THE SAPPORO EXPERIENCE

SAPPORO HOLDINGS LIMITED

ANNUAL REPORT 2008

SAPPORO BREWERIES LTD.

CREATING VALUE IN FOOD

SAPPORO INTERNATIONAL INC.

SAPPORO BEVERAGE CO., LTD.

SAPPORO LION LTD.

CREATING COMFORTABLE SURROUNDINGS

YEBISU GARDEN PLACE CO., LTD.

PROFILE

The Sapporo Group has provided customers with new excitement and enjoyment for more than 130 years, in the process building a strong Sapporo brand. In October 2007, the Sapporo Group formulated the Sapporo Group's New Management Framework, a medium- to long-term management vision. The goal is to quickly respond to a fast-changing business environment and continuously enhance corporate value. With 2016—our 140th anniversary—as a target date, we are determined to aggressively develop businesses so that we mark this milestone with due success.

The Sapporo Group operates under a holding company framework, with Sapporo Holdings Limited as a pure holding company, and has four business segments: Alcoholic Beverages (Japan and International), Soft Drinks, Restaurants and Real Estate.

CONTENTS

*Effective from this year's annual report, all figures are rounded.

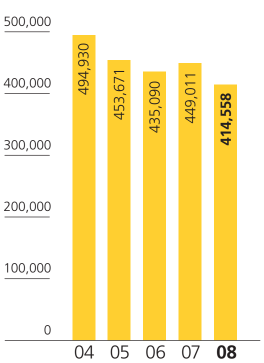
FINANCIAL HIGHLIGHTS

Years ended December 31

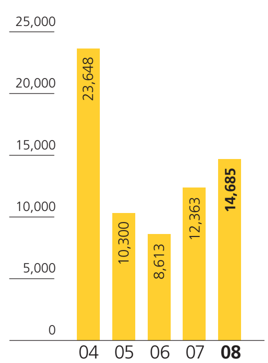
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net sales	**¥414,558**	¥449,011	**$4,555,084**
Operating income	**14,685**	12,363	**161,360**
Net income	**7,640**	5,509	**83,949**
	Yen		U.S. dollars
Per share:			
Net income:			
Primary	**¥19.49**	¥14.10	**$0.21**
Diluted	**18.89**	13.76	**0.21**
Cash dividends	**7.00**	5.00	**0.08**
	Millions of yen		Thousands of U.S. dollars
Net assets	**¥116,862**	¥125,189	**$1,284,060**
Total assets	**527,287**	561,859	**5,793,722**
Capital expenditures	**29,378**	19,548	**322,803**
Depreciation and amortization	**21,605**	24,527	**237,390**
Financial liabilities	**189,252**	212,464	**2,079,466**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥91.01=US$1, the exchange rate prevailing on December 31, 2008.

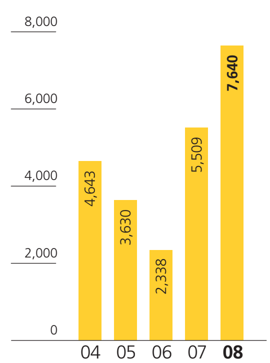
NET SALES
(¥ Million)



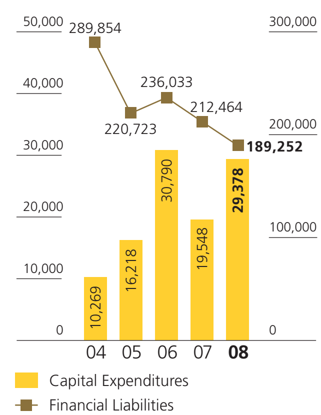
OPERATING INCOME
(¥ Million)



NET INCOME
(¥ Million)



FINANCIAL LIABILITIES AND CAPITAL EXPENDITURES
(¥ Million)



MESSAGE FROM THE PRESIDENT

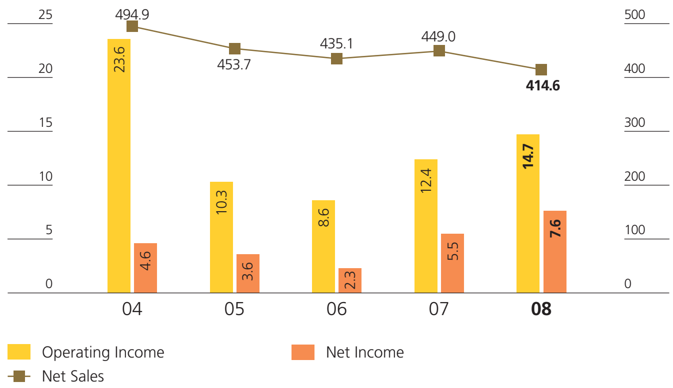
By concentrating business resources on core brands and services in each business segment, the Sapporo Group is conducting business leveraging its competitive advantages. At the same time, the Group is sharpening its cost competitiveness by stepping up business restructuring.

FISCAL 2008 PERFORMANCE

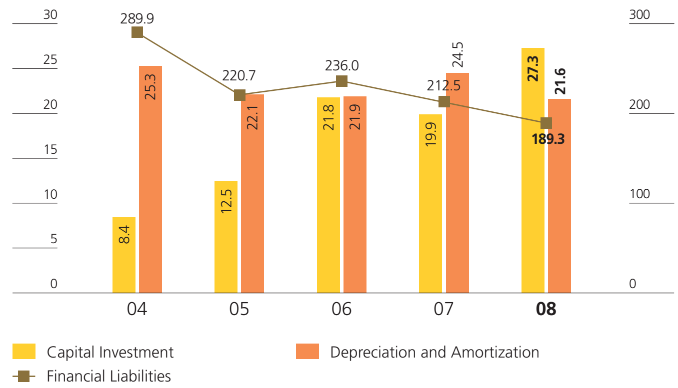
Fiscal 2008, the year ended December 31, 2008, was the first year of the Sapporo Group's New Management Framework. In a tumultuous operating environment, we worked to address two priorities—conducting business leveraging our competitive advantages and bolstering our earnings base, and paving the way for sustained growth. As a result, I'm pleased to report that we posted operating income of ¥14,685 million, 18.8% higher year on year and surpassing our initial forecast. The higher-than-planned earnings came despite lower net sales. Net income also increased 38.7% year on year to ¥7,640 million. In terms of segment performance, all business segments were profitable for the first time since we shifted to a pure holding company structure in 2003. In addition, we steadily reduced financial liabilities.

TAKAO MURAKAMI
President and Representative Director,
Group CEO

NET SALES, OPERATING INCOME, AND NET INCOME
(¥ Billion)



FINANCIAL LIABILITIES, CAPITAL INVESTMENT, AND DEPRECIATION AND AMORTIZATION
(¥ Billion)



Alcoholic Beverages (Japan) Business

Looking at the Japanese beer and beer-type beverages market, in the first half of fiscal 2008, consumers increasingly tightened their belts in response to generally higher prices as food prices were hiked. Consumer spending weakened further in the second half as a sharp economic recession took hold, fueling a stronger-than-expected preference for low-priced products. Additionally, Japanese brewers raised beer prices to cope with higher raw ingredient and materials costs. Against this backdrop, the Japanese beer and beer-type beverages market saw total demand decrease by 2.5% year on year.

In addition to raising prices for beer and beer-type beverages in April 2008, we concentrated business resources on core brands, and worked hard to boost sales by launching new products and taking other actions. However, these actions were unable to compensate for waning demand in the *Happo-shu* market and declining new product genre sales, resulting in lower overall sales in the Alcoholic Beverages (Japan) segment. On a brighter note, one major success of fiscal 2008 was that *Mugi to Hop*, a new product released in June 2008, sold far better than initially expected. *Mugi to Hop* garnered a strong market reputation for being as refreshing as beer despite its new product genre classification.

We also continued to implement restructuring measures as in 2007. Concrete measures included reducing fixed costs centered on sales promotion expenses as well as other cost-cutting initiatives. And we established a more flexible management structure by conducting a thorough efficiency drive that included boosting capacity utilization by closing Sapporo Breweries' Osaka Plant. As a result, we posted earnings growth again in fiscal 2008.

Alcoholic Beverages (International) Business

In the international Alcoholic Beverages business, with the U.S. economy, stalling abruptly, the North American beer market saw total demand increase only slightly, as demand shifted from premium- to value-beer categories. While factoring in a temporary impact on earnings, we conducted vigorous sales activities to position our operations for future expansion in the North American market. For example, we commenced test-marketing of *Yebisu* beer in the U.S. to gauge its potential acceptance in the local high-end market.

Despite these efforts, net sales in the international Alcoholic Beverages business decreased due to forex effects. However, we recorded steady growth in sales volume, with SLEEMAN BREWERIES LTD. and Sapporo U.S.A., Inc. reporting increases in sales volume of 6% and 9%, respectively, in year-on-year terms. Sales volume of exports to other countries rose by 11% year on year, thanks to continuing strong growth in demand in Asian countries and elsewhere.

Soft Drinks Business

In the Japanese soft drinks market, overall demand was estimated to have contracted by around 1% year on year. Amid such an environment, we continued to face fierce competition due to an over-crowded market. Aiming to craft a sustainable earnings structure, we formed a strategic alliance with YK, Crescent Partners and expedited restructuring by focusing resources on strategic operations. This had mainly entailed reducing unprofitable sales, narrowing our product range, and streamlining personnel systems. In addition, we formed vending machine alliances with ITO EN, LTD. and Pokka Corporation that were designed to boost sales in line with our growth strategy. Aiming to develop high-value-added brands, we also strove to entrench in the market *Ocean Spray Cranberry*, *Gerolsteiner* and other distinctive and unique brands.

Thanks to these efforts, the Soft Drinks business saw profitability improve despite lower net sales, and was able to restore operating profitability one year ahead of schedule.

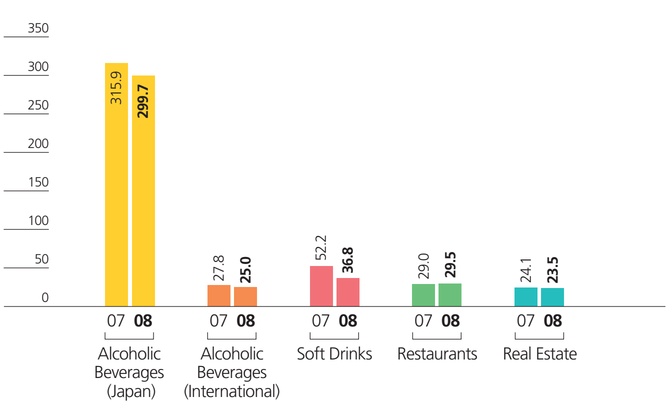
Restaurants Business

Meanwhile, the Japanese restaurant industry continued to face a challenging operating environment, as suburban restaurants underperformed due to soaring gasoline prices, and the ongoing economic recession led to faltering demand for pre-booked group events and falling sales at restaurant formats that typically generate high spending per customer. In this climate, we worked to expand earnings by improving the quality of cuisine and services, focusing on the themes of food safety, quality and authenticity. As many restaurant operators struggled, sales at our existing restaurants were mostly on a par with the previous year, reflecting strong performances by beer halls at prime Tokyo locations. However, cost reductions were unable to compensate for a sharp decline in fourth-quarter sales, leading to lower year-on-year earnings.

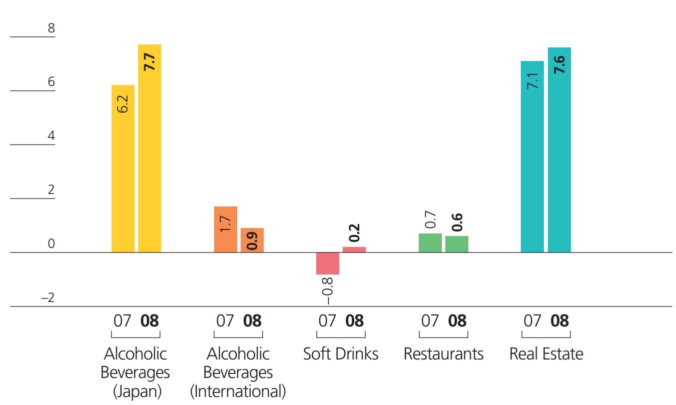
Real Estate Business

Over the past few years, Japan's real estate market had achieved relatively stable growth. However, the recent financial market turmoil led to a sharp deterioration in market conditions. The central Tokyo office leasing market saw vacancy rates rise from the outset of 2008. Moreover, rent levels, while still relatively high, declined. Against this backdrop, we raised rents while maintaining high occupancy rates primarily at Yebisu Garden Place and other existing leasing properties in the Tokyo area. As a result, operating income rose ¥0.5 billion year on year. Furthermore, in order to expand our property portfolio, we developed real estate projects in Ebisu, Shinjuku and other areas, while actively acquiring new income-generating properties in central Tokyo.

BUSINESS RESULTS BY SEGMENT—NET SALES
(¥ Billion)



BUSINESS RESULTS BY SEGMENT—OPERATING INCOME
(¥ Billion)



FISCAL 2009 OVERALL BUSINESS PLAN

In fiscal 2009, we are forecasting lower net sales. This forecast is primarily based on a higher weight of sales from new product genres in our product mix in the Alcoholic Beverages (Japan) business; forex effects in the Alcoholic Beverages (International) business; and ongoing reductions in unprofitable sales in the Soft Drinks business. On the cost front, we are projecting higher costs due mainly to increased raw ingredient and materials prices and higher depreciation following a change in accounting standards. Our business environment is currently undergoing seismic shifts. In response, the Sapporo Group will advance further cost structure reforms in all businesses so as to steadily build a powerful earnings base that can generate stable earnings in any business environment. We also intend to concentrate business resources on fields where we can demonstrate competitive advantages, with the aim of driving lasting growth in our businesses.

Through these and other initiatives, we aim to generate higher operating income in fiscal 2009 than in the previous fiscal year, excluding the impact of accounting standard changes.

Segment Business Plan

In the Alcoholic Beverages (Japan) business, we aim to achieve our full-year forecasts by offering new value propositions for our premium *Yebisu* brand beer, while strengthening *Draft One* and *Mugi to Hop* as core product brands in growing new product genres. We will also launch *Reisei SAPPORO*, a new type of great-tasting alcoholic beverage.

