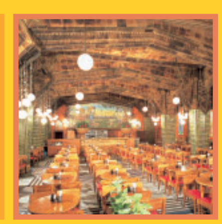
SAPPORO HOLDINGS LIMITED
ANNUAL REPORT 2006

Striding Forward



PROFILE

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

In 2006, the Sapporo Group embarked on a medium-term management plan. One of the main strategies of this plan is to quickly create and then nurture businesses that will drive sustained growth in the Group. With 2006 being the inaugural year of the plan, substantial strategic investments and capital expenditures were made in new and peripheral businesses.

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FINANCIAL HIGHLIGHTS

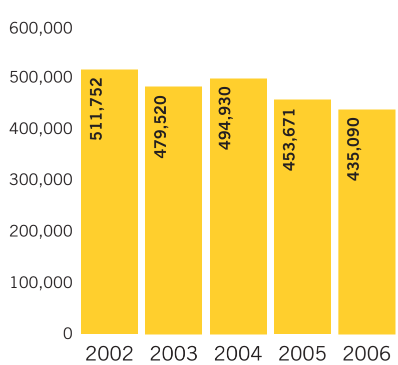
Years ended December 31

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Net sales	**¥435,090**	¥453,671	**$3,652,538**
Operating income	**8,613**	10,300	**72,303**
Net income	**2,338**	3,630	**19,630**
	Yen		U.S. dollars
Per share:			
Net income			
Primary	**¥6.38**	¥10.20	**$0.05**
Diluted	**5.88**	9.18	**0.05**
Cash dividends	**5.00**	5.00	**0.04**
	Millions of yen		Thousands of U.S. dollars
Net assets	**¥113,496**	¥111,411	**$ 952,783**
Total assets	**589,597**	563,845	**4,949,607**
Capital expenditures	**30,790**	16,218	**258,483**
Depreciation and amortization	**21,930**	22,075	**184,099**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥119.12=US$1, the exchange rate prevailing on December 31, 2006.

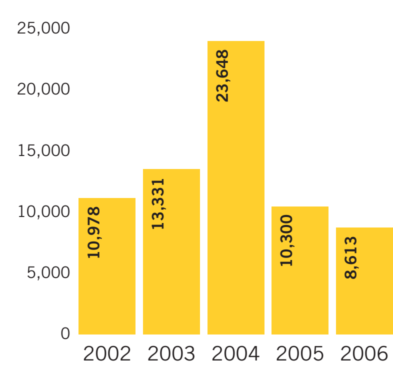
NET SALES

(¥ Million)



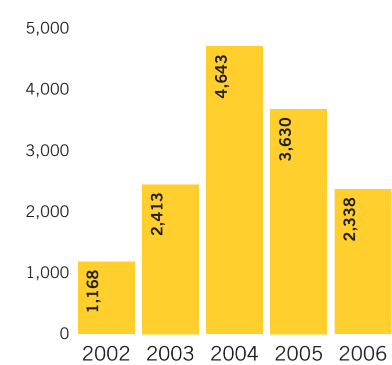
OPERATING INCOME

(¥ Million)



NET INCOME

(¥ Million)



Creating Businesses

Takao Murakami
President and Representative Director, Group CEO

In 2006, the Sapporo Group embarked on a medium-term management plan. One of the main strategies of this plan is to quickly create and then nurture businesses that will drive sustained growth in the Group. With 2006 being the inaugural year of the plan, substantial strategic investments and capital expenditures were made in new and peripheral businesses.

In this feature, Takao Murakami, president and Group CEO of Sapporo Holdings Limited, talks about the businesses the Group has created and nurtured to raise corporate value.

QUESTION 01

Please tell us what actions have been taken to create growth engines for the Sapporo Group.

In the past year, we implemented several initiatives to create growth drivers. One of those was to establish Sapporo International Limited. This company was formed to integrate our overseas alcoholic beverage operations. Its remit is to strengthen our strategy overseas, particularly in North America, and eventually evolve into the Sapporo Group's fifth operating company.

The Sapporo brand commands the top market share of all Asian beer brands in the U.S. Sales are also rising. Nevertheless, we felt we needed to step up our activities in the North American market as there is still considerable room for us to grow there.

But we didn't have a specialist decision-making body or marketing functions. So far, our overseas strategy has been executed by one business unit within our alcoholic beverage operations. To rapidly expand our international alcoholic beverage operations it was therefore vital that we changed the organization structure. That's why we established an autonomous operating company and we believe it will allow us to develop our strategy in a

That Will Drive Sustained Growth

way that better reflects market conditions overseas.

Furthermore, we brought Canada's Sleeman Breweries Ltd. into the Group as the nucleus of our overseas alcoholic beverage operations because securing production bases and distribution channels was vital to strengthening our overseas strategy, particularly in North America.

But that wasn't the only reason. The Sleeman brand commands a strong premium and thus has earnings power. Sleeman and the Sapporo Group also share many common approaches to manufacturing.

This investment has bolstered the Sapporo Group's international alcoholic beverage operations. However, we intend to redouble Group-wide efforts to nurture these operations in 2007 and beyond to make them an even stronger growth driver for the Sapporo Group.

Sleeman's Guelph brewery in Ontario, Canada

QUESTION 02★

Besides actions overseas, what other strategic investments and capital expenditures did you make during the past year?

In our alcoholic beverage business in Japan, we took over Kikkoman Corporation's *shochu* (Japanese distilled spirits) business with the aim of bolstering our product lineup and enhancing our proposal capabilities. We also established a *honkaku-shochu** company. While *shochu* sales began in April last year, we feel that operations are going well.

Manufacturing and marketing beer imbuing even higher added value is one of our key product development themes. However, we needed facilities capable of producing beer in small lots to achieve this goal. Recently, we acquired small-lot manufacturing facilities from a microbrewery to put in place a system for developing products that we have found difficult to bring to market in the past.

In our soft drinks operations, we made strategic investments to improve our functional drink and health food businesses. We are now working to bring products to market. We're also strengthening R&D to create brands with new value. Representative of these efforts is the *Hop Kenkyu-sho (Laboratory)* series of drinks, which was launched earlier this year.

* Traditional Japanese white spirits made by pot still distillation.

In the fiercely competitive restaurants business, we made progress reinforcing our financial position and are now much more competitive. Furthermore, strategic investments to revitalize existing restaurants have now produced growth in same-restaurant sales for two consecutive years and we boast a growth rate at the high end of the industry. By delivering results from the development of new formats, something we have been doing since last year, we will grow this business further in 2007.

Noteworthy achievements in the real estate business in the past year included the opening of STRATA GINZA in Tokyo's Chuo Ward and the completion of FRONTIER-KAN, a new addition to Sapporo Factory complex in Hokkaido. Operations at both locations have made a smooth start and we believe they will contribute to our sustained growth in the years ahead.

QUESTION

03

Your medium-term management plan earmarked ¥70.0 billion for strategic investments and capital expenditures over a 3-year period beginning in 2006. What progress have you made with this plan?

In 2006, which as you know was the first year of the plan, changes in the competitive landscape in our existing business domains and in market conditions far exceeded our expectations. Consequently, our performance in relation to the plan was less than satisfactory. Naturally, we are trying to turn things around in our existing business domains this year. But it is also important that we create additional growth engines to achieve the goals of our medium-term management plan. We indeed indicated that we would invest ¥70.0 billion over 3 years, but we're not going to be held back by that limit if presented with investment opportunities that will help raise our value. Our goal is sustainable growth of the Group and if the market environment changes faster than anticipated we must change our approach.

QUESTION

04

Are you primed to compete this year?

We ignited several growth engines last year, but there are others that will take two to three years to get up and running. Therefore, it is crucial that we turn things around in existing business domains to prevail against the competition this year.

The restaurants and real estate businesses are already producing consistent earnings and we expect them to deliver more growth

this year. With our alcoholic beverages and soft drinks businesses we are pinning our hopes on new product launches based on R&D efforts to make a stronger showing than in 2006.

Since last year, we have invested substantially in facilities to strengthen our R&D capabilities in each business. Thanks to these investments, we already have several products we're excited about. We expect to have an even larger number of products to choose from this year to bring to market. Having also accelerated the pace of product development, we believe that we can continue to offer new value propositions.

Values are changing rapidly in our markets. This is highlighted by polarization in consumer trends and diversifying preferences. Developing products that satisfy all consumers is extremely challenging. Notwithstanding, we are determined to bolster our R&D and product development capabilities and thus put in place a structure that will allow us to consistently create value in many more different ways.

QUESTION

05 ★

Finally, what plans do you have for the Sapporo Group's businesses this year and beyond?

In 2006, we laid some important stepping stones to sustained growth for the Group. We will continue these efforts in 2007 by making further strategic investments and through ongoing real estate development, R&D and other initiatives to create new growth engines.

As we tackle new challenges, we are mindful that management may become unwieldy unless we eliminate unwanted or otherwise low-priority operations. Therefore, in parallel with the investments and other initiatives I have just mentioned, we intend to step up the pace of management structural reforms as we seek to realize our goal of sustained growth by executing initiatives designed to raise our corporate value faster.

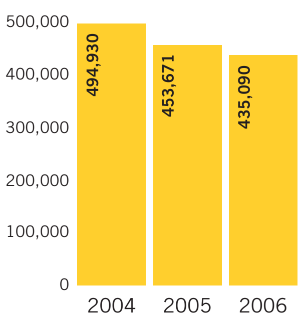
T. Murakami

Takao Murakami
President and Representative Director,
Group CEO

Sapporo Holdings Limited

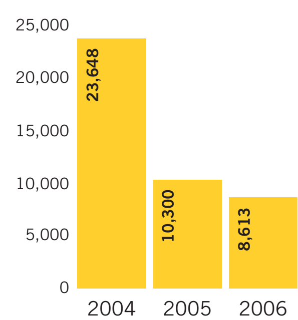
NET SALES

(¥ Million)



OPERATING INCOME

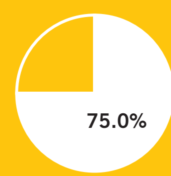
(¥ Million)



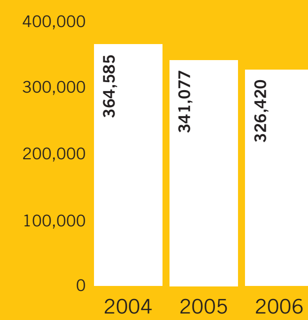
OPERATING REVENUES (¥ Million)

Sapporo Breweries Ltd.

Alcoholic Beverages

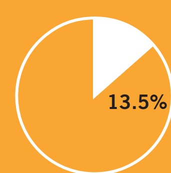


Share of Net Sales

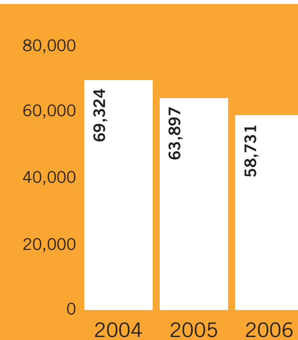


Sapporo Beverage Co., Ltd.

Soft Drinks

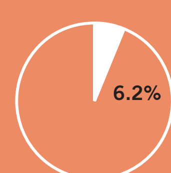


Share of Net Sales

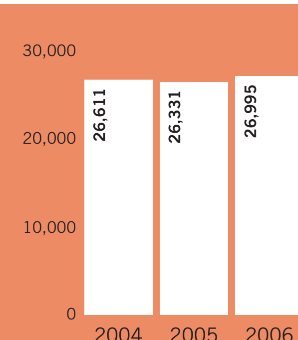


Sapporo Lion Ltd.

Restaurants

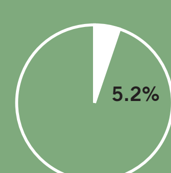


Share of Net Sales

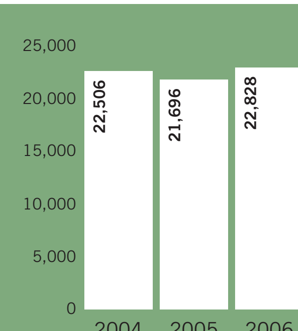


Yebisu Garden Place Co., Ltd.

