58,009**
Costs relating to closing of a factory	**205**	1,975	**1,740**
Investment securities	**1,489**	1,304	**12,610**
Tax loss carryforwards	**1,048**	1,421	**8,874**
Allowance for doubtful receivables	**1,187**	987	**10,052**
Accrued expenses	**457**	546	**3,872**
Gift coupon income	**753**	692	**6,375**
Other	**1,660**	2,628	**14,058**
Gross deferred tax assets	**25,417**	27,188	**215,270**
Valuation allowance	**(15,367)**	(14,467)	**(130,151)**
Total deferred tax assets	**10,050**	12,721	**85,119**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**3,261**	3,243	**27,617**
Unrealized holding gain on securities	**11,322**	3,331	**95,888**
Other	**255**	4	**2,163**
Total deferred tax liabilities	**14,838**	6,578	**125,668**
Net deferred tax (liabilities) assets	**¥ (4,788)**	¥ 6,143	**$ (40,549)**

12. Leases

(a) Finance leases

i) Lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation, accumulated loss on impairment and net book value of leased property at December 31, 2005 and 2004, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Acquisition costs:			
Machinery and vehicles	**¥ 636**	¥ 805	**$ 5,385**
Other	**15,830**	14,314	**134,077**
	¥16,466	¥15,119	**$139,462**
Accumulated depreciation:			
Machinery and vehicles	**¥ 254**	¥ 478	**$ 2,155**
Other	**7,099**	7,205	**60,129**
	¥ 7,353	¥ 7,683	**$ 62,284**
Accumulated loss on impairment:			
Machinery and vehicles	**¥ –**	¥ –	**$ –**
Other	**243**	–	**2,055**
	¥ 243	¥ –	**$ 2,055**
Net book value:			
Machinery and vehicles	**¥ 382**	¥ 327	**$ 3,230**
Other	**8,488**	7,109	**71,893**
	¥ 8,870	¥ 7,436	**$ 75,123**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥3,100 million ($26,253 thousand) and ¥3,153 million, which equaled the corresponding depreciation on the respective leased assets computed by the straight-line method over the lease terms for the years ended December 31, 2005 and 2004, respectively.

Loss on impairment of leased assets amounted to ¥243 million ($2,055 thousand) and account of this is not depreciated for the year ended December 31, 2005.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2005 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥2,828	$23,954
2007 and thereafter	6,159	52,160
Total	¥8,987	$76,114

ii) Lessor

One consolidated subsidiary subleases certain leased property to a third party.

One consolidated subsidiary subleases the leased property in nearly the same condition of the original lease contracts. Therefore, almost the same amount of unpaid lease expense is included in the balance as the lessee.

Future minimum lease receivables, including the interest portion thereon, subsequent to December 31, 2005, for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥ 31	$262
2007 and thereafter	86	729
Total	¥117	$991

(b) Operating leases

Future minimum lease payments subsequent to December 31, 2005 for operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥23	$198
2007 and thereafter	51	432
Total	¥74	$630

Loss on impairment of leased assets relating to finance leases amounted to ¥243 million ($2,055 thousand) for the year ended December 31, 2005. There was no recorded loss on impairment of leased assets for the year ended December 31, 2004.

13. Contingent Liabilities

Contingent liabilities at December 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Guarantee of loans, principally loans for employees' housing	**¥ 3,046**	¥ 3,232	**$25,802**
Debt assumption,			
2.06% bonds due 2007	**10,000**	10,000	**84,696**
1.31% bonds due 2008	**10,000**	10,000	**84,696**

14. Amounts per Share

Basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted net income per share has been computed based on the net income available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during the year after allowing for the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets have been computed based on the net assets available for distribution to shareholders and the number of shares of common stock outstanding at each balance sheet date.