In the Alcoholic Beverages (International) business, we will continue investing in marketing aimed at maintaining and enhancing the value of core premium brands centered on those of Sleeman Breweries. In the U.S. market, we aim to expand sales volume faster than total demand growth by strengthening operations targeting market segments other than local Japanese businesses and individuals.

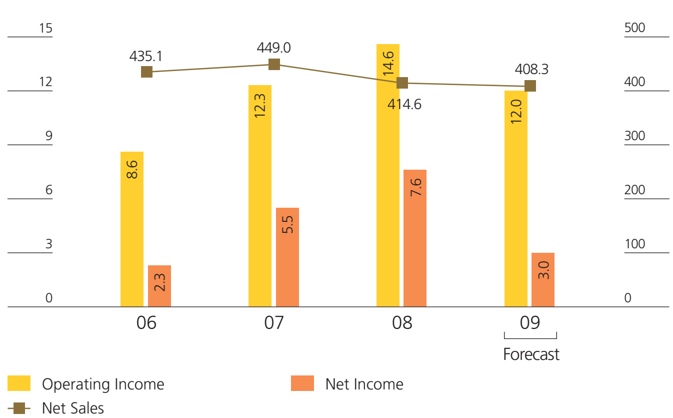
In the Soft Drinks business, we will continue implementing a strategy for crafting a sustainable earnings structure and a growth strategy for building powerful brands to cement a strong market presence. On the sales front, in addition to relaunching the *Ribbon Citron* brand to mark its centennial, we will work to capture new demand with *Gerolsteiner* and other unique products. On the cost front, we will continue to prioritize strategic operations to bolster earnings power, while laying the groundwork for the next phase of business expansion.

In the Restaurants business, we will attract customers by highlighting the trusted Sapporo Lion brand through a 110th anniversary event. Additionally, we will develop a new small and mid-sized restaurant format catering to relatively low per-customer spending to address new economic realities. On the cost front, we will reform our cost structure to stabilize earnings.

In the Real Estate business, we will develop real estate projects and acquire income-generating properties mainly in central Tokyo, with the aim of expanding our property portfolio. Regarding existing properties, we will strive to maintain high occupancy rates as we phase in rent increases, to bolster earnings.

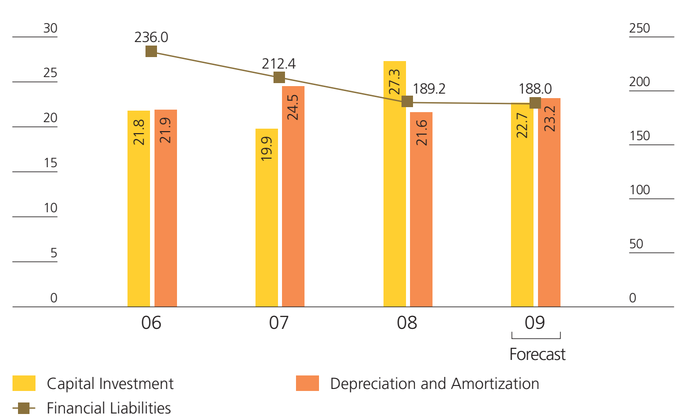
EARNINGS FORECASTS—NET SALES, OPERATING INCOME, AND NET INCOME

(¥ Billion)



EARNINGS FORECASTS—FINANCIAL LIABILITIES, CAPITAL INVESTMENT, AND DEPRECIATION AND AMORTIZATION

(¥ Billion)



In the Foods business, *Sapporo Potekaru* non-fried potato chips went on sale in February 2009. Going forward, we plan to boost sales of these sorts of healthier food products. To this end, we have built a new facility in Ota City, Gunma Prefecture, which commenced full-scale operations in January 2009 with the start of *Sapporo Potekaru* production. We are also paving the way for future growth by starting new projects in the yoghurt, dessert, and chilled beverage businesses.

These and other measures will help us to achieve our earnings targets in all businesses.

SAPPORO GROUP MANAGEMENT PLAN 2009–2010

Basic Policies

In 2008, we unveiled Management Plan 2008–2009, the first action plan of the New Management Framework. However, the operating environment has undergone significant changes since then. Accordingly, we have decided to revamp the management plan on a revolving basis by formulating the new Management Plan 2009–2010.

We consider the two-year plan as a roadmap based on Sapporo Group's New Management Framework—a long-term management policy targeting 2016, the Group's 140th anniversary, that was announced in 2007. Faced with a tumultuous business environment, we must solve many issues on the way to reaching our 2016 targets. This roadmap will help us to balance short- and long-term perspectives as we manage operations with an eye to the future. We have defined the next two years as a period for laying the groundwork for our next phase of growth.

We are overhauling our strategies based on conservative estimates for the plan's assumed market conditions. We have revised our management plan based on the following four concrete imperatives:

- Continue to pave the way for generating stable earnings in any business environment;
- Make strategic investments based on strict risk assessments and the realities of the prevailing business environment;
- Move into new markets by seeking out opportunities for business expansion overseas; and,
- Lower costs further throughout the Group.

Two-Year Management Targets

We have revised our fiscal 2009 sales assumptions for the entire Group based on conservative estimates for market conditions in each business. We have also factored in the impact on operating income of changes in depreciation and other accounting standards. We will continue to do our utmost to further reform our cost structure with the aim of structuring operations to generate steady earnings even based on conservative net sales assumptions.

The basic strategies for each business segment are covered in greater detail later in this report on pages 12–17 of the Review of Operations section. In essence, we will concentrate business resources on core brands and services in each segment, and conduct business leveraging our competitive advantages. At the same time, we will step up ongoing business restructuring measures to sharpen our cost competitiveness.

MANAGEMENT TARGETS

(¥ Billion)

		2009 Targets		2010 Targets	New Management Framework (2016 Plan)
		Before revision	After revision		
Net Sales	Group-wide	451.0	408.3	413.1	600.0
	Alcoholic Beverages (Japan)	321.0	295.6	296.0	350.0
	Alcoholic Beverages (International)	30.0	22.1	23.0	42.0
	Soft Drinks	43.0	35.5	36.7	70.0
	Restaurants	32.0	30.5	31.4	50.0
	Real Estate	25.0	24.6	26.0	50.0
	New Businesses	–	–	–	38.0

		2009 Targets		2010 Targets	New Management Framework (2016 Plan)
		Before revision	After revision		
Operating Income	Group-wide	15.5	12.0	14.7	40.0
	Alcoholic Beverages (Japan)	8.0	5.6	6.1	15.0
	Alcoholic Beverages (International)	1.4	0.9	1.0	5.0
	Soft Drinks	0.1	0.3	0.8	2.0
	Restaurants	1.0	0.7	1.0	2.5
	Real Estate	8.4	7.7	8.1	15.0
	New Businesses	–	–	–	3.0
	Corporate	(3.4)	(3.2)	(2.3)	(2.5)

SAPPORO GROUP'S MANAGEMENT PLAN: OVERALL STRATEGY FOR 2009–2010

Basic Policy on Strategic Investments

Strategic investments are an important strategy for driving Group-wide growth. Current economic conditions have both positive and negative implications for corporate strategic investments. We will make strategic investments that have clear targets, while conducting stricter evaluations of opportunities and risks. We intend to prioritize investment in M&As in premium food businesses, as well as overseas business operations.

Group Synergies

In the past, we have attempted to reap economies of scale, including by integrating back-office departments within the Group. Going forward, we plan to integrate the IT infrastructure that will be crucial to capturing further Group synergies, among other measures.

Promoting CSR-Focused Management

The Sapporo Group sees the promotion of CSR-focused management as an important strategy given its involvement in food and other businesses. Crucial CSR themes include food safety issues, drunk-driving and other alcohol-related issues, and the environment and global warming. To address these themes, the Sapporo Group is stepping up CSR-related educational programs for Group employees and thereby boosting CSR awareness.

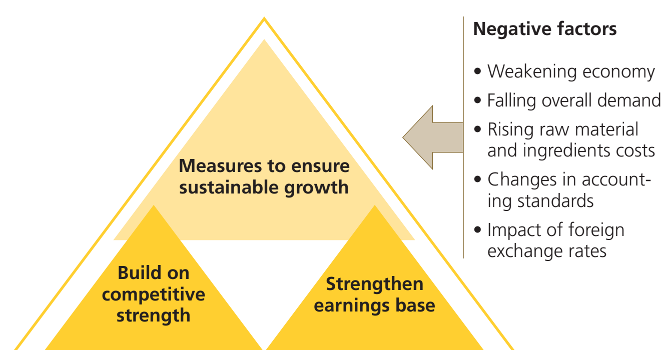
Policy on Returning Earnings to Shareholders

Returning an appropriate level of earnings to shareholders is an important management policy for the Sapporo Group. Our basic policy is to maintain stable dividend payments, while taking into consideration earnings and the Group's financial position in setting dividends. We increased the annual dividend applicable to fiscal 2008 by ¥2 per share from fiscal 2007 to ¥7 per share. Furthermore, we plan to maintain the annual dividend at ¥7 per share for fiscal 2009 by steadily implementing the management plan outlined in this message.

Although the operating environment is increasingly challenging, the entire Sapporo Group remains committed to steadily implementing the management plan to reach its goals.

TAKAO MURAKAMI
President and Representative Director, Group CEO

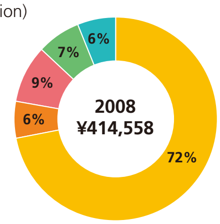
EARNINGS FORECASTS: KEY POINTS



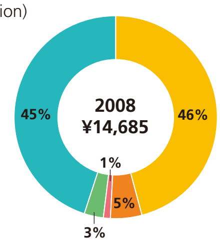
AT A GLANCE

SAPPORO HOLDINGS LIMITED

NET SALES
(¥ Million)



OPERATING INCOME
(¥ Million)



- Alcoholic Beverages (Japan)
- Alcoholic Beverages (International)
- Soft Drinks
- Restaurants
- Real Estate

PRODUCTS AND SERVICES

ALCOHOLIC BEVERAGES (JAPAN)

SAPPORO BREWERIES LTD.

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

ALCOHOLIC BEVERAGES (INTERNATIONAL)

SAPPORO INTERNATIONAL INC.

★ Beer

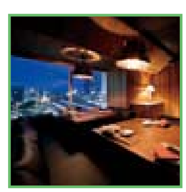
SOFT DRINKS

SAPPORO BEVERAGE CO., LTD.

★ Soft drinks
★ Mineral water products

RESTAURANTS

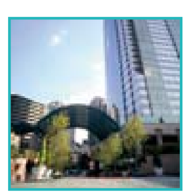
SAPPORO LION LTD.

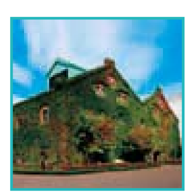


★ Ginza Lion and other general restaurant chains

REAL ESTATE

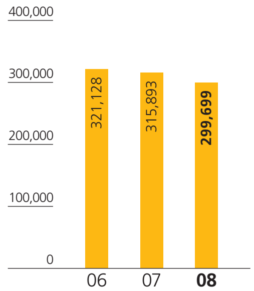
YEBISU GARDEN PLACE CO., LTD.

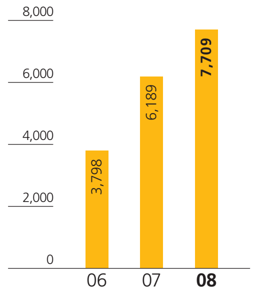




★ Yebisu Garden Place
★ Sapporo Factory
★ STRATA GINZA

NET SALES (¥ Million)	OPERATING INCOME (¥ Million)	FISCAL 2008 OPERATING HIGHLIGHTS



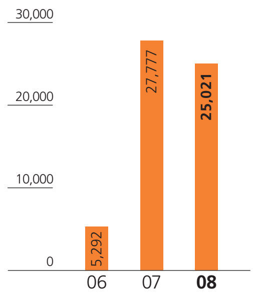


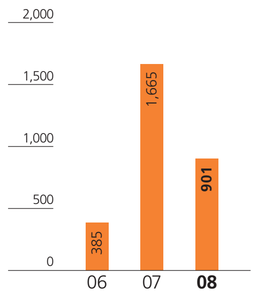
Market Conditions:

Food industry price hikes, tighter consumer spending, 2.5% total demand drop, stronger preference for low-priced products, price increases by Japanese brewers, higher raw material and ingredient costs, food safety and quality concerns

Actions:

Raised prices in April 2008, concentrated on core brands, boosted *Mugi to Hop* sales, controlled sales promotion expenses based on earnings targets, enhanced capacity utilization by realigning production network



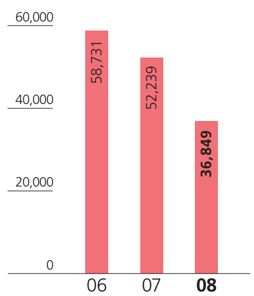


Market conditions:

Financial crisis → U.S. economic downturn, only a slight increase in total North American beer demand, shift from premium to value beer categories, rising raw ingredient and material costs, strong yen

Actions:

Conducted active marketing → Sales volume rose 6% and 9% at SLEEMAN BREWERIES LTD. and Sapporo U.S.A., INC. respectively; commenced test-marketing of *Yebisu* beer in the U.S.