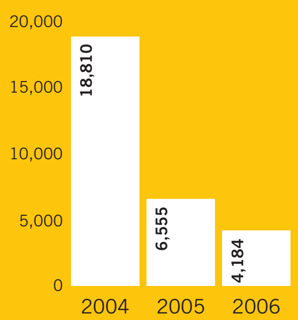
Real Estate



Share of Net Sales

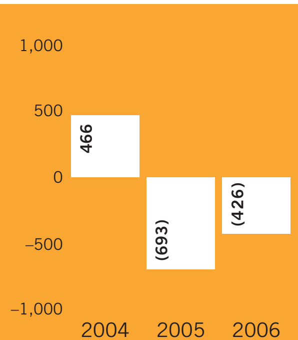


OPERATING INCOME (LOSS) (¥ Million) | PRODUCTS AND SERVICES | HIGHLIGHTS



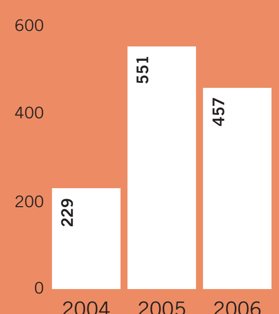
- Beer
- *Happo-shu* (low-malt beer)
- *Draft One* (new product genres)
- Wine and spirits
- *Shochu* (Japanese distilled spirits)

- Total sales volume of beer, *Happo-shu* and new product genres declined 10% year on year. However, efforts to cut selling expenses, manufacturing costs and other costs limited the decline in earnings.
- Sales volume of *Yebisu* brand products was up 3% year on year, reaching an all-time high. The share of total beer demand commanded by the brand also increased for the 14th consecutive year.
- In April 2006, Sapporo Breweries entered the *shochu* business as part of the Group's medium-term management plan. Aggressive sales activities centered on main brands in the *korui-shochu* and *honkaku-shochu* categories generated sales of ¥7.2 billion.



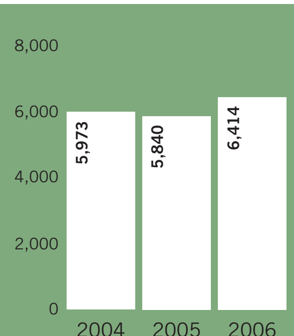
- Soft drinks
- Mineral water products

- Due to the effects of unseasonable summer weather and actions taken to review low-margin transactions, sales volume declined year on year.
- During 2006, Sapporo Beverage Co., Ltd. derived benefits from rigorous cost-cutting measures, one of the aims for the first year of the medium-term management plan. These benefits outweighed lower sales and other factors that impacted profits and resulted in improved earnings.



- Ginza Lion and other general restaurant chains

- Despite the closure of some unprofitable outlets, existing outlets performed well. Overall sales increased for the third consecutive year thanks to efforts to improve menus and service quality coupled with a boost to revenues from new outlets.
- Although 13 outlets were opened during the past year, the closure of 20 outlets due to the rebuilding of tenanted buildings and declining customer numbers meant that the number of outlets as of December 31, 2006 was 195.



- Yebisu Garden Place
- Sapporo Factory
- STRATA GINZA

- Revenues and earnings both steadily increased due to steps taken to strengthen functions in terms of facilities and services as well as to maintain high occupancy rates and raise rents amid continuing stable conditions for the real estate market in the Tokyo metropolitan area.
- We actively continued real estate development. One highlight was the completion of STRATA GINZA, a commercial building in Tokyo's Chuo Ward. Additionally, a new commercial and office building, FRONTIER-KAN, was added to the Sapporo Factory complex, and a fitness club and spa, PAL Sapporo, opened for business in Sapporo, Hokkaido.

Sapporo Breweries Ltd.

As one of the Sapporo Group's core operations, we will refine what makes Sapporo unique, with a particular focus on the quality of ingredients and our ability to develop new products, to raise the Group's corporate value. Actions will include launching new products onto the new product genre market, and expanding and enhancing the *Yebisu* brand to bolster our distinctive strengths.

OPERATING TARGETS FROM MEDIUM-TERM MANAGEMENT PLAN

	2008 Targets	2006	2005
Operating Income (¥ Billion)	20.0	4.2	6.5
Operating Income Ratio (%)	5.3	1.3	1.9

THE YEAR IN REVIEW

The Japanese economy in 2006, while remaining on a recovery track, failed to show clear signs of an upturn in personal spending. In addition, the operating environment for this segment became increasingly difficult amid a further drop in beer demand as the population of legal-drinking-age consumers declines. Reflecting this, overall demand for beer, *Happo-shu* and new product genres is estimated to have contracted about 1% from the previous year.

Under these circumstances, segment operating revenues declined 4.3% to ¥326.4 billion, despite the boost to the top line from our April 2006 entry into the *shochu* business. The primary reason for the lower overall operating revenues was a large drop in sales volume of beer, *Happo-shu* and new product genres. Operating income fell 36.2% to ¥4.2 billion, mainly due to a large drop in sales volume of new product genres. On a positive note, however, improved margins from growth of value-added products, lower manufacturing costs from improved manufacturing efficiency and reviews of selling expenses curbed the slide in earnings.

REVIEW BY CATEGORY

In beer, *Yebisu* brand products posted a record-high result on the back of 3% year-on-year growth. The limited offering of *Kohaku Yebisu* drew a strong response from customers, eclipsing sales targets and helping the *Yebisu* brand to increase its market share for the 14th year running. Meanwhile, *Sapporo Black Label* saw sales volume drop 7%, despite marketing activities for this flagship product that promoted the appeal of our Collaborative Contract Farming System (CCFS) and the emphasis we place on the quality of ingredients.

Imported *Guinness* beer continued to perform strongly, delivering 2% growth in sales volume and setting a new sales record for the sixth year in a row.

In *Happo-shu*, May 2006 debutant *Shizuku <Nama>* sold strongly. As a result, while *Happo-shu* sales volume dropped 9% year on year, the decline was less than the 10% overall drop in market demand.

In new product genres, a market category we pioneered, competition is intensifying. Sales volume fell 24%, hurt by consumers trying out new products rolled out by competitors. However, mainstay *Draft One* turned in healthy sales volume growth following its relaunch in September, firmly establishing its position in the market in this category.

In April 2006, Sapporo Breweries entered the *shochu* (Japanese distilled spirits) business as part of the Group's medium-term management plan. Aggressive sales activities were conducted centered on main brands *Triangle* and *Triangle Indigo* in the *korui-shochu* (1) category and barley-based *Waramugi* and sweet potato-based *Karari-Imo* in the *honkaku-shochu* (2) category. Overall, these activities generated sales in monetary terms of ¥7.2 billion.

(1) Traditional Japanese white spirits distilled by continuous distillation.
(2) Traditional Japanese white spirits made by pot still distillation.


2007 Strategy (Japan)

PLAYING TO OUR STRENGTHS

2007 marks the 131st year since our founding. As in past years, we will adhere to a basic approach of strengthening our corporate brand by refining what makes Sapporo unique. The lynchpins of this approach will be our focus on the quality of ingredients and our ability to develop new products.

Playing to the strengths of the Group will be a key aspect of our business strategy in the Japanese market. In beer operations, we aim to grow earnings by staking out an unchallenged position in the expanding premium beer market by offering more value-added products in the form of new *Yebisu* brand beers. Spring 2007 saw the launch of two new products: *Yebisu <The Black>* and *Yebisu <The Hop>*. We will continue to take the initiative in bringing new products to the buoyant high-priced beer market. The new product genre market is also growing and we're determined to draw on our collective strengths to regain market share and drive earnings higher there as well. Leading the way in this market in 2007 was the February launch of *Umai Nama*.

These initiatives dovetail with our basic policy of raising Sapporo's corporate value and presence in the alcoholic beverages market by enhancing our strengths and focusing on fields where we were the pacesetter. By rebuilding businesses in fields that we ourselves pioneered, and where we excel, we are committed to laying the foundations for consistent growth over the long term.

CONTINUING ON FROM 2006

In 2006, we initiated a number of actions, including entering the *shochu* business and acquiring small-lot production facilities to better enable us to manufacture value-added products. In 2007, we will continue to steadily advance these initiatives. In the wine business, *Grand Polaire* is enjoying a strong reception from the market, highlighted by a fourth consecutive gold award in the Japan Wine Competition. In 2007, we will pursue world-class quality, as well as develop products based on proprietary technology, propose value-added products and strengthen existing brands.

In addition to increasing sales by implementing these measures, we are determined to increase earnings by continuing to improve profit margins with a stronger lineup of value-added products and through ongoing reviews of our cost structure.

The Japanese Beer Market and Sapporo Breweries

THE BEER INDUSTRY TODAY-MARKET ENVIRONMENT

The alcoholic beverages market is in a period of dramatic change brought on by shifts in consumer values regarding alcohol, the social environment and distribution.

As consumers split into two camps—those favoring low-priced products and those prepared to pay more for higher quality—there is also rising awareness with regards to health, safety, reliability and the environment. More and more consumers are also embracing more moderate drinking habits. In terms of the social environment, a declining population of people over the legal drinking age and the retirement of baby boomers are expected to have a significant impact on future demand for alcohol. Regarding distribution, changes are afoot, such as signs of industry restructuring caused by stiffer competition both within and between business formats.

Competition among manufacturers is intensifying as a consequence of these sorts of dynamics in the market. Against this backdrop, the following trends today characterize Japan's beer market, which is made up of three categories: beer, *Happo-shu* and new product genres.

In 2006, total demand slipped 1% year on year, with beer dropping 2% and *Happo-shu* 10%, although new product genres increased 21%. A 2006 survey of the home-use alcohol market found that beer accounted for a share of 17.6%, down 0.3 of a percentage point, *Happo-shu* had a share of 23.8%, down 4.0 percentage points, and new product genres represented 24.7% of the market, up 4.1 percentage points year on year. New product genres have thus overtaken *Happo-shu* to command the top spot in terms of market share. However, there has been a noticeable drop-off in the growth rate of new product genres in recent times. Over the past few years, there has been a clear shift to *otsurui-shochu* and *chuhai* from some sectors of the beer market. However, based only on the findings of the 2006 survey, this trend seems to be coming to an end. It would be fair to say, therefore, that at present no alcoholic beverage genre is strong enough to stand apart from the rest. This suggests that rather than genre, the appeal and quality of the product itself will take on more importance than ever in the years ahead.

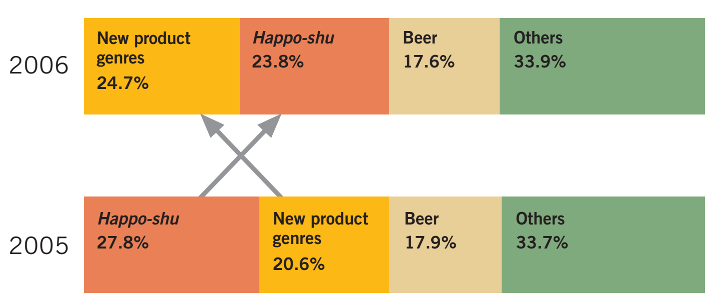
SAPPORO'S APPROACH

Based on this analysis of the market, our approach will be to promote our commitment to brewing tasty beer through initiatives unique to Sapporo Breweries Ltd. One such initiative is to source 100% of our malt and hops through our Collaborative Contract Farming System (CCFS), something we achieved in 2006. In addition, with regards to new product genres and *Yebisu* brand products, categories we pioneered and where we are strong, we will roll out the following marketing strategies.

In new product genres, we plan to capture a commanding position in the market for innovative refreshments with *Draft One* and enter the market for beer substitutes with *Umai Nama*. With these actions, our goal is to increase our collective strength and raise our presence within this genre.

Where *Yebisu* brand products are concerned, we will continue to develop various products and propose various lifestyle scenes in which to enjoy them inspired by the catchphrase of "Exceed *Yebisu* while being *Yebisu*." Ultimately, we hope that our efforts will contribute to the creation of a new beer culture in Japan.

2006 SHARE BY ALCOHOL TYPE IN HOME-USE MARKET



(SCI data by INTAGE Inc.)

International Operations

CAPITALIZING ON THE SLEEMAN BREWERIES ACQUISITION TO STRENGTHEN NORTH AMERICAN OPERATIONS

We have positioned international operations, particularly in North America, as a key business for us in 2007. Besides carrying on with past efforts to develop the Sapporo brand in overseas markets, we will take steps to further strengthen Sleeman Breweries, which became a Sapporo Group subsidiary in October 2006, as a premium beer brand in the Canadian market. In addition, we will work to solidify the positions of both Sleeman Breweries and Sapporo U.S.A., Inc. in the North American market. We will also take actions in respect of exporting to other countries and producing products locally. We aim to develop our business further and strengthen the foundations of our international alcoholic beverage operations by launching new products to increase sales and advancing into new regions.