Year ended December 31	Yen			U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Net income	**¥10.20**	¥13.07	¥6.95	**$0.09**
Diluted net income	**9.18**	12.01	–	**0.08**

As of December 31	Yen		U.S. dollars (Note 1)
	2005	2004	**2005**
Net assets	**¥305.00**	¥259.81	**$2.58**

15. Segment Information

The Company and its consolidated subsidiaries underwent a reorganization in the year ended December 31, 2003. On July 1, 2003, Sapporo Lion Ltd. became a wholly owned subsidiary of the Company through a share exchange. Effective the same date, the Company separated its alcoholic beverages, soft drinks and real estate business, and became a holding company. The Company has used this restructuring as an opportunity to commence the disclosure of information in a format which more appropriately reflects the performance of each business in the group. Consequently, the constituent elements of the former alcoholic beverages and soft drinks segment are now disclosed separately as alcoholic beverages and soft drinks.

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2005	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	**¥341,077**	**¥63,897**	**¥26,331**	**¥ 21,696**	**¥ 670**	**¥453,671**	**¥ –**	**¥453,671**
Intra-group sales and transfers	**4,975**	**342**	**–**	**2,137**	**24**	**7,478**	**(7,478)**	**–**
Total	**346,052**	**64,239**	**26,331**	**23,833**	**694**	**461,149**	**(7,478)**	**453,671**
Operating expenses	**339,497**	**64,932**	**25,780**	**17,993**	**824**	**449,026**	**(5,655)**	**443,371**
Operating income (loss)	**¥ 6,555**	**¥ (693)**	**¥ 551**	**¥ 5,840**	**¥ (130)**	**¥ 12,123**	**¥ (1,823)**	**¥ 10,300**
Identifiable assets	**¥306,900**	**¥16,845**	**¥13,736**	**¥191,876**	**¥1,673**	**¥531,030**	**¥32,815**	**¥563,845**
Depreciation and amortization	**¥ 13,840**	**¥ 215**	**¥ 636**	**¥ 7,337**	**¥ 47**	**¥ 22,075**	**¥ –**	**¥ 22,075**
Loss on impairment	**¥ 794**	**¥ –**	**¥ 44**	**¥ –**	**¥ –**	**¥ 838**	**¥ –**	**¥ 838**
Capital expenditures	**¥ 12,143**	**¥ 274**	**¥ 1,158**	**¥ 1,544**	**¥1,099**	**¥ 16,218**	**¥ –**	**¥ 16,218**

Year ended or as of December 31, 2005	Thousands of U.S. dollars (Note 1)							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	**$2,888,775**	**$541,178**	**$223,012**	**$ 183,757**	**$ 5,672**	**$3,842,394**	**$ –**	**$3,842,394**
Intra-group sales and transfers	**42,134**	**2,898**	**–**	**18,095**	**206**	**63,333**	**(63,333)**	**–**
Total	**2,930,909**	**544,076**	**223,012**	**201,852**	**5,878**	**3,905,727**	**(63,333)**	**3,842,394**
Operating expenses	**2,875,390**	**549,945**	**218,345**	**152,392**	**6,974**	**3,803,046**	**(47,892)**	**3,755,154**
Operating income (loss)	**$ 55,519**	**$ (5,869)**	**$ 4,667**	**$ 49,460**	**$ (1,096)**	**$ 102,681**	**$ (15,441)**	**$ 87,240**
Identifiable assets	**$2,599,307**	**$142,672**	**$116,334**	**$1,625,100**	**$14,173**	**$4,497,586**	**$277,932**	**$4,775,518**
Depreciation and amortization	**$ 117,223**	**$ 1,818**	**$ 5,387**	**$ 62,140**	**$ 398**	**$ 186,966**	**$ –**	**$ 186,966**
Loss on impairment	**$ 6,726**	**$ –**	**$ 370**	**$ –**	**$ –**	**$ 7,096**	**$ –**	**$ 7,096**
Capital expenditures	**$ 102,847**	**$ 2,318**	**$ 9,807**	**$ 13,078**	**$ 9,309**	**$ 137,359**	**$ –**	**$ 137,359**