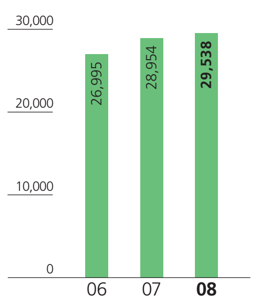
Market conditions:

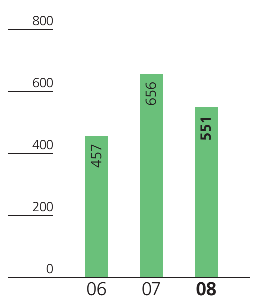
Weak economy, increasingly tighter consumer spending, continued fierce competition due to market over-crowding, 1% decline in total demand, rising raw ingredient and materials costs

Actions:

Brought forward restructuring by concentrating on strategic operations (restored operating profitability)

Reduced unprofitable sales, optimized organizational structure, spent more efficiently on sales promotions, established unique brands





Market conditions:

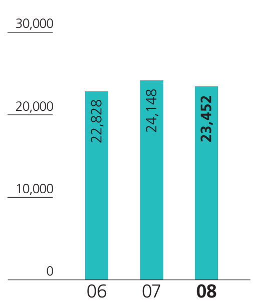
(First half) Soaring gasoline prices → Weak suburban restaurant performance

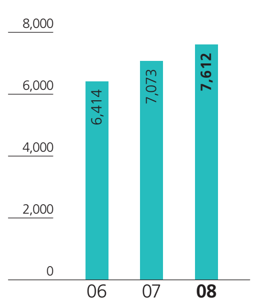
(Second half) Abrupt economic slowdown → Direct impact on restaurants that typically generate high spending per customer

Actions:

Focused on the themes of food safety, quality and authenticity; improved and set apart the quality of cuisine and services from competitors

Competitive edge of prime urban locations → Existing restaurant sales mostly the same as previous fiscal year





Market conditions:

Credit crunch → real estate slump, worsening housing market conditions, increased central-Tokyo office vacancy rate, drop in rent levels

Actions:

Expanded real estate portfolio → Property development in Ebisu, Shinjuku, etc., acquisition of new income properties in the Tokyo Metropolitan area

Maintenance of high occupancy rates for existing properties, rent revisions, value enhancement of Yebisu Garden Place properties

SAPPORO BREWERIES LTD.

The Alcoholic Beverages (Japan) business posted lower sales year on year, as the Japanese beer market contracted further. However, operating income rose by a substantial 25% year on year, despite soaring prices for raw ingredients and materials, because we were able to raise prices for beer and beer-type beverages and implemented cost-cutting measures.

FISCAL 2009 PERFORMANCE TARGETS
(¥ Billion)

	2008 Result	2009 Target
Net Sales	**299.7**	**295.6**
Operating Income	**7.7**	**5.6**
Operating Margin	**2.6%**	**1.9%**

2008 IN REVIEW

The Japanese beer and beer-type beverages market saw total demand decrease by 2.5% year on year. This was mainly a reflection of consumers increasingly tightening their belts in response to generally higher food and other consumer prices; brewers raising prices to cope with soaring raw ingredient and materials prices, and the sharp global economic downturn from midway through the year. In terms of main product categories, overall beer and *Happo-shu* sales decreased about 6% and 7%, respectively, but total sales of new product genres rose roughly 14% year on year. Consequently, beer, *Happo-shu* and new product genres accounted for 53%, 23%, and 24% of overall sales in the Japanese market, respectively.

In terms of results in this business, net sales decreased ¥16.2 billion, or 5%, year on year to ¥299.7 billion, while operating income climbed ¥1.5 billion, or 25%, year on year to ¥7.7 billion.

In beer, our mainstay *Sapporo Black Label Beer* and keg draft beer for commercial use both performed strongly. Meanwhile, sales of our premium *Yebisu* brand declined, although the fall was largely the same as that of the market as a whole thanks to various sales promotions. In other key developments, *Mugi to Hop*, a new product released in June 2008, sold far better than we initially expected. However, these factors were unable to compensate for lower sales of *Happo-shu* and our existing lineup of new product genres. Consequently, overall sales volume of beer and beer-type beverages decreased 8.5% year on year.

In wine, total demand for domestic and imported wines was mostly the same as in the previous year. In domestic wines, we recorded higher sales volume than last year thanks to brisk sales of the *Aroma Mutenka* line and large-volume wines. In imported wines, the strong performers were flagship *Yellow Tail* wines as well as *Santa Rita*, which we resumed stocking in September. Sales volume of imported wines was on a par with 2007. Overall wine sales rose 1% year on year.

Our *shochu* (Japanese distilled spirits) business posted a 12.6% year on year increase in sales. This was mainly attributable to greater penetration into the commercial-use market of *Waramugi*, *Karariimo* and other singly distilled *shochu*; the launch of *Triangle Smooth*; and steady growth in large-volume product sales.

On the cost front, the cost of goods sold rose because of rising prices of raw ingredients and materials, most notably imported malt and aluminum cans. In response, besides raising beer and beer-type beverage prices from April 2008, we spent more effectively on sales promotions, and reduced general overhead expenses and other costs. Through these efforts, we achieved much higher operating income than in the previous year.

THE JAPANESE BEER INDUSTRY AND SAPPORO BREWERIES

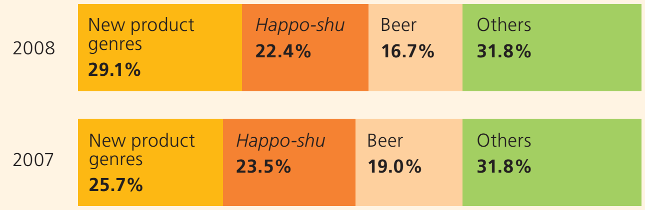
Demand Trends

In 2008, Japan's beer market—made up of beer, *Happo-shu* and new product genres—saw demand for new product genres increase by a sharp 3.4% year on year, while demand for beer and *Happo-shu* fell 2.3% and 1.1%, respectively. This reflected a shift in consumer preferences to low-priced products in response to a markedly deepening recession since midway through the past year. Consequently, total demand in Japan's beer market decreased 2.5% year on year.

Sapporo's Basic Approach

In light of the above, Sapporo believes the shift to new product genres will continue in the near future as consumers increasingly tighten their belts. Over the medium and long terms, however, we expect to see more and more customers purchase products that reflect their own unique preferences, without being unduly swayed by price. In both the high-priced beer segment and new product genres, Sapporo defines "customer value," its core strategic theme, as essentially being derived from the "never-ending pursuit of great taste." Accordingly, in 2009 Sapporo will work to enhance the *Yebisu* brand while bolstering its product portfolio in new product genres.

2008 SHARE BY ALCOHOL TYPE IN HOME-USE MARKET



(SCI data by INTAGE Inc.)

FISCAL 2009 BUSINESS PLAN

★ The fundamental principle of value for customers = Pursuit of "new flavor and value" beverages

★ Achieve full-year forecasts with emphasis on *Yebisu*; *Mugi to Hop* and *Draft One* in new product genres; and *Reisei SAPPORO*, a new type of "new flavor and value" alcoholic beverage

BUSINESS STRATEGIES

1. Concentrate business resources on mainstay beer and beer-type beverage products

- Concentrate business resources on the premium *Yebisu* brand in order to strengthen our presence in the high-end market.
- Strengthen *Draft One* and *Mugi to Hop* in the growing new product genre, while offering new taste propositions befitting Sapporo to enhance the product portfolio.

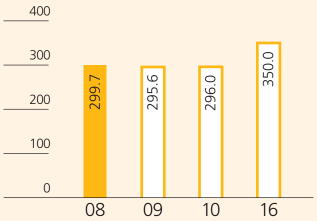
2. Bolster cost controls

- Establish a flexible, responsive production system
- Conserve energy
- Improve controls over marketing and freight expenses

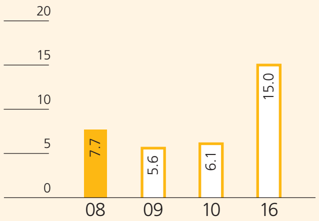
3. Create new value

- Further enhance R&D and product development systems, with the aim of developing high-value-added products

FORECAST OF NET SALES
(¥ Billion)



FORECAST OF OPERATING INCOME
(¥ Billion)



SAPPORO BREWERIES WINS PRESTIGIOUS "NATIONAL HONOR IN GOLD" FOR COLLABORATIVE CONTRACT FARMING SYSTEM

Since its founding, Sapporo Breweries has always insisted on using only the finest raw ingredients. In 2006, it achieved its goal of sourcing all its malt and hops—the main ingredients of beer—through a Collaborative Contract Farming System (CCFS). On May 5, 2008, Sapporo Breweries was awarded Germany's "National Honor in Gold" (Bundesehrenpreis in Gold) for its CCFS. Through this award, the German government recognized CCFS and gave Sapporo Breweries the highest marks for collaborating with barley and hops growers worldwide so that the quality of beer is assured from the time seeds are planted.

The "National Honor" awards were established in 1952 by the German Federal Government to recognize and honor outstanding contributions to the welfare of Germany and its citizens. The awards are given to food producers and growers who have worked hard to enhance food safety and reliability for consumers, and whose efforts have led to consistently high standards of quality. In Germany, the "National Honor in Gold" is considered to be the highest commendation of quality. Sapporo Breweries was the first brewer based outside Germany to receive this prestigious award. The news of a Japanese company winning the award thus caused considerable local interest and admiration.

REVIEW OF OPERATIONS ALCOHOLIC BEVERAGES (INTERNATIONAL)

SAPPORO INTERNATIONAL INC.

The Alcoholic Beverages (International) business worked hard to develop the premium market in North America through the test-marketing of *Yebisu* beer and other measures. As a result, sales volume rose 9% year on year. Operating income, however, decreased 46% year on year due partly to forex effects.

FISCAL 2009 PERFORMANCE TARGETS

(¥ Billion)

	2008 Result	2009 Target
Net Sales	**25.0**	**22.1**
Operating Income	**0.9**	**0.9**
Operating Margin	**3.6%**	**4.1%**

2008 IN REVIEW

In the North American beer market, total demand was estimated to have increased only slightly amid escalating competition. However, parts of the premium beer segment, such as domestic craft beers, continued to grow firmly. That said, the U.S. economy experienced a noticeable slowdown since fall 2008 in the wake of the sub-prime mortgage crisis that began in 2007.

In 2008, Sapporo International Inc. conducted vigorous sales activities in premium beer markets, where it is strongly competitive. We commenced test-marketing of *Yebisu* beer in the U.S. to gauge its potential acceptance in the local high-end market. These efforts lifted sales volume at Canada-based SLEEMAN BREWERIES LTD. by 6% year on year, while Sapporo U.S.A., Inc. reported a solid 9% increase in sales volume. Sales volume of exports to other countries rose by 11% year on year.

On the cost front, the cost of sales was driven up by rising prices for raw ingredients and materials, centered on malt and aluminum cans. We have also been actively investing in marketing since the previous fiscal year.

Overall, net sales in the Alcoholic Beverages (International) business decreased ¥2.8 billion, or 10%, to ¥25 billion, as forex effects outweighed steady growth in sales volume. Operating income declined ¥0.8 billion, or 46%, year on year to ¥0.9 billion.

FISCAL 2009 BUSINESS PLAN

★ Boost sales through positive marketing initiatives in North America and other growth markets

BUSINESS STRATEGIES

1. Strategies for the Canadian market

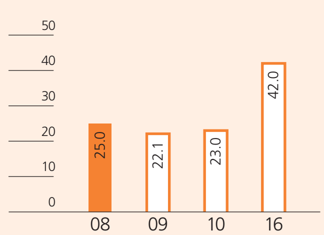
- Concentrate marketing investments on Sleeman Breweries' mainstay premium brands.
- Enhance productivity at all breweries and lower manufacturing and other costs.

2. Strategy for the U.S. market

- Further strengthen brand power by bolstering sales networks and carefully choosing strategic regions and customers.

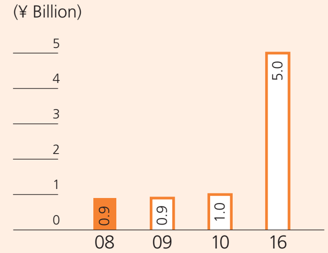
FORECAST OF NET SALES

(¥ Billion)



FORECAST OF OPERATING INCOME

(¥ Billion)



REVIEW OF OPERATIONS SOFT DRINKS

SAPPORO BEVERAGE CO., LTD.

In 2008, the Soft Drinks business implemented restructuring measures to focus resources on strategic operations, at the same time as reducing unprofitable sales and taking other actions. While sales volume was down 19% year on year, the segment returned to profitability thanks to strategies for crafting a sustainable earnings structure. Operating income was ¥0.2 billion, an improvement of ¥1 billion from the previous fiscal year.

FISCAL 2009 PERFORMANCE TARGETS

(¥ Billion)

	2008 Result	2009 Target
Net Sales	**36.8**	**35.5**
Operating Income	**0.2**	**0.3**
Operating Margin	**0.6%**	**0.8%**

2008 IN REVIEW

Overall demand in the Japanese soft drinks market was estimated to have contracted by around 1% year on year.

In 2008, the Group worked to build its own unique brands, while expediting restructuring of the Soft Drinks business by focusing resources on strategic operations, as it pursued strategies for crafting a sustainable earnings structure.

Specifically, we worked hard to develop and nurture high-value-added products. Other initiatives included optimizing our organization and personnel systems, reducing unprofitable sales, spending more efficiently on sales promotions, and optimizing vending machine costs.

Although sales volume decreased by 19% year on year, we strove to connect with more customers and entrench our products in the market. This entailed strengthening our soft drinks lineup with products such as *Kissui*, a new brand of canned coffee; *Gerolsteiner* naturally carbonated water; and functional fruit juices such as the *Karada ni Oishii Ume* and *Ocean Spray Cranberry* series.

Overall, the Soft Drinks business posted a ¥15.4 billion, or 29%, decrease in net sales to ¥36.8 billion, partly due to a change in accounting standards. However, the segment returned to profitability by implementing business restructuring ahead of schedule; operating income improved ¥1 billion year on year to ¥0.2 billion.

FISCAL 2009 BUSINESS PLAN

★ Continue to craft a sustainable earnings structure and promote growth strategies

★ Relaunch the *Ribbon Citron* brand to mark its 100th anniversary; capture demand with *Gerolsteiner* and other unique products.

BUSINESS STRATEGIES

1. Nurture and enhance existing brand products

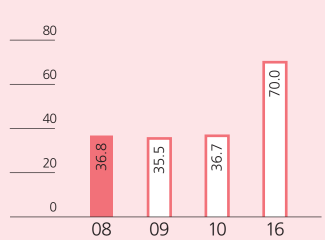
- Strengthen brands by channeling business resources into mainstay products such as *Gerolsteiner*, *Karada ni Oishii Ume*, *Ocean Spray Cranberry*, and *Gabunomi*, as well as *Ribbon Citron*, which will celebrate its 100th anniversary.