Sapporo Breweries has long had a strong foothold in North America. For 22 years since 1985, we have been the leading Japanese beer brand in terms of market share. Strengthening our North American business is a key theme in our medium-term management plan to ensure we take full advantage of this competitive edge. We believe that the recent acquisition of Sleeman Breweries will lead to a stronger North American business.

CONTRIBUTING TO GROUP EARNINGS FROM THE OUTSET

In December 2006, we established Sapporo International Limited to coordinate and supervise the activities of our two operating companies in North America—namely Sleeman Breweries and Sapporo U.S.A.—and to strengthen and expand our international alcoholic beverage operations in the Asia-Pacific region and Europe. Our 2007 plan in our international alcoholic beverage operations is to grow net sales by roughly 4.9 times to ¥25.8 billion and operating income by about 6.7 times to ¥2.0 billion. We expect that it will make a significant contribution to Group earnings in its first year under the new management framework overseen by Sapporo International. Moreover, Sleeman Breweries, whose operating results will be included in the consolidated income statement effective from January 2007, is expected to contribute ¥1.6 billion to operating income on an annual basis even after charges for the amortization of goodwill.

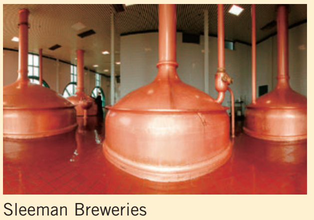
OPERATING TARGETS FROM MEDIUM-TERM MANAGEMENT PLAN

	2008 Targets	2006	2005
Net Sales (¥ Billion)	27.0	5.3	5.1
Operating Income (¥ Billion)	2.1	0.3	0.2

SLEEMAN BREWERIES LTD.

Sleeman Breweries is Canada's third largest beer maker in terms of sales volume, with a long tradition dating back to its foundation in 1834. Among the many breweries in North America, it has earned a strong reputation in the premium beer market. In terms of its philosophy toward its products and advanced technologies, Sleeman Breweries is an ideal partner for Sapporo, which prides itself on the effort it puts into selecting quality ingredients and manufacturing techniques to make delicious beer.

Sapporo has set its sights on establishing a solid position for the Sapporo brand in the North American market. The inclusion of Sleeman Breweries in the Sapporo Group holds significant meaning in this context. Plans call for capturing synergies in various fields with this company such as in terms of greater manufacturing efficiency, sales of each other's products, product development and lowering the cost of procuring raw materials. Sleeman Breweries has been conducting manufacturing on a contract basis for Sapporo Breweries since 2002, but we plan to use the recent acquisition of this company to strengthen operations throughout the whole of North America.



Sleeman Breweries

Sapporo Beverage Co., Ltd.

Operating revenues in this segment declined ¥5.2 billion, or about 8.1%, to ¥58.7 billion in 2006. However, as a result of vigorous efforts to cut costs, a theme of our medium-term management plan, we achieved a measure of success by reducing the operating loss by ¥0.3 billion from 2005 to ¥0.4 billion.

OPERATING TARGETS FROM MEDIUM-TERM MANAGEMENT PLAN

	2008 Targets	2006	2005
Operating Income (Loss) (¥ Billion)	2.5	(0.4)	(0.7)
Operating Income Ratio (%)	3.1	–	–

THE YEAR IN REVIEW

The soft drinks market in Japan in 2006 was affected by unsettled weather during the important summer months. Also shaping the market was negative growth in green tea, which had enjoyed several years of growth. Thanks mainly to mineral water and vegetable juice drinks, however, overall demand is estimated to have contracted by only about 1% in the past year.

In 2006, we worked to reach more customers through efforts to nurture and strengthen core brands, namely *Yebisu Sabo*, *Gabunomi* and *Ribbon*. In addition, we broadened the lineup of *Ocean Spray Cranberry* products as a key product with health benefits and different from anything else on the market. The launch of this series was tied in with TV commercials and various marketing campaigns. These promotional efforts paid off by generating higher sales and establishing the product in the market. Nevertheless, sales volume declined year on year due to lower sales in the oolong tea and canned coffee categories, as well as steps taken to address low-margin transactions.

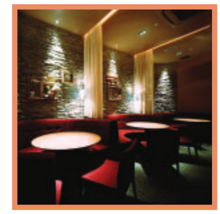
The current medium-term management plan targeted cost reductions as the key priority in its first year in this segment in 2006. Results were achieved according to plan as we lowered costs by ¥1.4 billion, which included cost savings in manufacturing of ¥0.7 billion and benefits stemming from amalgamating the Kanagawa Plant. These cost savings outweighed the effects of lower sales volumes, poorer transportation efficiency resulting from higher sales of products sold in large containers and the high cost of sugar, juice and other raw materials, all of which impacted earnings. As a result, the segment was able to deliver improved earnings. Efforts to achieve low-cost operations will be an ongoing theme.

OFFERING PRODUCTS IMBUING NEW VALUE

In 2007, we will actively roll out products imbuing new value. This will include the launch of *Sapporo Kanshoku Yasai*, a revolutionary health drink that will be sold through a newly established mail-order sales channel. Through Stellar Beverage Services Co., Ltd., established in October 2006, we plan to expand sales and improve earnings by strengthening direct sales—this new company will spearhead efforts to increase the number of vending machines in the Tokyo, Nagoya and Osaka areas.

HOP KENKYU-SHO—THE BRAINCHILD OF GROUP-K

In 2006, we formed Group-K, a team to conduct R&D across the Sapporo Group. Group-K is at the heart of our R&D activities, which is a key thrust of the current medium-term management plan. Based on the wealth of expertise gained by the Sapporo Group from its focus on the quality of raw materials over many years, Group-K is overseeing multiple projects that integrate R&D and product development. Its prime focus in all these projects is on creating new value and contributing to earnings. In January 2007, Group-K reaped the first fruits of its labor in the form of the launch of two health and functional drinks: *Hop Kenkyu-sho (Laboratory) green tea* and *Hop Kenkyu-sho (Laboratory) hop extract drink*.



Sapporo Lion Ltd.

During 2006, this segment closed a number of unprofitable restaurants. Notwithstanding, it still recorded a ¥0.7 billion increase in operating revenues to ¥27.0 billion due to strong performances at existing restaurants and higher sales from new locations. In terms of earnings, however, the benefits of higher revenues were negated by much higher personnel expenses, which brought down segment operating income by ¥0.1 billion year on year to ¥0.4 billion.

OPERATING TARGETS FROM MEDIUM-TERM MANAGEMENT PLAN

	2008 Targets	2006	2005
Operating Income (¥ Billion)	1.5	0.4	0.5
Operating Income Ratio (%)	4.3	1.7	2.1

THE YEAR IN REVIEW

The Japanese restaurant industry grew steadily during the past year on the back of an upturn in the amount spent per customer in all formats. However, some sluggishness was seen through the end of the year due to fallout from a string of drink-driving accidents in Japan. Although there was an increase in the number of restaurants in the Japanese *izakaya* dining format, same-restaurant sales were lower than the previous year. All in all, the market could be characterized as fiercely competitive.

In this competitive landscape, the Restaurants segment worked to achieve higher earnings at existing establishments and higher sales on the back of the aggressive opening of new restaurants.

With regards to existing restaurants, sales increased for the third year running as efforts were made to set our operations apart from other chains through improvements to the quality of the cuisine and services. However, rising personnel expenses stemming from difficulties with recruitment and an increase in personnel expenses per employee pressured earnings.

With regard to new restaurants, we opened a total of 13 locations during 2006, including *Kakoiya* and *Tomoru*. However, because many of the new restaurants were opened in the second half of 2006 they didn't make a major contribution to 2006 earnings given the limited number of business days. At the same time as opening new restaurants, we closed 20 locations for various reasons such as the rebuilding of tenanted buildings and declining customer numbers. As a result, we had 195 restaurants at the end of December 2006.

AN IMPORTANT LINK BETWEEN CUSTOMERS AND THE SAPPORO GROUP

Under the current medium-term management plan, the Restaurants segment is positioned as an important channel for serving customers the Group's mainstay alcohol, soft drink and food products. Consequently, we plan to expand operations and establish a stronger earnings base.

To fulfill this mission, we will continue to actively open new restaurants in 2007. By concentrating the opening of new locations in the first half of the year, we hope to lift earnings quickly. We will also continue with efforts to differentiate existing restaurants from other companies through enhancements to quality and the amount each customer spends. Another initiative will be to breathe new life into aging establishments by refurbishing them or converting them to a different format. Besides these strategies, we expect the 13 new restaurants opened in 2006 to contribute to segment performance in 2007 in their first full year of operations.

Responding to escalating personnel costs will be another theme in 2007. Through the introduction of a system to better manage the hiring of temporary and part-time workers, we aim to efficiently utilize and deploy personnel.

Yebisu Garden Place Co., Ltd.

Operating revenues increased by ¥1.1 billion year on year to ¥22.8 billion due to higher rental income in leasing operations and sales of real estate for sale. Operating income increased ¥0.6 billion to ¥6.4 billion on rises of ¥0.3 billion in the sales division and ¥0.3 billion in the leasing division. ROA, for which the medium-term management plan target is 7.8%, was 7.2%.

OPERATING TARGETS FROM MEDIUM-TERM MANAGEMENT PLAN

	2008 Targets	2006	2005
Operating Income (¥ Billion)	7.0	6.4	5.8
ROA* (%)	7.8	7.2	6.7

*Note: ROA based on EBITDA

OVERVIEW OF RESULTS

Occupancy rates for office buildings were stable at high levels, particularly in the Tokyo metropolitan area, and rents rose, particularly for large city center buildings. On the other hand, the market remains generally stagnant in regional cities. In response to such market conditions, we endeavored to maintain high operating rates and increase rents by strengthening our capabilities in terms of facilities and services in leased office buildings in addition to actively promoting leasing operations. We also concentrated efforts on attracting customers and increasing sales at Yebisu Garden Place and Sapporo Factory complex by holding a number of events and fairs and striving to improve services for customers. These efforts translated into a ¥0.3 billion increase in earnings in the leasing division, as higher income from office rents as well as cost reductions offset start-up costs associated with real estate development.

In the sports business, PAL Kawaguchi performed well in its first full year of operation. We also moved forward with new real estate development. September saw the completion of STRATA GINZA, a commercial building in Ginza, Tokyo, which has a hotel as its key tenant. Additionally, in November in Sapporo, Hokkaido, a new commercial and office building, FRONTIER-KAN, was added to Sapporo Factory complex; a fitness club and spa, PAL Sapporo, opened for business; and an extension to the SWING89 sports facility was completed.

OUTPERFORMING OUR PLAN

In 2007, we will strengthen our asset management capability to enhance the earnings power of our existing leasing business based on the basic strategy for the real estate business in the medium-term management plan. We will also actively conduct real estate development. Our aim is to proceed towards sustained expansion and growth in the real estate business at a faster pace than targeted in the medium-term management plan.

In the real estate leasing business, we will continue to maintain a high operating rate and to increase rents, particularly at Yebisu Garden Place and other properties in the Tokyo metropolitan area. The development properties completed last year will also contribute to earnings throughout 2007.

Real estate development will also be actively expanded to also include the seven properties transferred from the Alcoholic Beverages segment in January 2007. In March, as well as completing construction of two rental apartment buildings aimed at university students in Sendai, Miyagi Prefecture, and Fukuoka, Fukuoka Prefecture, we are promoting a plan to utilize land surrounding Sapporo Garden Park in Sapporo, Hokkaido.

Also, in non-asset based businesses such as sports, we will develop an approach for future business expansion as we strive to strengthen our business base.

STRATA GINZA

STRATA GINZA, a commercial building built on the site of the old Sapporo Breweries headquarters, was completed in September 2006, with a hotel as its key tenant. There are restaurants on the basement floor, retail outlets on floors 1 and 2 and floors 3 to 13 are occupied by the Washington Hotel, run by Fujita Kanko Inc. It is complete with an 80-vehicle capacity automated car park. This new building is situated in the 7-chome address in Tokyo's Ginza district, Japan's foremost shopping and entertainment district. As this places it in a prime position bordering the Ginza 4-chome and Shiodome areas, a healthy number of visitors is expected.