Year ended or as of December 31, 2004	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	¥364,585	¥69,324	¥26,611	¥ 22,506	¥11,904	¥494,930	¥ –	¥494,930
Intra-group sales and transfers	4,985	263	–	4,931	37	10,216	(10,216)	–
Total	369,570	69,587	26,611	27,437	11,941	505,146	(10,216)	494,930
Operating expenses	350,760	69,121	26,382	21,464	12,206	479,933	(8,651)	471,282
Operating income (loss)	¥ 18,810	¥ 466	¥ 229	¥ 5,973	¥ (265)	¥ 25,213	¥ (1,565)	¥ 23,648
Identifiable assets	¥303,808	¥19,737	¥15,146	¥197,449	¥ 519	¥536,659	¥ 65,453	¥602,112
Depreciation and amortization	¥ 15,205	¥ 289	¥ 765	¥ 8,734	¥ 337	¥ 25,330	¥ –	¥ 25,330
Loss on impairment	¥ 5,432	¥ –	¥ 600	¥ –	¥ –	¥ 6,032	¥ –	¥ 6,032
Capital expenditures	¥ 8,494	¥ 382	¥ 769	¥ 303	¥ 321	¥ 10,269	¥ –	¥ 10,269

Year ended or as of December 31, 2003	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	¥341,924	¥65,169	¥26,591	¥ 33,430	¥12,406	¥479,520	¥ –	¥479,520
Intra-group sales and transfers	4,944	240	–	4,586	40	9,810	(9,810)	–
Total	346,868	65,409	26,591	38,016	12,446	489,330	(9,810)	479,520
Operating expenses	342,326	66,244	27,680	24,505	12,745	473,500	(7,311)	466,189
Operating income (loss)	¥ 4,542	¥ (835)	¥ (1,089)	¥ 13,511	¥ (299)	¥ 15,830	¥(2,499)	¥ 13,331
Identifiable assets	¥327,650	¥19,535	¥18,142	¥247,872	¥12,269	¥625,468	¥ 5,169	¥630,637
Depreciation and amortization	¥ 17,038	¥ 346	¥ 810	¥ 9,867	¥ 374	¥ 28,435	¥ –	¥ 28,435
Capital expenditures	¥ 7,644	¥ 215	¥ 874	¥ 1,187	¥ 161	¥ 10,081	¥ –	¥ 10,081

1. The above business segment information has been prepared in accordance with an ordinance under the Securities and Exchange Law of Japan.
2. (i) Unallocated operating expenses amounted to ¥1,938 million ($16,416 thousand), ¥1,752 million and ¥2,722 million for the years ended December 31, 2005, 2004 and 2003, respectively, and, until June 30, 2003, consisted principally of expenditures related to general administration, but from July 1, 2003, consisted of the holding company's expenditures.
   (ii) Unallocated assets, which amounted to ¥39,687 million ($336,131 thousand), ¥75,501 million and ¥22,841 million at December 31, 2005, 2004 and 2003, respectively, consisted principally of cash and cash equivalents, short-term and long-term investments and assets of general administration at December 31, 2005 and 2004, but consisted of cash and cash equivalents and short-term and long-term investments of the holding company at December 31, 2003.
3. Sales outside Japan and sales to overseas customers comprised less than 10% of the Company's consolidated sales for each of the years ended December 31, 2005, 2004 and 2003. Accordingly, geographical segment information and overseas sales have not been disclosed.

16. Subsequent Events

On March 30, 2005, the following appropriation of retained earnings was approved at the annual general meeting of the Company's shareholders:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	**¥1,826**	**$15,469**

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
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Report of Independent Auditors

The Board of Directors
Sapporo Holdings Limited

We have audited the accompanying consolidated balance sheets of Sapporo Holdings Limited and consolidated subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sapporo Holdings Limited and consolidated subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in Japan.

As described in Note 3, Sapporo Holdings Limited and consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended December 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

Tokyo, Japan
March 30, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

Corporate Data

(As of December 31, 2005)

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Capital
¥46,596 million

Number of Shares Issued
366,571,406

Fiscal Year-end
December 31

Head Office
20-1, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-8522, Japan
info@sapporoholdings.jp

Number of Employees
3,809
(Consolidated)

86
(Parent company)

Main Banks
Mizuho Corporate Bank, Ltd.
The Bank of Tokyo-Mitsubishi, Ltd.
The Norinchukin Bank

Securities Traded: Common Stock
Tokyo Stock Exchange, First Section

Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Auditors
Ernst & Young ShinNihon

SAPPORO

SAPPORO HOLDINGS LIMITED

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Tokyo 150-8522, Japan

http://www.sapporoholdings.jp/english/

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Printed in Japan