2. Implement further cost structure reforms

- Implement cost structure reforms including reducing unprofitable sales, concentrating on strategic areas, and revamping operator subsidiaries.
- Reduce opportunity loss, inventory, and disposal loss; raise organizational efficiency in logistics networks, ordering and other areas.

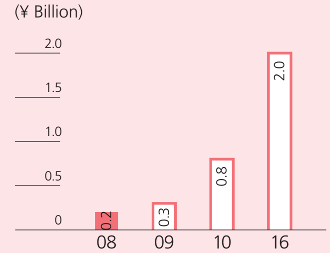
FORECAST OF NET SALES

(¥ Billion)



FORECAST OF OPERATING INCOME

(¥ Billion)



REVIEW OF OPERATIONS RESTAURANTS

SAPPORO LION LTD.

The Restaurants business achieved existing restaurants sales on a par with 2007 despite a challenging business environment, thanks to strong performances by beer halls in prime urban locations in the Tokyo area. However, with the economic downturn rapidly taking its toll, operating income in the Restaurants business decreased 16% year on year to ¥0.6 billion.

FISCAL 2009 PERFORMANCE TARGETS
(¥ Billion)

	2008 Result	2009 Target
Net Sales	**29.5**	**30.5**
Operating Income	**0.6**	**0.7**
Operating Margin	**1.9%**	**2.3%**

2008 IN REVIEW

In the Japanese restaurant industry, higher gasoline and food prices squeezed operations in the first half of 2008, significantly affecting the family restaurant sector, whose restaurants were predominantly in suburban areas. In the second half of the year, global financial instability triggered an abrupt and severe economic downturn, leading to lower sales at dinner restaurants and other establishments that typically generate high spending per customer. In the Japanese *izakaya* dining format, sales also weakened chiefly at restaurants that generate relatively high spending per customer, as companies curbed expenses and consumers tightened their purse strings.

In this climate, the Restaurants business worked to expand earnings by setting its operations apart from competitors. Actions included improving the quality of cuisine and services, focusing on the themes of food safety, quality and authenticity.

Sales at existing restaurants increased only slightly year on year, reflecting strong performances by beer halls in the Tokyo area. These sales offset lower sales at Japanese-style restaurants, where pre-booked group events that generate relatively high spending per customer account for the bulk of business. However, sales at almost all restaurant formats and in all regions decreased in year-on-year terms around the end of 2008 when business sentiment deteriorated sharply.

In 2008, we opened 8 restaurants with a combined total floor area of 6,500 m^2, including a large all-you-can-eat buffet restaurant complex within the *Nasu Mori No Beer En* located in Nasu, Tochigi prefecture. However, we also closed 5 restaurants, including restaurants operated under contract at golf clubs. The net result was that we had 204 restaurants at the end of 2008.

In terms of results, the Restaurants business posted a ¥0.6 billion, or 2%, year-on-year increase in net sales to ¥29.5 billion. However, cost reductions were unable to compensate for a sharp decline in fourth-quarter sales, resulting in a ¥0.1 billion, or 16%, decrease in operating income to ¥0.6 billion.

FISCAL 2009 BUSINESS PLAN

★ Hold a commemorative event to celebrate Sapporo Lion's 110th anniversary
★ Open small and mid-sized new format restaurants and implement further cost structure reforms

BUSINESS STRATEGIES

1. Boost sales at existing restaurants

- Implement quality enhancement measures to revitalize existing stores, such as offering new menus and enhancing services

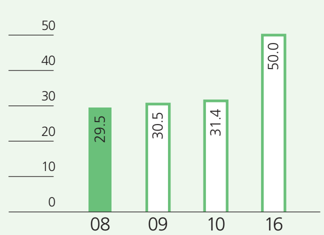
2. Implement strategies for opening restaurants in line with new economic realities

- Open new restaurants centered on small and mid-sized new format restaurants

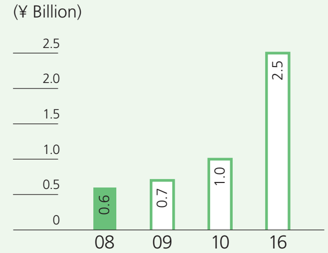
3. Cost structure reforms

- Optimize personnel expenses by raising the efficiency of restaurant-staff scheduling through the deployment of a new employee time-keeping system and by reducing recruitment costs through group recruitment.
- Reduce general overhead expenses through stronger controls over spending on sales promotions, such as Web-based promotions and discounts.

FORECAST OF NET SALES
(¥ Billion)



FORECAST OF OPERATING INCOME
(¥ Billion)



YEBISU GARDEN PLACE CO., LTD.

The Real Estate business posted operating income of ¥7.6 billion, 8% higher year on year, despite the impact of a worsening economic climate. This was partly the result of efforts to raise rents while maintaining high occupancy rates at existing properties, and the acquisition and development of new properties.

FISCAL 2009 PERFORMANCE TARGETS

(¥ Billion)

	2008 Result	2009 Target
Net Sales	**23.5**	**24.6**
Operating Income	**7.6**	**7.7**
Operating Margin	**32.5%**	**31.3%**

2008 IN REVIEW

The worsening economy brought the Japanese real estate sector to a major turning point. The office leasing market in central Tokyo saw vacancy rates continuously rise since the beginning of 2008. Rent levels remain relatively high, but swung from flat growth to a decline in the second half of 2008.

Against this backdrop, in the real estate leasing field, we raised rents while maintaining high occupancy rates primarily at Yebisu Garden Place and other existing leasing properties in the Tokyo area. Meanwhile, in the real estate development field, stable occupancy rates at development properties completed in 2007 steadily contributed to earnings. Properties held in the Ebisu and Nagoya areas, as well as a new site in the Shinjuku area, were also developed. We also acquired new income-generating properties in central Tokyo.

Sales decreased year on year due to the sale of a 15% co-ownership stake in Yebisu Garden Place. However, in addition to the above measures, lower depreciation and amortization expenses contributed to higher operating income in year-on-year terms.

Overall, the Real Estate segment posted net sales of ¥23.5 billion, a decrease of ¥0.7 billion, or 3%, year on year. Operating income rose ¥0.5 billion, or 8%, year on year to ¥7.6 billion.

FISCAL 2009 BUSINESS PLAN

★ Bolster earnings power through real estate development and acquisition of new income-generating properties, and by maintaining and boosting occupancy rates.

BUSINESS STRATEGIES

1. Enhance property value of Yebisu Garden Place

- Work to raise office rents while maintaining high occupancy rates
- Invest in renovation of Yebisu Garden Terrace Nibankan, a leased residential facility, while improving and upgrading facility features through energy-saving investments, etc.

2. Pursue real estate development projects mainly in central Tokyo

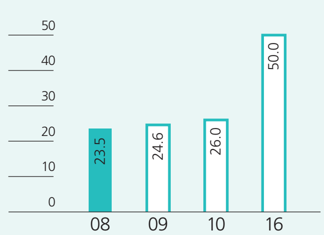
- Continue property development at a site acquired in the Shinjuku 6-chome area (Commercial/office building planned for completion in 2010) and a site adjacent to Yebisu Garden Place (Commercial/restaurant facility scheduled to open in September 2009).

3. Acquire new properties mainly in central Tokyo

- Identify and acquire new properties in Ebisu, which we see as a strategic area.
- Enhance property values by capturing synergies with owned properties.

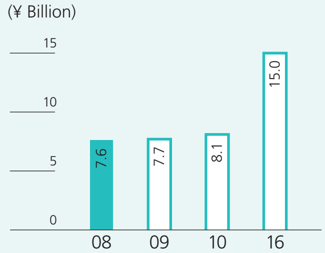
FORECAST OF NET SALES

(¥ Billion)



FORECAST OF OPERATING INCOME

(¥ Billion)



MANAGEMENT

(As of March 27, 2009)

BOARD OF DIRECTORS

1 TAKAO MURAKAMI
President and Representative Director, Group CEO

2 MASARU FUKUNAGA
Representative Director and Executive Managing Director

3 YOSHIYUKI MOCHIDA
Managing Director

4 TSUTOMU KAMIJO
Managing Director

5 HIROAKI ETO
Director *

6 HIROSHI TANAKA
Director *

7 NOBUO KATSUMATA
Director *

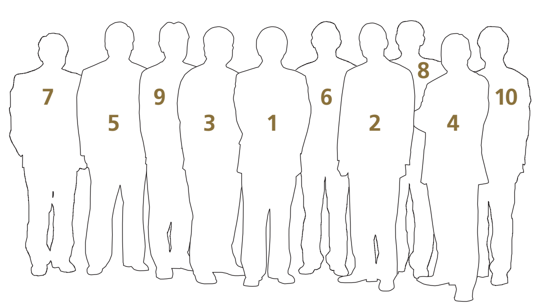
8 KAZUO USHIO
Director

9 HIDENORI TANAKA
Director

10 YOICHI KATO
Director

BOARD OF CORPORATE AUDITORS

KENICHI SHISHIDO
ISAO TAKEHARA **
NORIO HENMI **
KEIZO AE



* Outside Director
** Outside Auditor

FIVE-YEAR SUMMARY

Years ended December 31

	Millions of yen				
	2008	2007	2006	2005	2004
Net sales	**¥414,558**	¥449,011	¥435,090	¥453,671	¥494,930
Alcoholic Beverages	**324,720**	343,670	326,420	341,077	364,585
Soft Drinks	**36,849**	52,239	58,731	63,897	69,324
Restaurants	**29,538**	28,954	26,995	26,331	26,611
Real Estate	**23,452**	24,148	22,828	21,696	22,506
Other	**–**	–	116	670	11,904
Operating cost and expenses	**399,873**	436,649	426,477	443,371	471,282
Operating income	**14,685**	12,363	8,613	10,300	23,648
Income before income taxes and minority interests	**17,970**	221	3,978	6,573	7,762
Net income	**7,640**	5,509	2,338	3,630	4,643

	Yen				
Per share:					
Net income:					
Primary	**¥ 19.49**	¥ 14.10	¥ 6.38	¥ 10.20	¥ 13.07
Diluted	**18.89**	13.76	5.88	9.18	12.01
Net assets	**297.60**	319.07	300.13	305.00	259.81
Cash dividends	**7.00**	5.00	5.00	5.00	5.00

	Millions of yen				
Year-end data:					
Net assets	**¥116,862**	¥125,189	¥113,496	¥111,411	¥ 92,263
Total assets	**527,287**	561,859	589,597	563,845	602,112
Financial liabilities	**189,252**	212,464	236,033	220,723	289,854
ROE (%)	**6.3**	4.6	2.1	3.6	5.2
Capital expenditures	**29,378**	19,548	30,790	16,218	10,269
Depreciation and amortization	**21,605**	24,527	21,930	22,075	25,330

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAPPORO HOLDINGS LIMITED AND THE SAPPORO GROUP

Fiscal 2008, the year ended December 31, 2008, was the first year of the Sapporo Group's two-year management plan, which is based on the New Management Framework announced in 2007. In the past fiscal year, the Sapporo Group worked to bolster its earnings base and pave the way for sustained growth.

Regarding the former, the Group lowered the breakeven point further by tightening cost controls so as to reduce the susceptibility of earnings to variability in sales and soaring prices for raw ingredients and materials.

In order to pave the way for sustained growth, the Group took a number of steps toward achieving the goals of its management plan. In the Alcoholic Beverages segment, the Group boosted capacity utilization by closing Sapporo Breweries' Osaka Plant and launched high-value-added products using small-lot production facilities. In the Soft Drinks segment, the Group expedited operational execution through business restructuring. Elsewhere, the Group sought to expand its property portfolio in the Real Estate segment, while implementing new initiatives in the Food segment.

In terms of the scope of consolidation, the Company had 35 consolidated subsidiaries and 5 equity-method affiliates in the year ended December 31, 2008.

OPERATIONAL OVERVIEW

In 2008, the financial market turmoil triggered by the U.S. subprime mortgage issue grew into a global financial crisis, the repercussions of which have tipped much of the world into recession.

Against this backdrop, the Japanese economy experienced a slowdown in consumer spending in the first half of the year amid extreme volatility in international commodity prices, soaring grain and crude oil prices, and resurgent consumer price inflation. In the second half, corporate sentiment deteriorated sharply in the wake of an equity market downturn, the yen's sharp appreciation, and a fall-off in demand in key industries such as the auto and electrical machinery sectors. This turn of events further dampened consumer confidence.

In the alcoholic beverage, soft drink, and restaurant industries in which the Group operates, earnings remained under pressure from input-cost inflation. Additionally, public confidence in the food supply chain was shaken by a series of food contamination incidents. Companies' social responsibility for food safety consequently came under closer scrutiny.

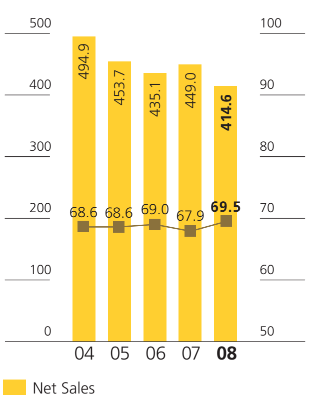
Real estate market conditions, which had been holding up relatively well, likewise deteriorated in response to the financial market turmoil. This downturn triggered downward revisions of future cash flow projections and increases in risk premiums, exacerbating downward pressure on the real estate investment market.

CONSOLIDATED OPERATING RESULTS

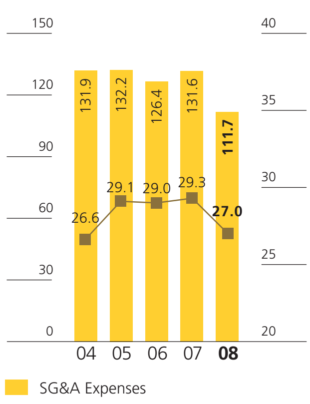
Net Sales

Net sales decreased ¥34,453 million, or 7.7%, year on year to ¥414,558 million. By business segment, Alcoholic Beverages saw a 5.5% year-on-year decline in net sales to ¥324,720 million. This decrease partly reflected lower sales volume in the Alcoholic Beverages (Japan) business, as well as the impact of a stronger yen on the Alcoholic Beverages (International) business. The Soft Drinks segment recorded a 29.5% year-on-year drop in net sales to ¥36,849 million, partly due to the discontinuation of unprofitable sales and changes in accounting standards. Meanwhile, net sales in the Restaurants segment rose 2.0% year on year to ¥29,538 million, helped in part by the opening of new restaurants. The Real Estate segment recorded a 2.9% year-on-year decrease in net sales to ¥23,452 million, partly the result of the sale of a 15% co-ownership stake in Yebisu Garden Place.