OPENING OF FRONTIER-KAN AND FITNESS CLUB AND SPA, PAL SAPPORO

FRONTIER-KAN, a project undertaken by Yebisu Garden Place Co., Ltd., was opened as part of the Sapporo Factory complex in Sapporo, Hokkaido, in November 2006. The name FRONTIER-KAN expresses the fact that the Sapporo Factory complex stands on the site that was the birthplace of beer in Japan as well as representing future development. The building houses a grocery supermarket on the first floor, retail outlets on the second floor, office space on the third and fourth floors and a large visitor car park with a capacity of 550 vehicles on floors 5 to 9.

At the same time, we added two tennis courts to the directly operated SWING89 sports club and opened a new adjacent facility, PAL Sapporo, a fitness club and spa. The relaxed atmosphere combined with large numbers of the latest exercise machines has attracted more members than initially planned, mainly from the local area.


FRONTIER-KAN


PAL Sapporo

MANAGEMENT
(As of March 30, 2007)

BOARD OF DIRECTORS

Takao Murakami
President and Representative Director, Group CEO

Shinji Saito
Representative Director and Executive Managing Director

Yoshiyuki Mochida
Managing Director

Hiroaki Eto
Director *

Tetsuo Seki
Director*

Tsutomu Kamijo
Director

Masaru Fukunaga
Director

Kazuo Ushio
Director

BOARD OF CORPORATE AUDITORS

Satoshi Noguchi
Isao Takehara **
Norio Henmi **
Kazunori Kai

* Outside Director
** Outside Auditor

FIVE-YEAR SUMMARY

Years ended December 31

	Millions of yen				
	2006	2005	2004	2003	2002
Net sales	**¥435,090**	¥453,671	¥494,930	¥479,520	¥511,752
Alcoholic Beverages	**326,420**	341,077	364,585	341,924	374,524
Soft Drinks	**58,731**	63,897	69,324	65,169	70,512
Restaurants	**26,995**	26,331	26,611	26,591	28,050
Real Estate	**22,828**	21,696	22,506	33,430	24,999
Other	**116**	670	11,904	12,406	13,667
Operating cost and expenses	**426,477**	443,371	471,282	466,189	500,774
Operating income	**8,613**	10,300	23,648	13,331	10,978
Income (loss) before income taxes and minority interests	**3,978**	6,573	7,762	2,270	(3,349)
Net income	**2,338**	3,630	4,643	2,413	1,168
	Yen				
Per share:					
Net income:					
Primary	**¥ 6.38**	¥ 10.20	¥ 13.07	¥ 6.95	¥ 3.45
Diluted	**5.88**	9.18	12.01	–	–
Shareholders' equity	**300.13**	305.00	259.81	245.80	314.69
Cash dividends	**5.00**	5.00	5.00	5.00	5.00
	Millions of yen				
Year-end data:					
Net assets	**¥113,496**	¥111,411	¥ 92,263	¥ 87,364	¥106,527
Total assets	**589,597**	563,845	602,112	630,637	717,486
Financial liabilities	**236,033**	220,723	289,854	323,369	384,303
ROE (%)	**2.1**	3.6	5.2	2.5	1.1
Capital expenditures	**30,790**	16,218	10,269	10,081	13,640
Depreciation and amortization	**21,930**	22,075	25,330	28,435	31,463

SAPPORO HOLDINGS LIMITED AND THE SAPPORO GROUP

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

In terms of the scope of consolidation, the Company had 28 consolidated subsidiaries and 5 equity-method affiliates in the year ended December 31, 2006.

OPERATIONAL OVERVIEW

The Japanese economy in the term under review continued expanding at a moderate pace amid rising capital expenditures supported by solid conditions in export industries and steadily improving corporate earnings. Personal consumption, on the other hand, remained slack despite an improving trend in employment.

In the industries in which the Sapporo Group is active, including alcoholic beverages, soft drinks, and restaurants, a bipolarization in consumption patterns and an increased awareness for health, food safety, and environmental issues have taken root, giving rise to the need to respond to diversifying customer needs. In the alcoholic beverages industry, the Group's mainstay business domain, amid increasingly fierce competition, total demand continues to contract in line with the declining size of the demographic segments the industry is targeting. In the real estate industry, on the other hand, rent levels continue to climb with the focus on large buildings in central metropolitan locations.

CONSOLIDATED OPERATING RESULTS

Net Sales

Net sales declined ¥18,581 million, or 4.1%, to ¥435,090 million. By business segment, Alcoholic Beverages saw a 4.3% decline in operating revenues to ¥326,420 million due to a large drop in total sales volume for beer, *Happo-shu* and new product genres, despite the boost given by the inclusion of sales from the newly entered *shochu* business. The Soft Drinks segment recorded an 8.1% decline in operating revenues to ¥58,731 million due to lower sales volumes, partly as a result of actions taken to review low-margin transactions. Operating revenues in the Restaurants segment rose 2.5% year on year to ¥26,995 million on strong sales at existing restaurants and the benefits of new openings. The Real Estate segment continued to grow, posting a year-on-year increase in operating revenues of 5.2% to ¥22,828 million. Sales in the Other business segment dropped 82.7% to ¥116 million because some operations were reclassified into the Real Estate segment and Sapporo Florist Co., Ltd. was sold in 2006.

Cost of Sales

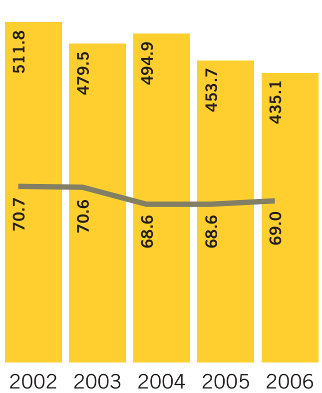
The cost of sales declined ¥11,069 million, or 3.6%, from 2005 to ¥300,122 million in line with the decrease in net sales. The cost of sales ratio increased 0.4 of a percentage point to 69.0%, due in part to a drop in manufacturing efficiency resulting from lower production volumes.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses declined ¥5,825 million, or 4.4%, to ¥126,355 million, despite a ¥1,516 million

NET SALES AND COST OF SALES RATIO

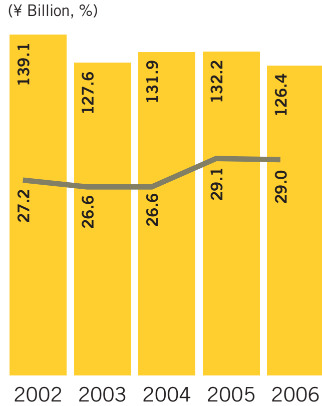
(¥ Billion, %)



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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES AND PERCENTAGE OF NET SALES

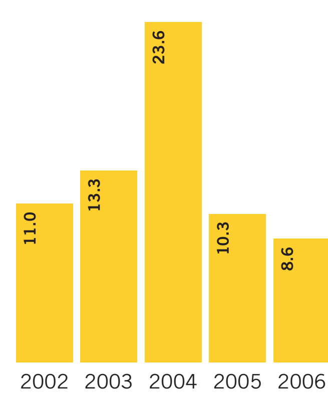
(¥ Billion, %)



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

OPERATING INCOME

(¥ Billion)



year-on-year increase in sales incentives and commissions caused mainly by entry into the *shochu* business. The main reason for the overall decrease was a ¥3,864 million reduction in advertising and promotion expenses achieved through a review of expenditures.

Operating Income

Operating income dropped ¥1,687 million, or 16.4%, to ¥8,613 million.

Other Income (Expenses)

Other expenses increased ¥908 million to ¥4,635 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 ¥2,127 million, compared with ¥2,672 million in expenses in 2005. The substantial improvement reflected a large decrease in the average balance of borrowings during the fiscal year. There was, however, an increase in financial liabilities at the end of the year, as the Company aggressively conducted M&As and took other actions.

The Company booked a ¥952 million loss on disposal of inventories, but this was ¥232 million less than a year earlier, the result of measures to tightly manage inventories in the Soft Drinks business.

The Company recorded a ¥2,222 million gain on sales of investment securities. To provide funds for M&As and other strategic investments, the Company reduced assets based on a consideration of investment return profiles by selling securities issued by listed and other companies.

On the other hand, a loss on sales and disposal of property, plant and equipment and intangibles, net of ¥2,450 million was recorded. The loss on disposal related to production facilities.

The Company also booked impairment losses of ¥1,785 million. Impairment losses were recognized with respect to property where recovery of investment is expected to be difficult following a review of classifications for management accounting purposes, property where there has been a fall in fair value, and property that the Company has decided to stop using.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests declined ¥2,595 million, or 39.5%, to ¥3,978 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, and deferred income taxes, totaled ¥1,642 million. The effective tax rate for income before income taxes and minority interests was 41.3%. The 0.6 percentage point difference from the statutory tax rate of 40.7% was mainly due to deferred income taxes.

As a result, net income was ¥2,338 million, down 35.6% year on year.

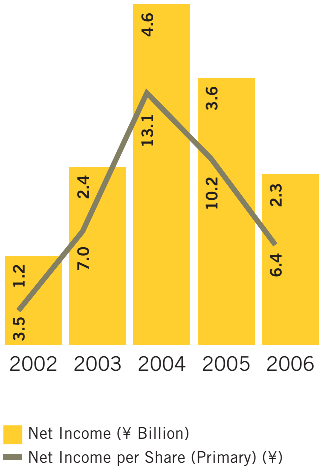
SEGMENT INFORMATION

Alcoholic Beverages

Total demand for beer, *Happo-shu* and new product genres in 2006 was estimated to be about 1% lower year on year, with beer dropping 2% and *Happo-shu* around 10%, while new product genres saw an approximate 21% increase. Against this market backdrop, the following results were posted and marketing initiatives taken.

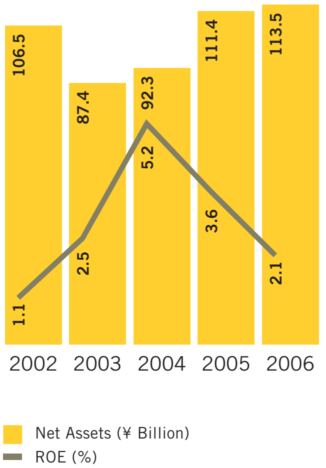
NET INCOME AND NET INCOME PER SHARE (PRIMARY)

(¥ Billion, ¥)



NET ASSETS AND ROE

(¥ Billion, %)



With *Yebisu* brand products, overall sales volume was a record, increasing 3% year on year. In addition, their share of total beer demand increased for the 14th consecutive year. A highlight of the past year was the enormous market response to *Kohaku Yebisu*, a limited offering that eclipsed sales targets.

With *Sapporo Black Label*, we conducted marketing activities for this flagship product to promote the appeal of our Collaborative Contract Farming System (CCFS) and the emphasis we place on the quality of ingredients. Notwithstanding these efforts, sales volume was down 7% year on year.

Imported *Guinness* beer continued to perform strongly, delivering 2% growth in sales and setting a new sales record for the sixth year in a row.

In *Happo-shu*, while sales were affected by new product genres, *Shizuku <Nama>*, which went on sale in May 2006, sold well. Overall, *Happo-shu* sales volume was down 9%, but this fall was not as large as the decline in the market overall.

In new product genres, which the Sapporo Group pioneered, competition is intensifying. As a result, sales volume dipped 24% year on year, with sales affected by consumers trying out the new products rolled out by other companies. However, mainstay *Draft One* turned in healthy sales growth following its relaunch in September, firmly establishing its position in this category.

All told, total sales volume for beer, *Happo-shu* and new product genres was 10% lower year on year.

In wine operations, in March, we launched a wine naturally rich in polyphenols and organic acids with positive benefits for people's health in the rapidly expanding market in Japan for products containing no antioxidant additives. This wine won strong acceptance from the market. Furthermore, premium domestic wine *Grand Polaire* became the only wine to pick up a gold award four years in a row in the Japan Wine Competition. In imported wines, we worked to strengthen main brands such as *Yellow Tail*, *Beringer* and *La Cuvee Mythique*. In parallel, active steps were taken to respond to the growing sparkling wine market. Combined sales volumes of domestic and imported wines were on a par with 2005.