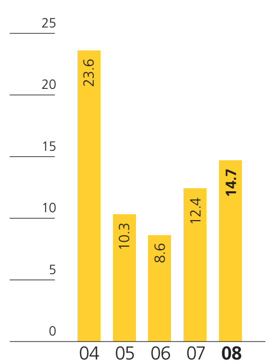
NET SALES AND COST OF SALES RATIO
(¥ Billion, %)



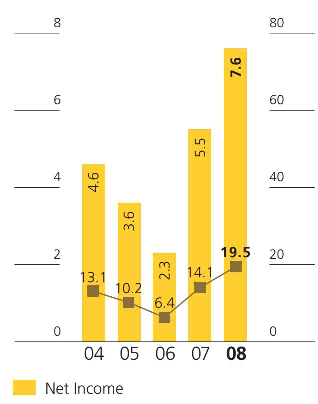
SG&A EXPENSES AND PERCENTAGE OF NET SALES
(¥ Billion, %)



OPERATING INCOME
(¥ Billion)



NET INCOME AND NET INCOME PER SHARE (PRIMARY)
(¥ Billion, ¥)



Cost of Sales and Gross Profit

Cost of sales decreased ¥16,932 million, or 5.5%, year on year to ¥288,146 million in line with the lower net sales. The cost of sales ratio increased 1.6 percentage points to 69.5%, due largely to higher raw ingredients and materials costs.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased ¥19,844 million, or 15.1%, year on year to ¥111,726 million. The main reason was a combined reduction of ¥14,785 million in sales incentives and commissions, reflecting more effective spending on sales promotions, and a change in sales incentives paid to clients (wholesalers and retailers) in line with the adoption of new accounting standards in the Soft Drinks business. Under these new accounting standards, sales incentives paid to clients corresponding to retail prices are now deducted from net sales.

Operating Income

Operating income rose ¥2,323 million, or 18.8%, year on year to ¥14,685 million.

Other Income (Expenses)

Other income improved ¥15,426 million to ¥3,285 million.

With regard to net financial income (expenses), calculated as the sum of interest and dividend income minus interest expense, the Company recorded expenses of ¥2,748 million in fiscal 2008, compared with ¥3,279 million in expenses in the previous fiscal year. The decrease reflected a sharp decline in financial liabilities.

The Company booked a gain on the sale of property, plant and equipment of ¥25,893 million, ¥19,123 million higher year on year due to the sale of a 15% co-ownership stake in Yebisu Garden Place.

The Company also recorded a ¥5,836 million loss on disposal of property, plant and equipment, which included expenses related to dismantlement work at the former Osaka Plant site.

The Company booked a loss on revision of its retirement benefit plan of ¥1,307 million. This loss related to revisions to the existing retirement benefit systems of the Company and consolidated subsidiary Sapporo Breweries Ltd.

Business reorganization costs were ¥1,444 million. This mainly reflected spending on business restructuring in line with the New Management Framework announced in October 2007.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests increased ¥17,749 million to ¥17,970 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥10,354 million. Income taxes accounted for 57.6% of income before income taxes and minority interests. The difference between this percentage and the statutory effective tax rate of 40.7% mainly reflected the recording of a valuation allowance.

As a result, net income was ¥7,640 million, up 38.7% year on year.

SEGMENT INFORMATION

(Millions of yen)

	Net Sales	Operating Income	Depreciation and Amortization Expenses	Capital Expenditures
Alcoholic Beverages	324,720	8,610	14,125	15,099
(Japan)	299,699	7,709	–	–
(International)	25,021	901	–	–
Soft Drinks	36,849	221	272	999
Restaurants	29,538	551	779	856
Real Estate	23,452	7,612	6,427	12,420

ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

The Sapporo Group has a cash management system (CMS), which enables Sapporo Holdings to centrally manage fund allocation within the Group in Japan.

The concentration at the Company of cash flows generated by individual Group companies helps preserve fund liquidity, while flexible and efficient fund allocation within the Group serves to minimize financial liabilities.

The Company strives to secure fund procurement channels and liquidity to 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

Total assets at December 31, 2008 stood at ¥527,287 million, down ¥34,572 million, or 6.2%, from a year ago. This was mainly the result of a decrease in property, plant and equipment due to the sale of a 15% co-ownership stake in Yebisu Garden Place; a decrease in intangibles due to the booking of impairment losses on goodwill and other items; and a decline in investment securities following a decrease in unrealized holding gains on securities due to tumbling share prices. However, these declines were partly offset by an increase in cash and cash equivalents.

Liabilities

Financial liabilities decreased ¥23,212 million to ¥189,252 million, thanks to efforts to reduce financial liabilities. Total liabilities decreased ¥26,245 million, or 6.0%, to ¥410,424 million.

Net Assets

Retained earnings increased ¥5,679 million to ¥19,972 million at the fiscal year-end, due to the higher net income. The application of fair market accounting for financial instruments resulted in a ¥6,595 million decrease in unrealized holding gain on securities to ¥3,046 million, a reflection of plummeting share prices. Foreign currency translation adjustments worsened ¥7,390 million to a negative ¥5,536 million, mainly reflecting the yen's appreciation. As a result, net assets decreased ¥8,327 million from a year earlier to ¥116,862 million.

CASH FLOWS

Consolidated cash and cash equivalents as of December 31, 2008 were ¥22,218 million, an increase of ¥16,336 million, or 277.7%, from the previous fiscal year-end. Factors behind this increase were as follows.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥22,292 million, ¥8,399 million, or 27.4%, lower than in the previous fiscal year. The main contributors were income before income taxes and minority interests of ¥17,970 million, depreciation and amortization of ¥21,605 million, and a loss on impairment of property, plant and equipment and leased assets of ¥8,207 million. These were partly offset by a ¥25,893 million gain on sales of property, plant and equipment, and other factors.

Cash Flows From Investing Activities

Investing activities provided net cash of ¥16,856 million, a change of ¥30,352 million from the net cash used in the previous fiscal year. This change mainly reflected proceeds of ¥49,083 million from the sales of property, plant and equipment, including the sale of a 15% co-ownership stake in Yebisu Garden Place. These proceeds were partly offset by the payment of ¥22,791 million for purchases of property, plant and equipment.

Cash Flows From Financing Activities

Financing activities used net cash of ¥22,207 million, ¥2,639 million more than in the previous fiscal year. This was primarily the net result of proceeds of ¥20,358 million from long-term debt, a net decrease of ¥4,816 million in short-term bank loans, and the repayment of long-term debt of ¥35,685 million.

MANAGEMENT INDICATORS

The current ratio rose by 8.0 percentage points from 52.7% to 60.7%. This was the combined result of a ¥11,700 million increase in total current assets, which reflected a ¥15,983 million increase in cash and cash equivalents and time deposits, and a decrease in current liabilities.

The equity ratio declined from 22.3% a year earlier to 22.1%, reflecting a lower equity capital due to a decrease in valuation and translation adjustments.

Return on equity (ROE) increased from 4.6% to 6.3% due to the 38.7% year-on-year increase in net income.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, decreased from 1.7 to 1.6 due to a decrease in financial liabilities.

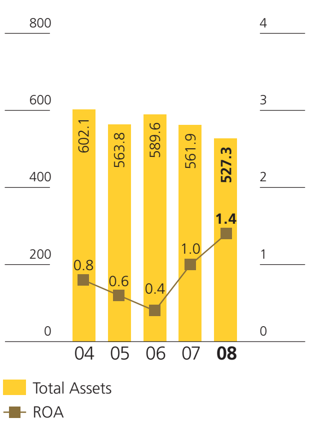
OUTLOOK FOR 2009

The Company is forecasting consolidated net sales of ¥408,300 million, a decrease of ¥6,258 million, or 1.5%, year on year. Operating income is projected to decrease ¥2,685 million, or 18.3%, year on year to ¥12,000 million, mainly based on increased depreciation due to a change in accounting standards and the recording of a loss on disposal of inventories under operating expenses.

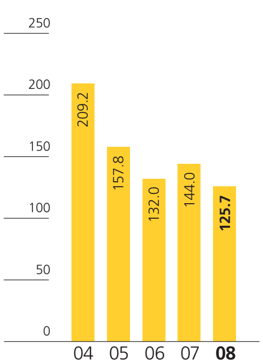
Net income is forecast to decrease ¥4,640 million, or 61%, year on year to ¥3,000 million, based on a projected decrease in extraordinary gains related to sales of property, plant and equipment and other items.

Regarding the annual dividend applicable to 2009, the Company plans to continue paying an annual dividend of ¥7.0 per share, the same as in 2008, while continuing to steadily execute its management plan, which will involve strategic investments and ongoing actions to strengthen the financial base.

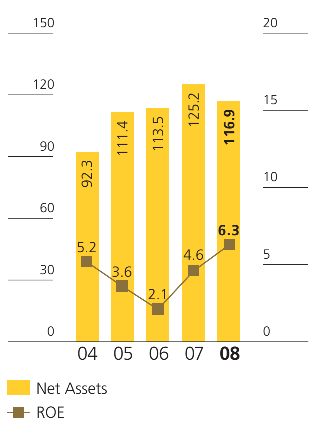
TOTAL ASSETS AND ROA
(¥ Billion, %)



LONG-TERM DEBT
(¥ Billion)



NET ASSETS AND ROE
(¥ Billion, %)



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, 2008.

High Dependency on Specific Business Areas

In 2008, Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 78.3% of consolidated net sales. The Group could thus be significantly affected by the performance of this business.

Overseas Business Activities

The Sapporo Group is aiming to grow earnings by expanding business activities in overseas markets. In particular, it is expanding the alcoholic beverages business particularly in the U.S. and Canada. The overseas business activities of the Sapporo Group are subject to a variety of factors that could adversely affect operating results. These factors include economic trends, changes in the competitive landscape, and exchange rate fluctuations, in addition to changes to regulations governing investment, trade, taxation, foreign exchange and other areas, differences in business customs and labor relations, as well as other governmental and social factors.

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.

OEM Products and Purchased Products

The Sapporo Group outsources the manufacturing of some products to external parties. It also handles products purchased from outside the Group. While the Sapporo Group does its best to ensure the quality of such products, quality problems beyond the control of the Group could result in the suspension of sales, product recalls and other actions that may in turn adversely affect operating results.

Capital Investment Plans

The Sapporo Group conducts capital investment and systems development on an ongoing basis, but related scheduling delays, investment budget overruns and other factors 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.

Retirement Benefit Obligations

The Sapporo Group calculates employees' retirement benefit expenses and obligations based on actuarial assumptions, such as the discount rate, and the expected rate of return on pension assets.

In the event of differences between actual performance and actuarial assumptions, or a change in these assumptions, the impact will be recorded as an actuarial difference on a cumulative basis and amortized over the average remaining period of service of employees at the time of accrual. There would consequently be an impact on future retirement benefit expenses and the amount of retirement benefit obligations booked. Separately, the net retirement obligation at transition, which arose upon a change in accounting standards for retirement benefits, is amortized over 15 years.

As of May 1, 2008, the Company and consolidated subsidiary Sapporo Breweries Ltd. partially revised their existing retirement benefit systems. This entailed converting these systems to a point-based retirement benefit plan, and introducing a defined contribution pension plan and abolishing lump-sum payment plans included in the retirement benefit system.

In accordance with the switch to this revised system, the Company and Sapporo Breweries Ltd. have applied "Accounting for the Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, January 31, 2002). Consequently, the Sapporo Group recorded a ¥1,307 million loss on revision of retirement benefit plan under extraordinary losses for the fiscal year ended December 31, 2008.

Loss on Impairment of Property, Plant and Equipment and Leased Assets

The Sapporo Group records impairment losses on property, plant and equipment and leased assets, and on intangibles at the Company and consolidated subsidiaries in Japan in line with impairment criteria based on Japanese accounting standards for the impairment of fixed assets. Overseas, consolidated subsidiaries record impairment losses, as necessary, based on local accounting standards. However, going forward, the Sapporo Group may need to book additional impairment losses if assets meet impairment criteria due to changes in market and operating environments or other factors, or the Company may need to book losses on sales and disposal of property, plant and equipment, depending on the sales price. This could adversely affect the Sapporo Group's operating results and financial position.

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.