In April 2006, Sapporo Breweries entered the *shochu* (Japanese distilled spirits) business as part of the Group's medium-term management plan. Aggressive sales activities were conducted centered on main brands *Triangle* and *Triangle Indigo* in the *korui-shochu* category and wheat-based *Waramugi* and sweet potato-based *Karari-Imo* in the *honkaku-shochu* category. Overall, these activities generated sales in monetary terms of ¥7.2 billion.

Segment operating revenues declined ¥14,657 million, or 4.3%, year on year to ¥326,420 million, reflecting in part a large decline in sales volumes in new product genres. Segment operating income decreased ¥2,371 million, or 36.2%, to ¥4,184 million due to the lower operating revenues, despite reducing selling expenses, manufacturing costs and other costs.

Soft Drinks

The soft drinks market in Japan in 2006 is estimated to have contracted about 1% year on year due to the combined effects of unsettled weather during the summer and negative growth in the green tea sector, which had expanded for a number of years. Total demand was supported mainly by mineral water and vegetable juice drinks.

Against this market backdrop, we worked to reach more customers through efforts to nurture and strengthen core brands, namely *Yebisu Sabo*, *Gabunomi* and *Ribbon*. In addition, we broadened the lineup of *Ocean Spray Cranberry* products as a key product line with health benefits and different from anything else on the market. This was tied in with TV commercials and various marketing campaigns. These efforts paid off by generating higher sales and establishing the product line in the market. Nevertheless, sales volume declined year on year due to lower sales in the oolong tea and canned coffee categories, as well as steps taken to address low-margin transactions.

The current medium-term management plan targeted cost reductions as the key priority in its first year in this segment. Progress was made according to plan with a measure of success achieved in this regard. The success of these cost-reduction efforts enabled the segment to deliver improved earnings as the benefits of cost reductions countered the effects of lower sales volumes, poorer transportation efficiency resulting from higher sales of products sold in large containers and the high cost of sugar, juice and other raw materials, all of which impact earnings.

As a whole, the segment recorded a ¥5,166 million, or 8.1%, decline to ¥58,731 million in operating revenues. While the segment posted an operating loss of ¥426 million, this was ¥267 million less than a year earlier.

Restaurants

The restaurant industry grew steadily during the past year on the back of an upturn in the amount spent per customer in all formats. However, some sluggishness was seen through the end of the year due to the fallout from a string of drink-driving accidents in Japan and other factors. Although there was an increase in the number of restaurants in the Japanese *izakaya* dining format, same-restaurant sales were lower than the previous year. All in all, the market could be characterized as fiercely competitive.

In this competitive landscape, the Restaurants segment worked to achieve higher earnings at existing establishments and higher sales on the back of the aggressive opening of new restaurants.

With regards to existing restaurants, sales increased for the third year running as efforts were made to set our operations apart from other *izakaya* chains through improvements to menus and the quality of service. However, rising personnel expenses stemming from difficulties with recruitment and an increase in the number of part-time staff joining the social insurance system pressured earnings.

With regards to new openings, we opened a total of 13 restaurants during 2006, including *Kakoiya* and *Tomoru*. However, because many of the new restaurants were opened in the second half of 2006 they didn't make a major contribution to earnings given the limited number of trading days. At the same time as opening new restaurants, we closed 20 locations for various reasons such as the rebuilding of tenanted buildings and declining customer numbers. As a result, we had 195 restaurants at the end of December 2006.

Segment operating revenues were ¥26,995 million, up ¥664 million, or 2.5%, year on year. However, operating income dropped ¥94 million, or 17.0%, to ¥457 million.

Real Estate

In the real estate industry in the past year, occupancy rates for office buildings, chiefly in the Tokyo metropolitan area, were high and stable and rents rose, particularly for large buildings in central Tokyo. On the other hand, market conditions in regional cities remained sluggish as a whole.

Under these circumstances, we took steps to strengthen capabilities in terms of facilities and services at leased office buildings, especially Yebisu Garden Place. At the same time, we worked to maintain high operating rates and raise rents in leasing activities. At Yebisu Garden Place and Sapporo Factory complex, the focus was on attracting customers and increasing sales. Actions in this regard included holding a variety of events and fairs and upgrading services for customers. On the cost front, while energy, personnel, building and certain other expenses increased, we implemented measures to cut costs such as by conserving energy.

In the sports business, Sapporo Sports Plaza PAL Kawaguchi made its first full-year contribution to results in the past year and is performing well.

In other news, we made progress with new real estate developments. Construction of STRATA GINZA, a commercial building with a hotel as the anchor tenant, was completed in September in the Ginza district of Chuo Ward, Tokyo. The following November saw the opening of FRONTIER-KAN, a new commercial and office building that is part of Sapporo Factory complex in Sapporo. We also opened PAL Sapporo, a fitness club and spa, and completed an extension to the SWING89 sports facility the same month.

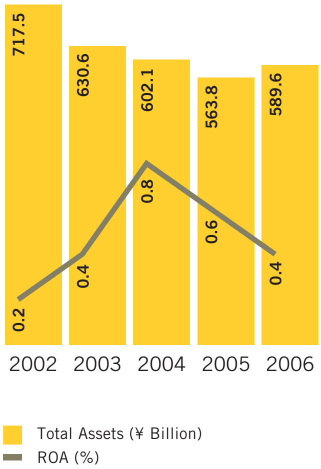
Due to higher rental income in real estate leasing operations and sales of real estate for sale, the Real Estate segment recorded operating revenues of ¥22,828 million, up ¥1,132 million, or 5.2%. Segment operating income was ¥6,414 million, up ¥574 million, or 9.8%.

(Millions of yen)

	Operating Revenues	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures
Alcoholic Beverages	326,420	4,184	13,473	20,224
Soft Drinks	58,731	(426)	285	1,020
Restaurants	26,995	457	648	1,108
Real Estate	22,828	6,414	7,523	8,438

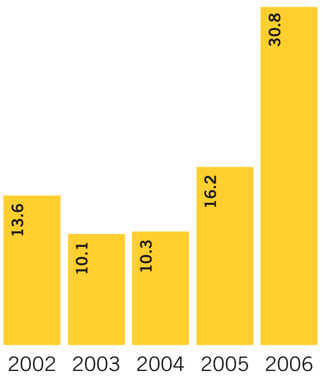
TOTAL ASSETS AND ROA

(¥ Billion, %)



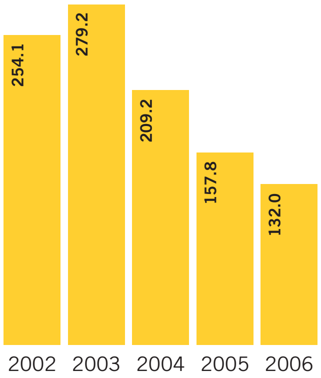
CAPITAL EXPENDITURES

(¥ Billion)



LONG-TERM DEBT

(¥ Billion)



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 to preserve fund liquidity, while flexible and efficient fund allocation within the Group serves to minimize financial liabilities.

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

Assets

Property, plant and equipment, net increased by ¥15,957 million to ¥356,728 million and intangibles rose ¥31,340 million to ¥33,349 million due to the conduct of aggressive M&A activities, including the acquisition of Sleeman Breweries Ltd. and the purchase of a *shochu* business. Conversely, cash and cash equivalents and time deposits decreased ¥16,526 million to ¥8,916 million for the same reason. Overall, total assets increased 4.6% to ¥589,597 million from a year ago.

Liabilities

Financial liabilities increased ¥15,310 million to ¥236,033 million due to the procurement of funds through borrowing to finance the acquisition of Sleeman Breweries. Total liabilities increased 5.2% to ¥476,101 million.

Net Assets

Common stock and capital surplus each rose ¥3,470 million due to the exercise of stock acquisition rights attached to corporate bonds. Meanwhile, retained earnings increased ¥510 million to ¥10,473 million. Furthermore, the application of fair market accounting for financial instruments resulted in a ¥5,184 million decrease in unrealized holding gain on securities to ¥11,318 million. As a result, net assets increased ¥2,085 million to ¥113,496 million.

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The equity ratio declined from 19.8% to 19.2% in line with the increase in total assets.

Return on equity (ROE) declined from 3.6% to 2.1%, reflecting the 35.6% drop in net income from the previous year and increase in shareholders' equity.

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The Company is forecasting net sales of ¥484,000 million, up 11% from 2006, and a ¥962 million, or 41%, increase in net income to ¥3,300 million.

Regarding the annual dividend, the Company plans to set it at ¥5.0 per share, the same as in 2006. This is in accordance with the Company's basic policy, which is to maintain a stable dividend while taking into consideration factors such as operating results and financial condition, as it emphasizes an appropriate return of profits to shareholders.

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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, 2006.

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Dilution of Share Value

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

FIVE-YEAR SUMMARY

Years ended December 31

	Millions of yen				
	2006	2005	2004	2003	2002
Net sales	**¥435,090**	¥453,671	¥494,930	¥479,520	¥511,752
Alcoholic Beverages	**326,420**	341,077	364,585	341,924	374,524
Soft Drinks	**58,731**	63,897	69,324	65,169	70,512
Restaurants	**26,995**	26,331	26,611	26,591	28,050
Real Estate	**22,828**	21,696	22,506	33,430	24,999
Other	**116**	670	11,904	12,406	13,667
Operating cost and expenses	**426,477**	443,371	471,282	466,189	500,774
Operating income	**8,613**	10,300	23,648	13,331	10,978
Income (loss) before income taxes and minority interests	**3,978**	6,573	7,762	2,270	(3,349)
Net income	**2,338**	3,630	4,643	2,413	1,168
	Yen				
Per share:					
Net income:					
Primary	**¥ 6.38**	¥ 10.20	¥ 13.07	¥ 6.95	¥ 3.45
Diluted	**5.88**	9.18	12.01	–	–
Shareholders' equity	**300.13**	305.00	259.81	245.80	314.69
Cash dividends	**5.00**	5.00	5.00	5.00	5.00
	Millions of yen				
Year-end data:					
Net assets	**¥113,496**	¥111,411	¥ 92,263	¥ 87,364	¥106,527
Total assets	**589,597**	563,845	602,112	630,637	717,486
Financial liabilities	**236,033**	220,723	289,854	323,369	384,303
ROE (%)	**2.1**	3.6	5.2	2.5	1.1
Capital expenditures	**30,790**	16,218	10,269	10,081	13,640
Depreciation and amortization	**21,930**	22,075	25,330	28,435	31,463

SAPPORO HOLDINGS LIMITED AND THE SAPPORO GROUP

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

In terms of the scope of consolidation, the Company had 28 consolidated subsidiaries and 5 equity-method affiliates in the year ended December 31, 2006.

OPERATIONAL OVERVIEW

The Japanese economy in the term under review continued expanding at a moderate pace amid rising capital expenditures supported by solid conditions in export industries and steadily improving corporate earnings. Personal consumption, on the other hand, remained slack despite an improving trend in employment.

In the industries in which the Sapporo Group is active, including alcoholic beverages, soft drinks, and restaurants, a bipolarization in consumption patterns and an increased awareness for health, food safety, and environmental issues have taken root, giving rise to the need to respond to diversifying customer needs. In the alcoholic beverages industry, the Group's mainstay business domain, amid increasingly fierce competition, total demand continues to contract in line with the declining size of the demographic segments the industry is targeting. In the real estate industry, on the other hand, rent levels continue to climb with the focus on large buildings in central metropolitan locations.

CONSOLIDATED OPERATING RESULTS

Net Sales

Net sales declined ¥18,581 million, or 4.1%, to ¥435,090 million. By business segment, Alcoholic Beverages saw a 4.3% decline in operating revenues to ¥326,420 million due to a large drop in total sales volume for beer, *Happo-shu* and new product genres, despite the boost given by the inclusion of sales from the newly entered *shochu* business. The Soft Drinks segment recorded an 8.1% decline in operating revenues to ¥58,731 million due to lower sales volumes, partly as a result of actions taken to review low-margin transactions. Operating revenues in the Restaurants segment rose 2.5% year on year to ¥26,995 million on strong sales at existing restaurants and the benefits of new openings. The Real Estate segment continued to grow, posting a year-on-year increase in operating revenues of 5.2% to ¥22,828 million. Sales in the Other business segment dropped 82.7% to ¥116 million because some operations were reclassified into the Real Estate segment and Sapporo Florist Co., Ltd. was sold in 2006.

Cost of Sales

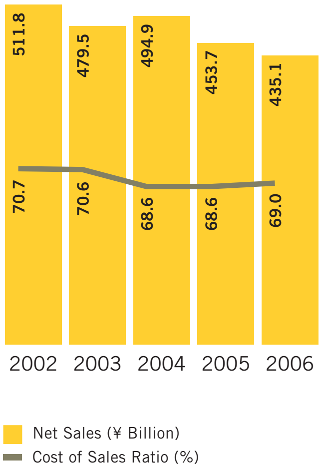
The cost of sales declined ¥11,069 million, or 3.6%, from 2005 to ¥300,122 million in line with the decrease in net sales. The cost of sales ratio increased 0.4 of a percentage point to 69.0%, due in part to a drop in manufacturing efficiency resulting from lower production volumes.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses declined ¥5,825 million, or 4.4%, to ¥126,355 million, despite a ¥1,516 million

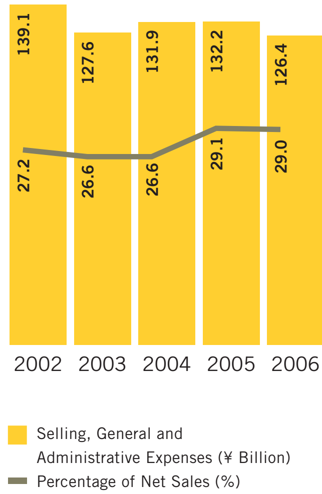
NET SALES AND COST OF SALES RATIO

(¥ Billion, %)



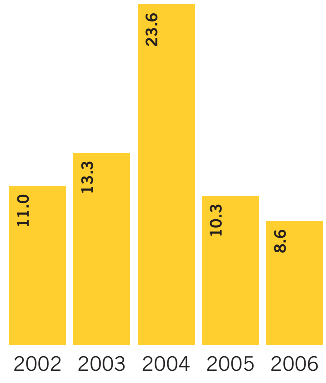
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES AND PERCENTAGE OF NET SALES

(¥ Billion, %)



OPERATING INCOME

(¥ Billion)



year-on-year increase in sales incentives and commissions caused mainly by entry into the *shochu* business. The main reason for the overall decrease was a ¥3,864 million reduction in advertising and promotion expenses achieved through a review of expenditures.

Operating Income

Operating income dropped ¥1,687 million, or 16.4%, to ¥8,613 million.

Other Income (Expenses)

Other expenses increased ¥908 million to ¥4,635 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 ¥2,127 million, compared with ¥2,672 million in expenses in 2005. The substantial improvement reflected a large decrease in the average balance of borrowings during the fiscal year. There was, however, an increase in financial liabilities at the end of the year, as the Company aggressively conducted M&As and took other actions.

The Company booked a ¥952 million loss on disposal of inventories, but this was ¥232 million less than a year earlier, the result of measures to tightly manage inventories in the Soft Drinks business.

The Company recorded a ¥2,222 million gain on sales of investment securities. To provide funds for M&As and other strategic investments, the Company reduced assets based on a consideration of investment return profiles by selling securities issued by listed and other companies.

On the other hand, a loss on sales and disposal of property, plant and equipment and intangibles, net of ¥2,450 million was recorded. The loss on disposal related to production facilities.

The Company also booked impairment losses of ¥1,785 million. Impairment losses were recognized with respect to property where recovery of investment is expected to be difficult following a review of classifications for management accounting purposes, property where there has been a fall in fair value, and property that the Company has decided to stop using.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests declined ¥2,595 million, or 39.5%, to ¥3,978 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, and deferred income taxes, totaled ¥1,642 million. The effective tax rate for income before income taxes and minority interests was 41.3%. The 0.6 percentage point difference from the statutory tax rate of 40.7% was mainly due to deferred income taxes.

As a result, net income was ¥2,338 million, down 35.6% year on year.

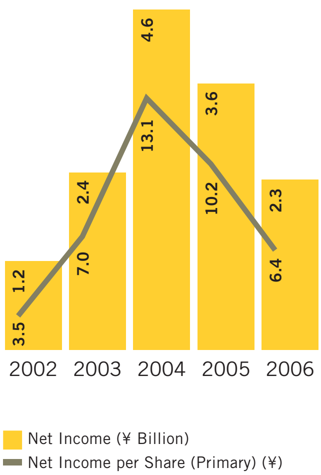
SEGMENT INFORMATION

Alcoholic Beverages

Total demand for beer, *Happo-shu* and new product genres in 2006 was estimated to be about 1% lower year on year, with beer dropping 2% and *Happo-shu* around 10%, while new product genres saw an approximate 21% increase. Against this market backdrop, the following results were posted and marketing initiatives taken.

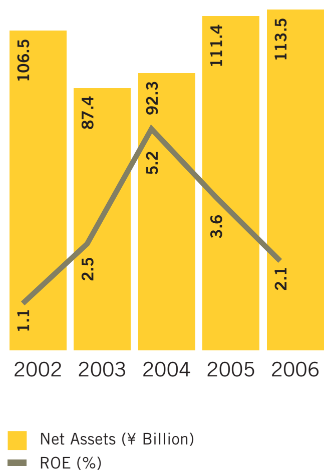
NET INCOME AND NET INCOME PER SHARE (PRIMARY)

(¥ Billion, ¥)



NET ASSETS AND ROE

(¥ Billion, %)



With *Yebisu* brand products, overall sales volume was a record, increasing 3% year on year. In addition, their share of total beer demand increased for the 14th consecutive year. A highlight of the past year was the enormous market response to *Kohaku Yebisu*, a limited offering that eclipsed sales targets.

With *Sapporo Black Label*, we conducted marketing activities for this flagship product to promote the appeal of our Collaborative Contract Farming System (CCFS) and the emphasis we place on the quality of ingredients. Notwithstanding these efforts, sales volume was down 7% year on year.

Imported *Guinness* beer continued to perform strongly, delivering 2% growth in sales and setting a new sales record for the sixth year in a row.

In *Happo-shu*, while sales were affected by new product genres, *Shizuku <Nama>*, which went on sale in May 2006, sold well. Overall, *Happo-shu* sales volume was down 9%, but this fall was not as large as the decline in the market overall.

In new product genres, which the Sapporo Group pioneered, competition is intensifying. As a result, sales volume dipped 24% year on year, with sales affected by consumers trying out the new products rolled out by other companies. However, mainstay *Draft One* turned in healthy sales growth following its relaunch in September, firmly establishing its position in this category.

All told, total sales volume for beer, *Happo-shu* and new product genres was 10% lower year on year.

In wine operations, in March, we launched a wine naturally rich in polyphenols and organic acids with positive benefits for people's health in the rapidly expanding market in Japan for products containing no antioxidant additives. This wine won strong acceptance from the market. Furthermore, premium domestic wine *Grand Polaire* became the only wine to pick up a gold award four years in a row in the Japan Wine Competition. In imported wines, we worked to strengthen main brands such as *Yellow Tail*, *Beringer* and *La Cuvee Mythique*. In parallel, active steps were taken to respond to the growing sparkling wine market. Combined sales volumes of domestic and imported wines were on a par with 2005.

In April 2006, Sapporo Breweries entered the *shochu* (Japanese distilled spirits) business as part of the Group's medium-term management plan. Aggressive sales activities were conducted centered on main brands *Triangle* and *Triangle Indigo* in the *korui-shochu* category and wheat-based *Waramugi* and sweet potato-based *Karari-Imo* in the *honkaku-shochu* category. Overall, these activities generated sales in monetary terms of ¥7.2 billion.

Segment operating revenues declined ¥14,657 million, or 4.3%, year on year to ¥326,420 million, reflecting in part a large decline in sales volumes in new product genres. Segment operating income decreased ¥2,371 million, or 36.2%, to ¥4,184 million due to the lower operating revenues, despite reducing selling expenses, manufacturing costs and other costs.

Soft Drinks

The soft drinks market in Japan in 2006 is estimated to have contracted about 1% year on year due to the combined effects of unsettled weather during the summer and negative growth in the green tea sector, which had expanded for a number of years. Total demand was supported mainly by mineral water and vegetable juice drinks.

Against this market backdrop, we worked to reach more customers through efforts to nurture and strengthen core brands, namely *Yebisu Sabo*, *Gabunomi* and *Ribbon*. In addition, we broadened the lineup of *Ocean Spray Cranberry* products as a key product line with health benefits and different from anything else on the market. This was tied in with TV commercials and various marketing campaigns. These efforts paid off by generating higher sales and establishing the product line in the market. Nevertheless, sales volume declined year on year due to lower sales in the oolong tea and canned coffee categories, as well as steps taken to address low-margin transactions.

The current medium-term management plan targeted cost reductions as the key priority in its first year in this segment. Progress was made according to plan with a measure of success achieved in this regard. The success of these cost-reduction efforts enabled the segment to deliver improved earnings as the benefits of cost reductions countered the effects of lower sales volumes, poorer transportation efficiency resulting from higher sales of products sold in large containers and the high cost of sugar, juice and other raw materials, all of which impact earnings.

As a whole, the segment recorded a ¥5,166 million, or 8.1%, decline to ¥58,731 million in operating revenues. While the segment posted an operating loss of ¥426 million, this was ¥267 million less than a year earlier.

Restaurants

The restaurant industry grew steadily during the past year on the back of an upturn in the amount spent per customer in all formats. However, some sluggishness was seen through the end of the year due to the fallout from a string of drink-driving accidents in Japan and other factors. Although there was an increase in the number of restaurants in the Japanese *izakaya* dining format, same-restaurant sales were lower than the previous year. All in all, the market could be characterized as fiercely competitive.

In this competitive landscape, the Restaurants segment worked to achieve higher earnings at existing establishments and higher sales on the back of the aggressive opening of new restaurants.

With regards to existing restaurants, sales increased for the third year running as efforts were made to set our operations apart from other *izakaya* chains through improvements to menus and the quality of service. However, rising personnel expenses stemming from difficulties with recruitment and an increase in the number of part-time staff joining the social insurance system pressured earnings.

With regards to new openings, we opened a total of 13 restaurants during 2006, including *Kakoiya* and *Tomoru*. However, because many of the new restaurants were opened in the second half of 2006 they didn't make a major contribution to earnings given the limited number of trading days. At the same time as opening new restaurants, we closed 20 locations for various reasons such as the rebuilding of tenanted buildings and declining customer numbers. As a result, we had 195 restaurants at the end of December 2006.

Segment operating revenues were ¥26,995 million, up ¥664 million, or 2.5%, year on year. However, operating income dropped ¥94 million, or 17.0%, to ¥457 million.

Real Estate

In the real estate industry in the past year, occupancy rates for office buildings, chiefly in the Tokyo metropolitan area, were high and stable and rents rose, particularly for large buildings in central Tokyo. On the other hand, market conditions in regional cities remained sluggish as a whole.

Under these circumstances, we took steps to strengthen capabilities in terms of facilities and services at leased office buildings, especially Yebisu Garden Place. At the same time, we worked to maintain high operating rates and raise rents in leasing activities. At Yebisu Garden Place and Sapporo Factory complex, the focus was on attracting customers and increasing sales. Actions in this regard included holding a variety of events and fairs and upgrading services for customers. On the cost front, while energy, personnel, building and certain other expenses increased, we implemented measures to cut costs such as by conserving energy.

In the sports business, Sapporo Sports Plaza PAL Kawaguchi made its first full-year contribution to results in the past year and is performing well.

In other news, we made progress with new real estate developments. Construction of STRATA GINZA, a commercial building with a hotel as the anchor tenant, was completed in September in the Ginza district of Chuo Ward, Tokyo. The following November saw the opening of FRONTIER-KAN, a new commercial and office building that is part of Sapporo Factory complex in Sapporo. We also opened PAL Sapporo, a fitness club and spa, and completed an extension to the SWING89 sports facility the same month.

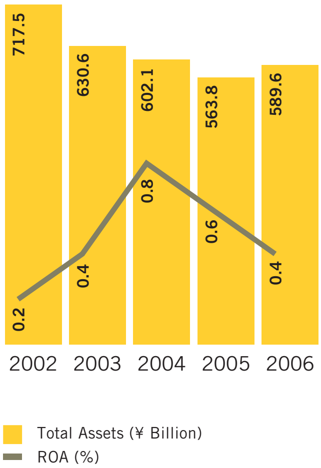
Due to higher rental income in real estate leasing operations and sales of real estate for sale, the Real Estate segment recorded operating revenues of ¥22,828 million, up ¥1,132 million, or 5.2%. Segment operating income was ¥6,414 million, up ¥574 million, or 9.8%.