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents	**¥ 22,218**	¥ 5,882	**$ 244,124**
Time deposits	**276**	630	**3,036**
Notes and accounts receivable—trade	**62,259**	69,685	**684,086**
Marketable securities (Note 4)	**39**	13	**432**
Inventories (Note 5)	**21,409**	24,042	**235,242**
Refundable income taxes	**2,970**	134	**32,632**
Allowance for doubtful receivables	**(168)**	(276)	**(1,843)**
Deferred tax assets (Note 11)	**6,267**	2,291	**68,862**
Other current assets	**14,147**	15,318	**155,449**
Total current assets	**129,418**	117,718	**1,422,020**
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	**1,676**	1,884	**18,414**
Other	**24,784**	35,510	**272,326**
Long-term loans receivable	**10,480**	10,229	**115,154**
Allowance for doubtful receivables	**(1,809)**	(2,236)	**(19,879)**
Deferred tax assets (Note 11)	**5,039**	7,542	**55,370**
Other investments	**17,523**	19,339	**192,543**
	57,694	72,268	**633,928**
Property, plant and equipment (Notes 6 and 7)**:**			
Land	**78,894**	71,153	**866,871**
Buildings and structures	**358,590**	399,170	**3,940,118**
Accumulated depreciation	**(177,716)**	(192,926)	**(1,952,713)**
Machinery and vehicles	**180,773**	209,051	**1,986,293**
Accumulated depreciation	**(134,476)**	(157,096)	**(1,477,601)**
Construction in progress	**9,146**	4,695	**100,490**
Other	**20,046**	21,724	**220,259**
Accumulated depreciation	**(16,047)**	(17,266)	**(176,325)**
Property, plant and equipment, net	**319,208**	338,504	**3,507,393**
Intangibles	**20,967**	33,369	**230,381**
	¥ 527,287	¥ 561,859	**$ 5,793,722**

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

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 26,934**	¥ 31,750	**$ 295,945**
Current portion of long-term debt (Note 7)	**36,582**	32,665	**401,960**
Notes and accounts payable:			
Trade	**23,829**	26,122	**261,832**
Construction	**5,579**	6,222	**61,303**
Liquor taxes payable	**35,586**	38,140	**391,009**
Income taxes payable (Note 11)	**724**	2,750	**7,959**
Accrued bonuses (Note 2 (j))	**1,351**	1,056	**14,842**
Deposits received	**46,835**	48,726	**514,618**
Other current liabilities	**35,783**	36,071	**393,174**
Total current liabilities	**213,204**	223,501	**2,342,643**
Long-term debt (Note 7)	**125,736**	144,049	**1,381,561**
Dealers' deposits for guarantees	**32,023**	31,904	**351,865**
Employees' retirement benefits (Note 10)	**7,531**	15,135	**82,751**
Directors' and corporate auditors' severance benefits	**53**	115	**580**
Deferred tax liabilities (Note 11)	**12,304**	6,183	**135,193**
Other long-term liabilities	**19,573**	15,782	**215,069**
Contingent liabilities (Note 14)			
Net assets			
Shareholders' equity:			
Common stock (Notes 8 and 15)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2008 393,971,493 shares	**53,887**	–	**592,096**
— at December 31, 2007 393,971,493 shares	**–**	53,887	**–**
Capital surplus	**46,326**	46,310	**509,017**
Retained earnings (Note 8)	**19,972**	14,293	**219,451**
Treasury stock, at cost	**(1,058)**	(849)	**(11,627)**
Total shareholders' equity	**119,126**	113,641	**1,308,937**
Valuation and translation adjustments			
Unrealized holding gain on securities	**3,046**	9,641	**33,471**
Foreign currency translation adjustments	**(5,536)**	1,853	**(60,834)**
Total valuation and translation adjustments	**(2,490)**	11,494	**(27,363)**
Minority Interests	**226**	54	**2,486**
Total net assets	**116,862**	125,189	**1,284,060**
	¥527,287	¥561,859	**$5,793,722**

CONSOLIDATED STATEMENTS OF INCOME

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Net sales	**¥414,558**	¥449,011	¥435,090	**$4,555,084**
Operating cost and expenses:				
Cost of sales	**288,146**	305,078	300,122	**3,166,096**
Selling, general and administrative expenses	**111,726**	131,571	126,355	**1,227,629**
Operating income	**14,685**	12,363	8,613	**161,360**
Other income (expenses):				
Interest and dividend income	**969**	1,026	916	**10,649**
Interest expense	**(3,717)**	(4,306)	(3,043)	**(40,846)**
Other, net (Notes 6 and 9)	**6,033**	(8,862)	(2,508)	**66,290**
Income before income taxes and minority interests	**17,970**	221	3,978	**197,452**
Income taxes (Note 11)**:**				
Current	**519**	3,349	1,729	**5,704**
Deferred	**9,835**	(8,635)	(87)	**108,068**
	10,354	(5,286)	1,642	**113,772**
Minority interests	**25**	2	2	**270**
Net income (Note 15)	**¥ 7,640**	¥ 5,509	¥ 2,338	**$ 83,949**

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)
	2008	2007	2006	**2008**
Common stock:				
Balance at beginning of year	**¥53,887**	¥50,066	¥46,596	**$592,096**
Conversion of convertible bonds	**–**	3,820	3,470	**–**
Balance at end of year	**¥53,887**	¥53,887	¥50,066	**$592,096**
Capital surplus:				
Balance at beginning of year	**¥46,310**	¥42,485	¥39,010	**$508,850**
Conversion of convertible bonds	**–**	3,820	3,470	**–**
Gain on decrease in treasury stock	**15**	5	5	**168**
Balance at end of year	**¥46,326**	¥46,310	¥42,485	**$509,017**
Retained earnings (Note 8)**:**				
Balance at beginning of year	**¥14,293**	¥10,473	¥ 9,963	**$157,048**
Net income	**7,640**	5,509	2,338	**83,949**
Increase resulting from inclusion of newly consolidated subsidiary	**–**	202	–	**–**
Cash dividends	**(1,961)**	(1,891)	(1,826)	**(21,546)**
Decrease resulting from change in fiscal year-end of consolidated subsidiary	**–**	–	(2)	**–**
Balance at end of year	**¥19,972**	¥14,293	¥10,473	**$219,451**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (849)**	¥ (572)	¥ (461)	**$ (9,326)**
Net increase	**(209)**	(277)	(111)	**(2,301)**
Balance at end of year	**¥ (1,058)**	¥ (849)	¥ (572)	**$ (11,627)**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 9,641**	¥11,318	¥16,502	**$105,931**
Net change during the year	**(6,595)**	(1,677)	(5,184)	**(72,460)**
Balance at end of year	**¥ 3,046**	¥ 9,641	¥11,318	**$ 33,471**
Foreign currency translation adjustments (Note 2 (m))**:**				
Balance at beginning of year	**¥ 1,853**	¥ (276)	¥ (199)	**$ 20,362**
Net change during the year	**(7,390)**	2,130	(77)	**(81,196)**
Balance at end of year	**¥ (5,536)**	¥ 1,853	¥ (276)	**$ (60,834)**
Minority Interests:				
Balance at beginning of year	**¥ 54**	¥ 2	–	**$ 592**
Net change during the year	**172**	52	2	**1,894**
Balance at end of year	**¥ 226**	¥ 54	¥ 2	**$ 2,486**

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)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 17,970**	¥ 221	¥ 3,978	**$ 197,452**
Depreciation and amortization	**21,605**	24,527	21,930	**237,390**
Depreciation expenses resulting from revision of residual value	**–**	6,583	–	**–**
Loss on impairment of property, plant and equipment and leased assets	**8,207**	6,939	1,785	**90,175**
Goodwill amortization expense	**867**	870	–	**9,531**
Amortization of goodwill	**–**	276	–	**–**
Decrease in employees' retirement benefits	**(7,604)**	(1,167)	(893)	**(83,550)**
Decrease in allowance for doubtful receivables	**(523)**	(295)	(274)	**(5,750)**
Interest and dividend income	**(969)**	(1,026)	(916)	**(10,649)**
Interest expense	**3,715**	4,280	3,041	**40,817**
Gain on sales of property, plant and equipment	**(25,893)**	(6,770)	(70)	**(284,502)**
Loss on sales and disposal of property, plant and equipment	**5,836**	1,301	2,520	**64,121**
Gain on sales of investment securities	**(21)**	(767)	(2,222)	**(227)**
Loss on devaluation of investment securities	**747**	394	218	**8,207**
Gain on sale of consolidated subsidiary	**–**	–	(102)	**–**
Decrease in notes and accounts receivable	**5,761**	4,388	1,656	**63,297**
Decrease in inventories	**1,057**	778	621	**11,612**
Decrease in notes and accounts payable	**(1,447)**	(3,015)	(5,264)	**(15,900)**
Decrease in liquor taxes payable	**(2,287)**	(207)	(515)	**(25,131)**
Decrease (increase) in deposits received	**(1,854)**	(3,159)	5,237	**(20,373)**
Increase (decrease) in other current liabilities	**4,806**	327	(1,874)	**52,806**
Other	**254**	1,810	126	**2,790**
Subtotal	**30,226**	36,288	28,982	**332,114**
Interest and dividends received	**974**	991	883	**10,704**
Interest paid	**(3,743)**	(4,238)	(3,153)	**(41,128)**
Income taxes paid	**(5,165)**	(2,351)	(409)	**(56,752)**
Income taxes refundable	**–**	–	2,286	**–**
Net cash provided by operating activities	**22,292**	30,691	28,589	**244,938**
Cash flows from investing activities:				
Net increase in time deposit	**273**	(22)	(15)	**3,000**
Purchases of investment securities	**(1,167)**	(251)	(947)	**(12,819)**
Proceeds from redemption and sales of investment securities	**152**	2,805	2,777	**1,670**
Purchases of affiliates' securities	**(52)**	(87)	(894)	**(575)**
Purchases of newly consolidated subsidiaries	**–**	–	(31,177)	**–**
Purchases of property, plant and equipment	**(22,791)**	(17,816)	(18,516)	**(250,426)**
Proceeds from sales of property, plant and equipment	**49,083**	7,206	69	**539,310**
Purchases of intangibles	**(4,551)**	(2,068)	(3,299)	**(50,007)**
Increase in long-term loans receivable	**(525)**	(75)	(30)	**(5,773)**
Collection of long-term loans receivable	**252**	415	500	**2,766**
Other	**(3,816)**	(3,602)	(2,883)	**(41,932)**
Net cash provided by (used in) investing activities	**16,856**	(13,495)	(54,415)	**185,215**
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	**(4,816)**	(5,000)	30,526	**(52,918)**
Proceeds from long-term debt	**20,358**	24,002	9,200	**223,689**
Repayment of long-term debt	**(35,685)**	(50,335)	(48,321)	**(392,097)**
Proceeds from issuance of bonds	**3,843**	19,925	29,885	**42,228**
Redemption of bonds	**–**	(10,000)	(10,000)	**–**
Net increase (decrease) in commercial paper	**(4,000)**	4,000	–	**(43,951)**
Cash dividends paid	**(1,964)**	(1,889)	(1,832)	**(21,579)**
Purchase of treasury stock	**(262)**	(284)	(117)	**(2,882)**
Proceeds form sales of treasury stock	**68**	13	11	**749**
Proceeds from minority shareholders	**251**	–	–	**2,752**
Net cash provided by (used in) financing activities	**(22,207)**	(19,569)	9,352	**(244,011)**
Effect of exchange rate changes on cash and cash equivalents	**(605)**	(44)	7	**(6,647)**
Net decrease (increase) in cash and cash equivalents	**16,336**	(2,417)	(16,467)	**179,496**
Cash and cash equivalents at beginning of year	**5,882**	8,282	24,749	**64,628**
Cash and cash equivalents of additional consolidated subsidiaries	**–**	16	0	**–**
Cash and cash equivalents at end of year	**¥ 22,218**	¥ 5,882	¥ 8,282	**$ 244,124**

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 subsidiaries, in conformity with that of their country of domicile. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The relevant notes 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, 2006 and 2007 to the 2008 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2008 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥91.01=U.S.$1.00, the exchange rate prevailing on December 31, 2008.

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, 2008, 3 additional subsidiaries have been included within the scope of consolidation, reflecting their newly-founded subsidiary. Accordingly, the number of consolidated subsidiaries has increased to 35. However, as the effect of this change was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2008 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 5 affiliates for the years ended December 31, 2006, 2007 and 2008 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 2 to 65 years for buildings and structures, and from 2 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.

(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 11 years through 14 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).

As of May 1, 2008, the Company and consolidated subsidiaries Sapporo Breweries Ltd. converted all of their retirement benefit systems to a point-based retirement benefit plan, and introduced a defined contribution pension plan. In accordance with the switch to the latter plan, the Company and Sapporo Breweries Ltd. have applied "Accounting for the Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, January 31, 2002). As a result of applying this accounting standard, the Company and the consolidated subsidiary recorded a ¥1,307 million loss on revision of the retirement benefit plan under extraordinary losses for the year ended December 31, 2008.

Effective from the year ended December 31, 2008, the Company and consolidated subsidiary Sapporo Breweries Ltd. have also changed the average remaining years of service of eligible employees in line with a reduction in the average remaining period of service of employees. Consequently, the Company and Sapporo Breweries Ltd. have reduced the amortization periods for both past service cost and actuarial differences from 15 years to 14 years. As a result of this change, operating income, income before income taxes and minority interests were each ¥13 million lower than would have been recorded previously.

(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.

All assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Revenues and expenses of foreign subsidiaries, meanwhile, are translated into Japanese yen at the average exchange rate for the fiscal year. Any translation differences are included in foreign currency translation adjustments in the net assets section of the balance sheet.

(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) 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.

(p) 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 lessee are accounted for as finance leases.

(q) Amortization of goodwill and negative goodwill

In Japan, goodwill is amortized by the straight-line method over a reasonable period of no more than 20 years. On the other hand, goodwill at overseas consolidated subsidiaries is not amortized, but is tested for impairment either every year or when circumstances indicate the possibility of impairment.

3. CHANGE IN METHOD OF ACCOUNTING

(Recognition of net sales)

Effective from the year ended December 31, 2008, sales incentives paid to clients (wholesalers and retailers) corresponding to retail prices for soft drinks and other non-alcoholic beverages have been deducted from net sales. Previously, these incentives were treated as selling, general and administrative (SG&A) expenses.

In recent years, competition in the retail market for soft drinks and other non-alcoholic beverages has escalated mainly because of stronger corporate affiliations and consolidation in the wholesale and retail sectors. In this context, clients have called for larger price discounts. As a result, the payment of sales incentives to clients based on retail prices, which are effectively discounts on retail prices, has become common in the industry.

To break down aggregate sales incentives for soft drinks and other non-alcoholic beverages by client, product and other categories, the Company has developed an invoice management system to classify sales incentives into amounts attributable to sales price discounts and selling expenses.

Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new accounting method to ensure that revenues and expenses are more properly categorized in line with the new invoice management system. Under the new method, sales incentives attributable to retail price discounts are deducted from net sales.

As a result of this change, net sales and operating expenses were both ¥6,629 million lower than would have been recorded previously, but there was no effect on operating income.

(Liabilities arising from gift vouchers, etc.)

Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have applied the "Position Statement on the Auditing Treatment of Reserves Stipulated in the Special Tax Measures Act, Statutory Allowances or Reserves, and Reserves for Directors' Retirement Benefits" (Japanese Institute of Certified Public Accountants; Auditing and Assurance Practice Committee No. 42, April 13, 2007). Accordingly, the Company and the consolidated subsidiaries have started recording the estimated value of unredeemed gift vouchers after a certain time has elapsed under "Deposits received" on the balance sheet. Previously, the unredeemed gift vouchers were credited to income after a certain time had elapsed.