(Millions of yen)

	Operating Revenues	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures
Alcoholic Beverages	326,420	4,184	13,473	20,224
Soft Drinks	58,731	(426)	285	1,020
Restaurants	26,995	457	648	1,108
Real Estate	22,828	6,414	7,523	8,438

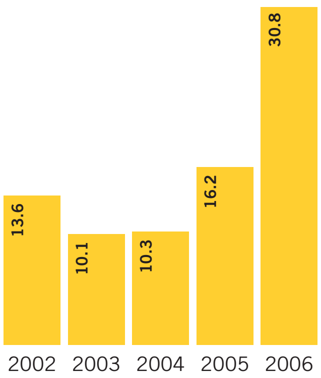
TOTAL ASSETS AND ROA

(¥ Billion, %)



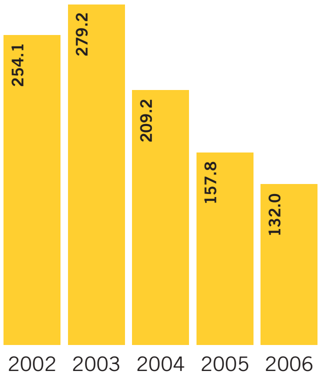
CAPITAL EXPENDITURES

(¥ Billion)



LONG-TERM DEBT

(¥ Billion)



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 to preserve fund liquidity, while flexible and efficient fund allocation within the Group serves to minimize financial liabilities.

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

Assets

Property, plant and equipment, net increased by ¥15,957 million to ¥356,728 million and intangibles rose ¥31,340 million to ¥33,349 million due to the conduct of aggressive M&A activities, including the acquisition of Sleeman Breweries Ltd. and the purchase of a *shochu* business. Conversely, cash and cash equivalents and time deposits decreased ¥16,526 million to ¥8,916 million for the same reason. Overall, total assets increased 4.6% to ¥589,597 million from a year ago.

Liabilities

Financial liabilities increased ¥15,310 million to ¥236,033 million due to the procurement of funds through borrowing to finance the acquisition of Sleeman Breweries. Total liabilities increased 5.2% to ¥476,101 million.

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

Dilution of Share Value

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

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current assets:			
Cash and cash equivalents	**¥ 8,282**	¥ 24,748	**$ 69,530**
Time deposits	**634**	694	**5,321**
Marketable securities (Note 4)	**63**	28	**527**
Notes and accounts receivable—trade	**73,616**	71,726	**617,997**
Less: Allowance for doubtful receivables	**(224)**	(302)	**(1,884)**
Inventories (Note 5)	**24,403**	21,927	**204,864**
Deferred tax assets (Note 11)	**2,068**	1,346	**17,361**
Refundable income taxes	**46**	2,712	**386**
Other current assets	**19,084**	17,214	**160,212**
Total current assets	**127,972**	140,093	**1,074,314**
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	**1,993**	1,345	**16,733**
Other	**40,090**	49,614	**336,547**
Long-term loans receivable	**10,451**	10,843	**87,734**
Less: Allowance for doubtful receivables	**(2,602)**	(2,861)	**(21,845)**
Deferred tax assets (Note 11)	**1,675**	1,536	**14,064**
Other investments	**19,941**	20,605	**167,402**
	71,548	80,972	**600,635**
Property, plant and equipment (Notes 6 and 7):			
Land	**71,333**	69,855	**598,830**
Buildings and structures	**402,617**	390,283	**3,379,931**
Accumulated depreciation	**(181,948)**	(173,275)	**(1,527,433)**
Machinery and vehicles	**212,682**	201,463	**1,785,442**
Accumulated depreciation	**(157,171)**	(155,187)	**(1,319,436)**
Construction in progress	**4,442**	3,672	**37,291**
Other	**21,982**	20,863	**184,537**
Accumulated depreciation	**(17,209)**	(16,903)	**(144,471)**
Property, plant and equipment, net	**356,728**	340,771	**2,994,691**
Intangibles	**33,349**	2,009	**279,967**
	¥ 589,597	¥ 563,845	**$ 4,949,607**

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

LIABILITIES AND NET ASSETS	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 36,632**	¥ 4,650	**$ 307,518**
Current portion of long-term debt (Note 7)	**67,376**	58,321	**565,614**
Notes and accounts payable:			
Trade	**28,930**	32,587	**242,864**
Construction	**11,025**	6,496	**92,549**
Liquor taxes payable	**38,276**	38,260	**321,327**
Income taxes payable (Note 11)	**1,526**	670	**12,809**
Accrued bonuses (Note 2 (j))	**764**	904	**6,416**
Deposits received	**52,148**	46,910	**437,776**
Other current liabilities	**32,209**	31,400	**270,394**
Total current liabilities	**268,886**	220,198	**2,257,267**
Long-term debt (Note 7)	**132,025**	157,752	**1,108,340**
Dealers' deposits for guarantees	**33,657**	33,961	**282,549**
Employees' retirement benefits (Note 10)	**16,302**	17,195	**136,852**
Directors' and corporate auditors' severance benefits	**118**	206	**994**
Deferred tax liabilities (Note 11)	**9,985**	7,668	**83,820**
Other long-term liabilities	**15,128**	15,454	**127,002**
Contingent liabilities (Note 13)			
Net assets			
Shareholders' equity:			
Common stock (Notes 8 and 16)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2006 379,617,498 shares	**50,066**	–	**420,300**
— at December 31, 2005 366,571,406 shares	**–**	46,596	**–**
Capital surplus	**42,485**	39,010	**356,654**
Retained earnings (Note 8)	**10,473**	9,963	**87,916**
Treasury stock, at cost	**(572)**	(461)	**(4,800)**
Total shareholders' equity	**102,452**	95,108	**860,070**
Valuation and translation adjustments			
Unrealized holding gain on securities	**11,318**	16,502	**95,014**
Foreign currency translation adjustments	**(276)**	(199)	**(2,321)**
Total valuation and translation adjustments	**11,042**	16,303	**92,693**
Minority interests	**2**	–	**20**
Total net assets	**113,496**	111,411	**952,783**
	¥589,597	¥563,845	**$4,949,607**

CONSOLIDATED STATEMENTS OF INCOME

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Net sales	**¥435,090**	¥453,671	¥494,930	**$3,652,538**
Operating cost and expenses:				
Cost of sales	**300,122**	311,191	339,426	**2,519,492**
Selling, general and administrative expenses	**126,355**	132,180	131,856	**1,060,743**
Operating income	**8,613**	10,300	23,648	**72,303**
Other income (expenses):				
Interest and dividend income	**916**	824	742	**7,687**
Interest expense	**(3,043)**	(3,496)	(4,864)	**(25,547)**
Other, net (Note 9)	**(2,508)**	(1,055)	(11,764)	**(21,051)**
Income before income taxes and minority interests	**3,978**	6,573	7,762	**33,392**
Income taxes (Note 11)**:**				
Current	**1,729**	29	3,672	**14,512**
Deferred	**(87)**	2,914	(615)	**(729)**
	1,642	2,943	3,057	**13,783**
Minority interests	**2**	–	(62)	**21**
Net income (Note 14)	**¥ 2,338**	¥ 3,630	¥ 4,643	**$ 19,630**

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)
	2006	2005	2004	**2006**
Common stock:				
Balance at beginning of year	**¥46,596**	¥43,832	¥43,832	**$391,168**
Conversion of convertible bonds.	**3,470**	2,764	–	**29,132**
Balance at end of year	**¥50,066**	¥46,596	¥43,832	**$420,300**
Capital surplus:				
Balance at beginning of year	**¥39,010**	¥36,242	¥36,232	**$327,487**
Conversion of convertible bonds.	**3,470**	2,764	–	**29,132**
Gain on decrease in treasury stock	**5**	4	10	**35**
Balance at end of year	**¥42,485**	¥39,010	¥36,242	**$356,654**
Retained earnings (Note 8)**:**				
Balance at beginning of year	**¥ 9,963**	¥ 8,108	¥ 4,953	**$ 83,635**
Net income	**2,338**	3,630	4,643	**19,630**
Increase resulting from inclusion of newly consolidated subsidiary	**–**	–	126	**–**
Increase resulting from initial application of equity method	**–**	–	190	**–**
Cash dividends	**(1,826)**	(1,775)	(1,778)	**(15,333)**
Decrease resulting from change in fiscal year-end of consolidated subsidiary	**(2)**	–	(26)	**(16)**
Balance at end of year	**¥10,473**	¥ 9,963	¥ 8,108	**$ 87,916**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (461)**	¥ (337)	¥ (199)	**$ (3,874)**
Net increase	**(111)**	(124)	(138)	**(926)**
Balance at end of year	**¥ (572)**	¥ (461)	¥ (337)	**$ (4,800)**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥16,502**	¥ 4,804	¥ 2,895	**$138,535**
Net change during the year	**(5,184)**	11,698	1,909	**(43,521)**
Balance at end of year	**¥11,318**	¥16,502	¥ 4,804	**$ 95,014**
Foreign currency translation adjustments (Note 2 (m))**:**				
Balance at beginning of year	**¥ (199)**	¥ (386)	¥ (349)	**$ (1,669)**
Net change during the year	**(77)**	187	(37)	**(652)**
Balance at end of year	**¥ (276)**	¥ (199)	¥ (386)	**$ (2,321)**
Minority interests:				
Balance at beginning of year	**¥ –**	¥ –	¥ –	**$ –**
Net change during the year	**2**	–	–	**20**
Balance at end of year	**¥ 2**	¥ –	¥ –	**$ 20**

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)
	2006	2005	2004	**2006**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 3,978**	¥ 6,573	¥ 7,762	**$ 33,392**
Depreciation and amortization	**21,930**	22,075	25,330	**184,099**
Loss on impairment of property, plant and equipment and leased assets	**1,785**	838	6,032	**14,987**
(Decrease) increase in employees' retirement benefits	**(893)**	537	148	**(7,499)**
(Decrease) Increase in allowance for doubtful receivables	**(274)**	20	252	**(2,296)**
Interest and dividend income	**(916)**	(824)	(742)	**(7,687)**
Interest expense	**3,041**	3,496	4,864	**25,531**
Gain on sales of property, plant and equipment	**(70)**	(2,729)	(2,410)	**(585)**
Loss on sales and disposal of property, plant and equipment	**2,520**	3,160	11,480	**21,152**
Gain on sales of investment securities	**(2,222)**	(1,277)	(454)	**(18,650)**
Loss on devaluation of investment securities	**218**	400	642	**1,829**
Gain on sale of consolidated subsidiary	**(102)**	–	–	**(854)**
Loss from provision for cost reduction of fixed assets	**–**	279	–	**0**
Gain on sale of business (The Westin Tokyo)	**–**	–	(6,820)	**0**
Decrease (increase) in notes and accounts receivable	**1,656**	8,139	(6,902)	**13,900**
Decrease in inventories	**621**	1,127	1,698	**5,212**
Decrease (increase) in notes and accounts payable	**(5,264)**	(2,234)	3,590	**(44,192)**
Decrease in liquor taxes payable	**(515)**	(5,119)	(313)	**(4,322)**
Increase (decrease) in deposits received	**5,237**	19,463	(2,382)	**43,968**
Decrease (increase) in other current liabilities	**(1,874)**	(1,810)	762	**(15,734)**
Other	**126**	(5,739)	(2,799)	**1,049**
Subtotal	**28,982**	46,375	39,738	**243,300**
Interest and dividends received	**883**	822	713	**7,409**
Interest paid	**(3,153)**	(3,591)	(5,131)	**(26,466)**
Income taxes paid	**(409)**	(5,104)	(3,078)	**(3,432)**
Income taxes refundable	**2,286**	575	–	**19,187**
Net cash provided by operating activities	**28,589**	39,077	32,242	**239,998**
Cash flows from investing activities:				
Net increase in time deposit	**(15)**	(608)	–	**(120)**
Purchases of investment securities	**(947)**	(634)	(362)	**(7,954)**
Proceeds from sales of investment securities	**2,777**	2,236	1,151	**23,309**
Purchases of affiliate's securities	**(894)**	–	–	**(7,505)**
Purchases of newly consolidated subsidiaries	**(31,177)**	–	–	**(261,723)**
Proceeds from sale of business (The Westin Tokyo)	**–**	–	49,660	**0**
Purchases of property, plant and equipment	**(18,516)**	(10,718)	(7,757)	**(155,442)**
Proceeds from sales of property, plant and equipment	**69**	6,922	9,423	**583**
Purchases of intangibles	**(3,299)**	(1,786)	(594)	**(27,696)**
Increase in long-term loans receivable	**(30)**	(647)	(602)	**(250)**
Collection of long-term loans receivable	**500**	568	4,528	**4,197**
Other	**(2,883)**	(3,008)	(2,133)	**(24,202)**
Net cash (used in) provided by investing activities	**(54,415)**	(7,675)	53,314	**(456,803)**
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	**30,526**	–	(636)	**256,263**
Proceeds from long-term debt	**9,200**	12,500	6,107	**77,233**
Repayment of long-term debt	**(48,321)**	(36,130)	(33,990)	**(405,651)**
Proceeds from issuance of bonds	**29,885**	–	20,100	**250,881**
Redemption of bonds	**(10,000)**	(40,000)	(20,000)	**(83,949)**
Cash dividends paid	**(1,832)**	(1,783)	(1,772)	**(15,377)**
Purchase of treasury stock	**(117)**	(132)	(167)	**(984)**
Proceeds from sales of treasury stock	**11**	12	21	**93**
Other	**–**	–	(5,081)	**–**
Net cash provided by (used in) financing activities	**9,352**	(65,533)	(35,418)	**78,509**
Effect of exchange rate changes on cash and cash equivalents	**7**	174	(37)	**63**
Net decrease (increase) in cash and cash equivalents	**(16,467)**	(33,957)	50,101	**(138,233)**
Cash and cash equivalents at beginning of year	**24,749**	58,706	8,455	**207,762**
Cash and cash equivalents of additional consolidated subsidiaries	**0**	–	126	**1**
Cash and cash equivalents of subsidiaries excluded from consolidation	**–**	–	(0)	**–**
Increase in cash and cash equivalents upon change in fiscal year-end of consolidated subsidiaries	**–**	–	24	**–**
Cash and cash equivalents at end of year	**¥ 8,282**	¥ 24,749	¥ 58,706	**$ 69,530**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