As a result of this change, the Company and the consolidated subsidiaries recorded a provision for gift voucher redemptions of ¥746 million under extraordinary losses in the year ended December 31, 2008.

(Translation of revenues and expenses of foreign subsidiaries and other entities)

Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new accounting method for translating revenues and expenses of foreign subsidiaries and other entities into Japanese yen. Under the new method, revenues and expenses are translated into Japanese yen at the average exchange rate for the fiscal year, not the prevailing exchange rate on the balance sheet date as before.

This change was made to ensure that translations of revenues and expenses of foreign subsidiaries and other entities more truly portray the Company and the consolidated subsidiaries' operating results and financial position. This entails translation of revenues and expenses at the average exchange rate, which is not susceptible to temporary forex fluctuations. The change reflected the increasing importance of foreign subsidiaries and other entities, and the likelihood of fluctuations in prevailing exchange rates on the balance sheet date distorting the presentation of the Company and the consolidated subsidiaries' operating results and financial position.

As a result of this change, net sales and operating income were ¥5,207 million and ¥198 million higher, respectively, than would have been recorded previously. Income before income taxes and minority interests and net income were ¥324 million and ¥392 million lower, respectively, on the same basis.

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

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

No such securities existed at December 31, 2008 and 2007.

(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, 2008 and 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2008	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥7,858**	**¥14,234**	**¥6,376**	**$86,342**	**$156,398**	**$70,057**
Debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**¥7,858**	**¥14,234**	**¥6,376**	**$86,342**	**$156,398**	**$70,057**

December 31, 2008	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 6,534**	**¥ 5,239**	**¥(1,295)**	**$ 71,798**	**$ 57,569**	**$(14,229)**
Debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Other	**120**	**101**	**(19)**	**1,314**	**1,106**	**(208)**
Subtotal	**¥ 6,654**	**¥ 5,340**	**¥(1,314)**	**$ 73,122**	**$ 58,675**	**$(14,437)**
Total	**¥14,512**	**¥19,574**	**¥ 5,062**	**$159,454**	**$215,073**	**$ 55,619**

December 31, 2007	Millions of yen		
	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥11,084	¥27,264	¥16,181
Debt securities	–	–	–
Other	120	147	28
Subtotal	¥11,203	¥27,412	¥16,209
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 2,784	¥ 2,484	¥ (300)
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥ 2,784	¥ 2,484	¥ (300)
Total	¥13,987	¥29,896	¥15,909

(c) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2008 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Sales	**¥52**	¥2,043	¥3,382	**$571**
Gain on sales of securities	**21**	767	2,222	**227**

(d) The carrying value of securities whose fair value was not determinable at December 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 20**	¥ 30	**$ 220**
(2) Investments in subsidiaries and affiliates	**1,281**	1,884	**14,077**
(3) Other securities:			
Equity investments in unlisted companies	**4,912**	5,039	**53,974**
Domestic debt securities offered privately	**69**	72	**762**
Other	**643**	486	**7,066**

(e) The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
December 31, 2008	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	**¥29**	**¥40**	**$322**	**$440**
Corporate debt securities	**10**	**10**	**110**	**110**
Other	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Subtotal	**¥39**	**¥50**	**$432**	**$550**

5. INVENTORIES

Inventories at December 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Finished goods and merchandise	**¥ 8,163**	¥ 9,655	**$ 89,699**
Real estate for sale	**47**	47	**513**
Work in process	**4,350**	4,220	**47,802**
Raw materials	**8,223**	9,367	**90,352**
Supplies	**626**	754	**6,875**
	¥21,409	¥24,042	**$235,242**

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, 2008, 2007 and 2006:

Year ended December 31, 2008

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Soft Drinks Co., Ltd.	Property for Soft	Buildings		
(Shibuya-ku, Tokyo)	Drinks business	Lease	**¥1,250**	**$13,739**
		Other		
			¥1,250	**$13,739**
Sapporo Lion Ltd.	Restaurants	Buildings	**¥ 320**	**$ 3,517**
Restaurants for business (Chitose-shi, Hokkaido and other)	for operations	Machinery		
		Other		
			¥ 320	**$ 3,517**
Yebisu Garden Place Ltd.	Real estate for lease	Buildings	**¥ 17**	**$ 184**
Sapporo Factory (Sapporo-shi, Hokkaido)		Machinery		
		Other		
			¥ 17	**$ 184**
SLEEMAN BREWERIES LTD.	Goodwill	Buildings		
(Ontario, Canada)		Machinery		
		Other	**¥6,620**	**$72,735**
			¥6,620	**$72,735**
			¥8,207	**$90,175**

The Company and the consolidated subsidiaries decided the asset group in consideration of the division in 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.

It is expected to be difficult to recover the investment in property for the soft drinks business due to declining profitability. These assets have therefore been written down to their recoverable amount and an impairment loss booked for the amount equivalent to the write-down.

For restaurants for operations, 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.

A recoverable amount has been calculated for Sapporo Factory due to the planned transfer of this asset to a subsidiary. An impairment loss has been booked for the amount expected to be difficult to recover. 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 5.7%.

The Company and the consolidated subsidiaries have booked an impairment loss on goodwill of SLEEMAN BREWERIES LTD. This follows a reappraisal of the corporate value of SLEEMAN BREWERIES LTD., which conducts business in North America, following higher equity risk premiums in the wake of the ongoing financial market turmoil since the second half of 2008. The recoverable amount for SLEEMAN BREWERIES LTD. was measured through a due diligence analysis of assets based on the reappraised corporate value.

Year ended December 31, 2007

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Idle real estate	Lands	¥ 192
Idle real estate (Kitakanbara-gun, Niigata)			
			¥ 192
Sapporo Breweries Ltd.	Warehouse for	Buildings	¥ 13
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution		
			¥ 13
Sapporo Soft Drinks Co., Ltd.	Property for	Buildings	¥ 12
(Shibuya-ku, Tokyo)	Soft Drinks business	Lease	437
		Other	122
			¥ 571
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 201
Restaurants for business (Kawaguchi-shi, Saitama and other)	for operations	Machinery	7
		Other	7
			¥ 215
Yebisu Garden Place Ltd.	Real estate for lease	Buildings	¥5,801
Sapporo Factory (Sapporo-shi, Hokkaido)		Machinery	66
		Other	83
			¥5,950
			¥6,939

The Company and the consolidated subsidiaries decided the asset group in consideration of division in 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.

For 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 declines in land prices.

It is expected to be difficult to recover the investment in KEIYO Physical Distribution Center due to a decline in building prices. This Center has therefore been written down to its recoverable amount and an impairment loss booked for the amount equivalent to the write-down.

It is expected to be difficult to recover the investment in property for the soft drinks business due to declining profitability. These assets have therefore been written down to their recoverable amount and an impairment loss booked for the amount equivalent to the write-down.

For restaurants for operations, 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.

A recoverable amount has been calculated for Sapporo Factory due to the planned transfer of this asset to a subsidiary. An impairment loss has been booked for the amount expected to be difficult to recover. 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 5.2%.

Year ended December 31, 2006

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Warehouse for	Land	¥ 943
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution	Buildings	90
		Other	7
			¥1,040
Sapporo Breweries Ltd.	Idle real estate	Land	¥ 247
Idle real estate (Kitakanbara-gun, Niigata)			
			¥ 247
Sapporo Logistics System Ltd.	Warehouse for	Buildings	¥ 207
Sapporo Higashi Warehouse (Higashi-ku, Sapporo-shi)	physical distribution	Other	19
			¥ 226
Sapporo Breweries Ltd.	Restaurants	Land	¥ 9
Restaurants for lease (Eniwa-shi, Hokkaido and other)	for lease	Buildings	137
			¥ 146
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 84
Restaurants for business (Minato-ku, Tokyo and other)	for operations	Other	42
			¥ 126
			¥1,785

The Company and its consolidated subsidiaries decided the asset group in consideration of the division in 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.

For 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 declines in land prices.

For warehouses of physical distribution, KEIYO Physical Distribution Center, 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 the change of division on the management accounting.

For warehouses of physical distribution, Sapporo Higashi warehouse and one other, 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 change in usage.

For 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 5.2%.

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, 2008 and 2007 were 1.25% and 1.09%, respectively.

Long-term debt at December 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
1.2% convertible bonds due 2009	**¥ 19,710**	¥ 19,710	**$ 216,570**
1.85% bonds due 2011	**10,000**	10,000	**109,878**
1.56% bonds due 2010	**10,000**	10,000	**109,878**
1.90% bonds due 2012	**10,000**	10,000	**109,878**
1.87% bonds due 2011	**10,000**	10,000	**109,878**
2.26% bonds due 2013	**10,000**	10,000	**109,878**
(Sapporo Beverage.Co., Ltd.) Zero coupon convertible bonds with stock acquisition rights due 2015	**3,843**	–	**42,228**
Loans from banks and insurance companies maturing from 2007 to 2018 with weighted-average annual interest rates: 2008—1.75% 2007—2.05%			
Secured	**27,324**	25,478	**300,231**
Unsecured	**61,441**	81,526	**675,103**
	162,318	176,714	**1,783,521**
Less current portion	**(36,582)**	(32,665)	**(401,960)**
	¥125,736	¥144,049	**$1,381,561**

The outstanding balance of convertible bonds with stock acquisition rights at December 31, 2008 was as follows:

Sapporo Beverage Co., Ltd. First Series of Unsecured Convertible Bonds With Stock Acquisition Rights
Shares to be issued: Sapporo Beverage common stock
Issue price for stock acquisition rights: Gratis
Number of stock acquisition rights: 49
Value of shares to be issued: ¥3,843 million
Total value of shares to be issued upon exercise of stock acquisition rights: Not applicable
Percentage of stock acquisition rights granted: 100%
Exercise period of stock acquisition rights: From February 27, 2009 to February 26, 2015

The conversion price for stock acquisition rights has been set so that the number of Sapporo Beverage shares underlying the stock acquisition rights shall represent a shareholding of around 49% on a fully diluted basis. The bondholders hold a put option, i.e. the right to sell some or all of the convertible bonds to the Company under certain conditions. Conversely, the Company holds a call option, i.e. the right to buy back some or all of the convertible bonds from the bondholders under certain conditions.

The aggregate annual maturities of long-term debt subsequent to December 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ 36,582	$ 401,960
2010	25,428	279,394
2011	41,809	459,387
2012	34,660	380,841
2013	17,241	189,437
2014 and thereafter	6,598	72,501
	¥162,318	$1,783,521

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, 2008, subject to adjustment in certain circumstances including the issuance of common stock at a price below the fair market price.

The assets pledged as collateral for short-term bank loans and long-term debt of ¥27,324 million ($300,231 thousand) and ¥25,478 million at December 31, 2008 and 2007, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Investment securities	**¥4,292**	¥6,813	**$47,159**
Other Investments	**80**	80	**879**

8. SHAREHOLDERS' EQUITY

The Companies Act 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 the year ended December 31, 2008, no shares were issued upon the conversion of convertible bonds.

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 income (expenses)—Other, net" for each of the three years in the period ended December 31, 2008 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Loss on disposal of inventories	**¥ (1,103)**	¥ (858)	¥ (952)	**$ (12,118)**
Equity in loss of affiliates	**(1)**	(132)	(49)	**(12)**
Gain on sales of property, plant and equipment	**25,893**	6,770	70	**284,502**
Gain on sales of investment securities	**21**	767	2,222	**227**
Subsidy for installation of vending machine	**–**	33	89	**–**
Reversal of provision for doubtful receivables	**11**	27	66	**120**
Compensation income from store closures	**111**	–	–	**1,225**
Loss on disposal of property, plant and equipment	**(5,836)**	(1,301)	(2,520)	**(64,121)**
Loss on impairment of property, plant and equipment	**(8,207)**	(6,939)	(1,785)	**(90,175)**
Depreciation expenses resulting from revision of residual value	**–**	(6,583)	–	**–**
Amortization of goodwill	**–**	(276)	–	**–**
Devaluation of marketable securities and investments	**(747)**	(394)	(218)	**(8,207)**
Provision for gift voucher redemptions	**(747)**	–	–	**(8,207)**
Loss on revision of retirement benefit plan	**(1,307)**	–	–	**(14,365)**
Early retirement benefits	**(305)**	–	–	**(3,354)**
Business reorganization costs	**(1,444)**	–	–	**(15,861)**
Adjustment of gain on sales of fixed assets for prior periods	**–**	–	95	**–**
Other	**(306)**	26	475	**(3,365)**
	¥ 6,033	¥(8,862)	¥(2,508)	**$ 66,290**

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.

As of May 1, 2008, the Company and consolidated subsidiary Sapporo Breweries Ltd. adopted a defined contribution pension plan and abolished their lump-sum payment plans. As of December 31, 2008, a total of 10 consolidated subsidiaries had lump-sum payment plans. The Company and consolidated subsidiary Sapporo Breweries Ltd. are joint participants in the Sapporo Breweries Pension Fund.

Employees' retirement benefits as of December 31, 2008 and 2007 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Retirement benefit obligation	**¥(45,468)**	¥(56,498)	**$(499,592)**
Fair value of pension plan assets	**24,412**	30,846	**268,230**
	(21,056)	(25,652)	**(231,363)**
Unrecognized net retirement benefit obligation at transition	**10,610**	12,402	**116,583**
Unrecognized actuarial gain or loss	**10,479**	3,672	**115,144**
Unrecognized past service cost	**(7,482)**	(5,467)	**(82,207)**
Prepaid pension cost	**83**	90	**908**
Employees' retirement benefits	**¥ (7,531)**	¥(15,135)	**$ (82,751)**

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, 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Service cost	**¥1,307**	¥1,598	¥1,689	**$14,363**
Interest cost	**977**	1,133	1,126	**10,735**
Expected return on plan assets	**(774)**	(757)	(709)	**(8,505)**
Amortization of net retirement benefit obligation at transition	**1,528**	1,550	1,550	**16,784**
Amortization of actuarial gain or loss	**475**	414	355	**5,225**
Amortization of past service cost	**(570)**	(401)	(403)	**(6,260)**
Loss on revision of retirement benefit plan	**1,307**	–	–	**14,365**
Other	**709**	513	88	**7,796**
	¥4,960	¥4,050	¥3,696	**$54,503**

"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, 2008 were as follows:

	2008	2007	2006
Discount rate	**2.00%**	2.00%	2.00%
Expected rate of return on plan assets	**2.5 – 3.0%**	2.5 – 3.0%	2.5 – 3.0%
Period of recognition of past service cost	**11 – 14 years**	11 – 15 years	11 – 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 each of the three years in the period ended December 31, 2008. 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.

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2008 differ from the corresponding statutory tax rates for the following reasons:

	2008	2007	2006
Statutory tax rates	**40.7%**	40.7%	40.7%
Effect of:			
Disallowed expenses, including entertainment expenses	**1.4**	42.5	3.9
Dividends and other income deductible for income tax purposes	**(0.4)**	(23.1)	(0.3)
Inhabitants' per capita taxes	**1.1**	95.5	4.8
Unschedulable temporary differences	**18.0**	1,076.2	41.8
Changes in valuation allowance	**(7.4)**	(3,492.1)	(49.5)
Adjustment income taxes for prior years	**–**	139.8	–
The tax rate difference of overseas subsidiary company	**4.9**	(279.2)	–
Other, net	**(0.6)**	13.4	(0.0)
Effective tax rates	**57.6%**	(2,386.3)%	41.3%

The significant components of deferred tax assets and liabilities at December 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Deferred tax assets:			
Tax loss carryforwards	**¥ 9,662**	¥ 1,096	**$ 106,167**
Property, plant and equipment	**8,155**	16,402	**89,601**
Employees' retirement benefits	**4,917**	6,083	**54,023**
Investment securities	**1,278**	1,359	**14,043**
Allowance for doubtful receivables	**776**	875	**8,526**
Accrued expenses	**2,206**	1,064	**24,235**
Gift coupon income	**1,196**	845	**13,145**
Accrued bonuses	**546**	426	**6,001**
Enterprise tax payable	**–**	164	**–**
Other	**2,101**	1,959	**23,090**
Gross deferred tax assets	**30,837**	30,273	**338,832**
Valuation allowance	**(10,532)**	(8,897)	**(115,724)**
Total deferred tax assets	**¥ 20,305**	¥21,376	**$ 223,108**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**¥ 13,316**	¥ 5,605	**$ 146,317**
Unrealized holding gain on securities	**2,017**	6,268	**22,158**
Property, plant and equipment	**5,946**	5,841	**65,334**
Other	**24**	13	**260**
Total deferred tax liabilities	**21,303**	17,727	**234,070**
Net deferred tax assets (liabilities), net	**¥ (998)**	¥ 3,649	**$ (10,962)**

12. LEASES

(a) Finance lease

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, 2008 and 2007, 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)
	2008	2007	**2008**
Acquisition costs:			
Machinery and vehicles	**¥ 895**	¥ 890	**$ 9,837**
Other	**14,181**	15,796	**155,817**
	¥15,076	¥16,686	**$165,654**
Accumulated depreciation:			
Machinery and vehicles	**¥ 469**	¥ 399	**$ 5,151**
Other	**8,133**	8,391	**89,363**
	¥ 8,602	¥ 8,790	**$ 94,514**
Accumulated loss on impairment:			
Machinery and vehicles	**¥ –**	¥ –	**$ –**
Other	**1,068**	483	**11,740**
	¥ 1,068	¥ 483	**$ 11,740**
Net book value:			
Machinery and vehicles	**¥ 426**	¥ 491	**$ 4,686**
Other	**4,979**	6,923	**54,714**
	¥ 5,406	¥ 7,413	**$ 59,399**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,755 million ($30,275 thousand) and ¥3,247 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, 2008 and 2007, respectively.

Loss on impairment of leased assets amounted to ¥967 million ($10,636 thousand) and ¥436 million for the years ended December 31, 2008 and 2007.

The amount of depreciation was ¥382 million ($4,202 thousand) and ¥146 million for the years ended December 31, 2008 and 2007.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2008 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)
2009	¥2,166	$23,804
2010 and thereafter	3,243	35,639
Total	¥5,409	$59,442

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, 2008 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)
2009	¥3	$29
2010 and thereafter	1	13
Total	¥4	$43

(b) Operating lease

Future minimum lease payments subsequent to December 31, 2008 for operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥1,052	$11,562
2010 and thereafter	2,634	28,940
Total	¥3,686	$40,502

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its domestic consolidated subsidiaries manages the exposure of its financial assets and liabilities to interest rate and foreign exchange rate movements through the use of derivative financial instruments which include foreign exchange forward contracts, foreign currency option agreements and interest rate swap agreements. Interest rate swap agreements are utilized to hedge against possible future changes in interest rates on borrowings. Foreign exchange forward contracts and foreign currency option agreements are utilized to hedge currency risk exposures. The Company and its consolidated subsidiaries use derivative instruments only for hedging purposes and not for purposes of trading or speculation.

Financial instruments involve market risk as instruments are subject to price fluctuations and elements of credit risk in the event that the counterparty should default. However we expect market risk is limited because these contracts effectively offset market risk that exists in borrowings and fluctuations of foreign currency rates. These financial instruments are executed with creditworthy financial institutions. It does not anticipate significant losses due to the nature of its counterparties. Based on the creditworthiness of these financial institutions, we believe that the overall credit risk related to its financial instruments is insignificant.

The Company and its consolidated subsidiaries utilizes derivatives following the internal regulation for derivatives, which stipulates policy, objective, scope, organization, procedures and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

The conditions of derivative instruments are regularly reported to the Board of Directors.

The estimated fair values of financial instruments are summarized as follows:

Derivative financial instruments

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2008			2007			**2008**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward contracts:									
To purchase									
Canadian Dollars	**¥90**	**¥105**	**¥14**	¥588	¥835	¥246	**$994**	**$1,152**	**$159**
	¥90	**¥105**	**¥14**	¥588	¥835	¥246	**$994**	**$1,152**	**$159**

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2008			2007			**2008**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swap:									
Floating rate receive									
Fixed rate pay	**¥1,122**	**¥(25)**	**¥(25)**	¥5,235	¥(48)	¥(48)	**$12,328**	**$(274)**	**$(274)**
	¥1,122	**¥(25)**	**¥(25)**	¥5,235	¥(48)	¥(48)	**$12,328**	**$(274)**	**$(274)**

14. CONTINGENT LIABILITIES

Contingent liabilities at December 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Guarantee of loans, principally loans for employees' housing	**¥1,359**	¥ 1,955	**$14,928**
Debt assumption,			
1.31% bonds due 2008	**–**	10,000	**–**

15. 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.

	Yen			U.S. dollars (Note 1)
Year ended December 31	**2008**	2007	2006	**2008**
Net income	**¥19.49**	¥14.10	¥6.38	**$0.21**
Diluted net income	**18.89**	13.76	5.88	**0.21**

	Yen		U.S. dollars (Note 1)
As of December 31	**2008**	2007	**2008**
Net assets	**¥297.60**	¥319.07	**$3.27**

16. SEGMENT INFORMATION

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2008

	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	**¥324,720**	**¥36,849**	**¥29,538**	**¥ 23,452**	**–**	**¥414,558**	**–**	**¥414,558**
Intra-group sales and transfers	**6,263**	**322**	**–**	**2,373**	**–**	**8,958**	**(8,958)**	**–**
Total	**330,984**	**37,171**	**29,538**	**25,825**	**–**	**423,517**	**(8,958)**	**414,558**
Operating expenses	**322,374**	**36,950**	**28,987**	**18,212**	**–**	**406,523**	**(6,650)**	**399,873**
Operating income (loss)	**¥ 8,610**	**¥ 221**	**¥ 551**	**¥ 7,612**	**–**	**¥ 16,994**	**¥ (2,308)**	**¥ 14,685**
Identifiable assets	**¥307,517**	**¥17,536**	**¥14,739**	**¥172,564**	**–**	**¥512,356**	**¥14,931**	**¥527,287**
Depreciation and amortization	**¥ 14,125**	**¥ 272**	**¥ 779**	**¥ 6,427**	**–**	**¥ 21,604**	**¥ 1**	**¥ 21,605**
Loss on impairment	**¥ 6,620**	**¥ 1,250**	**¥ 320**	**¥ 17**	**–**	**¥ 8,207**	**¥ –**	**¥ 8,207**
Capital expenditures	**¥ 15,099**	**¥ 999**	**¥ 856**	**¥ 12,420**	**–**	**¥ 29,374**	**¥ 4**	**¥ 29,378**

Year ended or as of December 31, 2008

	Thousands of U.S. dollars (Note 1)							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	**$3,567,963**	**$404,886**	**$324,554**	**$ 257,681**	**–**	**$4,555,084**	**–**	**$4,555,084**
Intra-group sales and transfers	**68,822**	**3,537**	**–**	**26,074**	**–**	**98,433**	**(98,433)**	**–**
Total	**3,636,785**	**408,423**	**324,554**	**283,755**	**–**	**4,653,517**	**(98,433)**	**4,555,084**
Operating expenses	**3,542,178**	**405,999**	**318,504**	**200,111**	**–**	**4,466,793**	**(73,068)**	**4,393,725**
Operating income (loss)	**$ 94,607**	**$ 2,424**	**$ 6,050**	**$ 83,644**	**–**	**$ 186,725**	**$ (25,365)**	**$ 161,360**
Identifiable assets	**$3,378,940**	**$192,685**	**$161,944**	**$1,896,096**	**–**	**$5,629,665**	**$164,057**	**$5,793,722**
Depreciation and amortization	**$ 155,206**	**$ 2,989**	**$ 8,561**	**$ 70,621**	**–**	**$ 237,378**	**$ 12**	**$ 237,390**
Loss on impairment	**$ 72,735**	**$ 13,739**	**$ 3,517**	**$ 184**	**–**	**$ 90,175**	**$ –**	**$ 90,175**
Capital expenditures	**$ 165,907**	**$ 10,972**	**$ 9,411**	**$ 136,467**	**–**	**$ 322,757**	**$ 46**	**$ 322,803**

Year ended or as of December 31, 2007

	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥343,670	¥52,239	¥28,954	¥ 24,148	–	¥449,011	–	¥449,011
Intra-group sales and transfers	6,324	330	–	2,640	–	9,294	(9,294)	–
Total	349,994	52,569	28,954	26,788	–	458,305	(9,294)	449,011
Operating expenses	342,139	53,409	28,298	19,715	–	443,561	(6,912)	436,649
Operating income (loss)	¥ 7,854	¥ (839)	¥ 656	¥ 7,073	–	¥ 14,744	¥ (2,382)	¥ 12,363
Identifiable assets	¥334,828	¥ 9,618	¥14,543	¥187,816	–	¥546,805	¥15,054	¥561,859
Depreciation and amortization	¥ 15,525	¥ 425	¥ 799	¥ 7,777	–	¥ 24,527	–	¥ 24,527
Loss on impairment	¥ 204	¥ 571	¥ 215	¥ 5,950	–	¥ 6,939	–	¥ 6,939
Capital expenditures	¥ 13,988	¥ 395	¥ 1,706	¥ 3,459	–	¥ 19,548	–	¥ 19,548

Year ended or as of December 31, 2006

	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥326,420	¥58,731	¥26,995	¥ 22,828	¥116	¥435,090	–	¥435,090
Intra-group sales and transfers	6,129	314	–	2,675	7	9,125	(9,125)	–
Total	332,549	59,045	26,995	25,503	123	444,215	(9,125)	435,090
Operating expenses	328,365	59,471	26,538	19,089	118	433,581	(7,104)	426,477
Operating income (loss)	¥ 4,184	¥ (426)	¥ 457	¥ 6,414	¥ 5	¥ 10,634	¥ (2,021)	¥ 8,613
Identifiable assets	¥350,890	¥16,590	¥13,961	¥192,875	¥ –	¥574,316	¥15,281	¥589,597
Depreciation and amortization	¥ 13,473	¥ 285	¥ 648	¥ 7,523	¥ 1	¥ 21,930	–	¥ 21,930
Loss on impairment	¥ 1,659	¥ –	¥ 126	¥ –	¥ –	¥ 1,785	–	¥ 1,785
Capital expenditures	¥ 20,224	¥ 1,020	¥ 1,108	¥ 8,438	¥ –	¥ 30,790	–	¥ 30,790

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 ¥2,344 million ($25,758 thousand), ¥2,477 million and ¥2,119 million for the years ended December 31, 2008, 2007 and 2006, respectively.
   (ii) Unallocated assets, which amounted to ¥29,132 million ($320,095 thousand), ¥21,013 million and ¥21,522 million at December 31, 2008, 2007 and 2006, respectively, consisted principally of cash and cash equivalents, short-term and long-term investments and assets of general administration.
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, 2008, 2007 and 2006. Accordingly, geographical segment information and overseas sales have not been disclosed.
4. Depreciation and amortization, loss on impairment and capital expenditures include long-term prepaid expenses.
5. Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new method for recognizing net sales. Under the new method, sales incentives paid to clients corresponding to retail prices for soft drinks and other non-alcoholic beverages are deducted from net sales. As a result of this change, net sales and operating expenses were both ¥6,629 million lower than would have been recorded previously, but there was no impact on operating income.
6. Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new method for translating revenues and expenses of foreign subsidiaries and other entities. Under the new method, these revenues and expenses are translated using the average exchange rate for the fiscal year. As a result of this change, net sales and operating income were ¥5,207 million and ¥198 million higher, respectively, than would have been recorded previously.

17. SUBSEQUENT EVENTS

(Appropriation of retained earnings)

On March 27, 2009, the following appropriation of retained earnings was approved at the annual general meeting of the Company's shareholders:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	**¥2,743**	**$30,145**

CORPORATE DATA

(As of December 31, 2008)

COMPANY NAME
SAPPORO HOLDINGS LIMITED

BUSINESS
Holding company

DATE OF ESTABLISHMENT
September 1949

CAPITAL
¥53,887 million

NUMBER OF SHARES ISSUED
393,971,493

FISCAL YEAR-END
December 31

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

NUMBER OF EMPLOYEES
3,858
(Consolidated)
53
(Parent company)

MAIN BANKS
Mizuho Corporate Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, 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.

SAPPORO

SAPPORO HOLDINGS LIMITED

20-1, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-8522, Japan

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

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