The relevant notes 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, 2004 and 2005 to the 2006 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2006 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥119.12=U.S.$1.00, the exchange rate prevailing on December 31, 2006.

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, 2006, 15 additional subsidiaries have been included within the scope of consolidation, reflecting the acquisition of their investment securities, the establishment of new companies and the increase in materiality, and 1 consolidated subsidiary has been excluded from the scope of consolidation, reflecting the sale of investment securities. The acquisition date for consolidation of 12 subsidiaries is December 31, 2006. Accordingly, the number of consolidated subsidiaries has increased to 28. However, as the effect of this change was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2006 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 four affiliates for the years ended December 31, 2005 and 2004 and in five affiliates for the years ended December 31, 2006 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.

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

(k) Employees' retirement benefits

Employees' retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized past service cost. The net retirement benefit obligation at transition is being amortized over a period of 11 years through 15 years by the straight-line method. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (10 years through 15 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (15 years).

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

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

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

(l) Directors' and corporate auditors' severance benefits

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

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

(m) Foreign currency translation

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

(n) Income taxes

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

(o) Research and development costs

Research and development costs are charged to income when incurred.

(p) Hedge accounting

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

(q) Leases

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

(r) Adopted the standard enterprise tax

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

3. Change in Method of Accounting

(Presentation of net assets in balance sheet)

The company adopted the "Accounting Standard for Presentation of Net Assets in Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and the "Accounting Standards Board of Japan Guidance No. 8, December 9, 2005" (Accounting Standards Board of Japan Guidance No. 8, December 9, 2005). The amount of shareholders' equity by the former accounting standards is ¥113,493 million.

(Accounting for deferred assets)

The company adopted the "Tentative solution on Accounting for Deferred Assets" (practical solutions No. 19, August 11, 2006). There is no effect for net income of this period regarding the adoption.

(Accounting for impairment of fixed assets)

The Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended December 31, 2004. The effect of the adoption of this new standard was to decrease income before income taxes and minority interests by ¥6,032 million for the year ended December 31, 2004. The cumulative amount of an impairment loss is deducted directly from the acquisition cost of the related fixed asset. The effect of this adoption on each segment is outlined in Note 16.

4. Marketable Securities and Investment Securities

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

No such securities existed at December 31, 2006 and 2005.

(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, 2006 and 2005 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2006	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥13,180**	**¥32,321**	**¥19,141**	**$110,644**	**$271,331**	**$160,687**
Debt securities	**4**	**5**	**1**	**30**	**42**	**12**
Other	**119**	**155**	**36**	**1,003**	**1,299**	**296**
Subtotal	**¥13,303**	**¥32,481**	**¥19,178**	**$111,677**	**$272,672**	**$160,995**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 927**	**¥ 833**	**¥ (94)**	**$ 7,784**	**$ 6,994**	**$ (790)**
Subtotal	**¥ 927**	**¥ 833**	**¥ (94)**	**$ 7,784**	**$ 6,994**	**$ (790)**
Total	**¥14,230**	**¥33,314**	**¥19,084**	**$119,461**	**$279,666**	**$160,205**

December 31, 2005	Millions of yen Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥14,347	¥42,114	¥27,767
Debt securities	4	5	1
Other	119	177	58
Subtotal	¥14,470	¥42,296	¥27,826
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 423	¥ 421	¥ (2)
Subtotal	¥ 423	¥ 421	¥ (2)
Total	¥14,893	¥42,717	¥27,824

(c) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Sales	**¥3,382**	¥2,099	¥1,198	**$28,390**
Gain on sales of securities	**2,222**	1,277	454	**18,650**
Loss on sales of securities	**–**	45	3	**–**

(d) The carrying value of securities whose fair value was not determinable at December 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 50**	¥ 40	**$ 416**
(2) Investments in subsidiaries and affiliates	**1,993**	1,238	**16,733**
(3) Other securities:			
Equity investments in unlisted companies	**5,247**	5,160	**44,048**
Domestic debt securities offered privately	**102**	134	**857**
Other	**1,440**	1,587	**12,087**

(e) The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
December 31, 2006	Due within one year	Due after one year, but within five years	Due within one year	Due after one year, but within five years
Debt securities:				
Government and municipal bonds	**¥28**	**¥ 74**	**$233**	**$ 624**
Corporate debt securities	**35**	**–**	**294**	**–**
Other	**–**	**100**	**–**	**839**
Other	**–**	**–**	**–**	**–**
Subtotal	**¥63**	**¥174**	**$527**	**$1,463**

5. Inventories

Inventories at December 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Finished goods and merchandise	**¥ 9,353**	¥ 7,643	**$ 64,732**
Real estate for sale	**22**	42	**361**
Work in process	**4,618**	4,261	**36,087**
Raw materials	**9,840**	9,331	**79,031**
Supplies	**570**	650	**5,503**
	¥24,403	¥21,927	**$185,714**

6. Loss on Impairment of Property, Plant and Equipment

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the years ended December 31, 2006 and 2005:

Year ended December 31, 2006

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd.	Warehouse of	Land	**¥ 943**	**$ 7,915**
KEIYO Physical Distribution Center	physical distribution	Buildings	**90**	**763**
(Narashino-shi, Chiba and one other)		Other	**7**	**57**
			¥1,040	**$ 8,735**
Sapporo Breweries Ltd.	Idle real estate	Land	**¥ 247**	**$ 2,076**
Idle real estate (Kitakanbara-gun, Niigata)				
			¥ 247	**$ 2,076**
Sapporo Logistics System Ltd.	Warehouse of	Buildings	**¥ 207**	**$ 1,741**
Sapporo Higashi Warehouse (Higashi-ku, Sapporo-shi)	physical distribution	Other	**19**	**156**
			¥ 226	**$ 1,897**
Sapporo Breweries Ltd.	Restaurants	Land	**¥ 9**	**$ 78**
Restaurants for lease (Eniwa-shi, Hokkaido and one other)	for lease	Buildings	**137**	**1,145**
			¥ 146	**$ 1,223**
Sapporo Lion Ltd.	Restaurants	Buildings	**¥ 84**	**$ 708**
Restaurants for business (Minato-ku, Tokyo and one other)	for operations	Other	**42**	**348**
			¥ 126	**$ 1,056**
			¥1,785	**$14,987**

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.

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

About the 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 the division in management accounting.

About the warehouses of physical distribution, Sapporo Higashi warehouse and others, 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 change in the way the asset is used.

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

The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flows discounted by 5.2%.

Year ended December 31, 2005

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Warehouse of	Land	¥314
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution		
			¥314
Sapporo Breweries Ltd.	Idle real estate	Land	¥208
Idle real estate (Kitakanbara-gun, Niigata)			
			¥208
Sapporo Logistics System Ltd.	Warehouse of	Leased assets	¥243
Komaki Warehouse (Komaki-shi, Aichi)	physical distribution	(Buildings)	
			¥243
Sapporo Breweries Ltd.	Restaurants	Land	¥ 7
Restaurants for lease (Iwamizawa-shi, Hokkaido and one other)	for lease	Buildings	23
			¥ 30
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 33
Restaurants for business (Chuo-ku, Tokyo)	for operations	Other	10
			¥ 43
			¥838

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.

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

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

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

Year ended December 31, 2004

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Warehouse of	Land	¥1,671
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution	Buildings	333
			¥2,004
Sapporo Breweries Ltd.	Idle real estate	Land	¥2,362
Idle real estate (Kitakanbara-gun, Niigata)		Buildings	139
			¥2,501

Year ended December 31, 2004

Location	Use	Classification	Millions of yen
Sapporo Logistics System Ltd.	Warehouse of	Leased assets	¥ 625
KOBE Warehouse (Suma-ku, Kobe-shi)	physical distribution	Buildings	123
			¥ 748
Sapporo Breweries Ltd.	Restaurants	Buildings	¥ 179
Restaurants for lease (Funabashi-shi, Chiba and one other)	for lease		
			¥ 179
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 487
Restaurants for business (Takasaki-shi, Gunma and 24 others)	for operations	Others	113
			¥ 600
			¥6,032

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

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

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

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

Short-term bank loans represent notes or overdrafts. The annual average interest rates applicable to short-term bank loans for the years ended December 31, 2006 and 2005 were 0.82% and 0.39%, respectively.

Long-term debt at December 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
1.2% convertible bonds due 2009	**¥ 19,720**	¥ 19,720	**$ 165,548**
0.86% bonds due 2006	**–**	10,000	**–**
1.27% bonds due 2007	**10,000**	10,000	**83,949**
1.85% bonds due 2011	**10,000**	–	**83,949**
1.56% bonds due 2010	**10,000**	–	**83,949**
1.90% bonds due 2012	**10,000**	–	**83,949**
Zero coupon convertible bonds with stock acquisition rights due 2007	**7,597**	14,499	**63,776**
Loans from banks and insurance companies maturing from 2005 to 2018 with weighted-average annual interest rates:			
2006—1.76%			
2005—1.31%			
Secured	**27,382**	33,791	**229,871**
Unsecured	**104,702**	128,063	**878,963**
	199,401	216,073	**1,673,954**
Less current portion	**(67,376)**	(58,321)	**(565,614)**
	¥132,025	¥157,752	**$1,108,340**

The 2.06% bonds due 2007 and the 1.31% bonds due 2008 were accounted for as redeemed due to a debt assumption agreement. The debt assumption contract requires the counterparties to assume the obligation to pay the principal and interest on these bonds.

The aggregate annual maturities of long-term debt subsequent to December 31, 2006 are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2007	¥ 67,376	$ 565,614
2008	32,354	271,605
2009	35,189	295,411
2010	22,871	192,003
2011	23,386	196,327
2012 and thereafter	18,225	152,994
	¥199,401	$1,673,954

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, 2006, subject to adjustment in certain circumstances including the issuance of common stock at a price below the fair market price.

Zero coupon convertible bonds with stock acquisition rights due 2007 were convertible into shares of common stock of the Company at the option of the holders at the conversion price of ¥532.00 per share at December 31, 2006, subject to adjustment in certain circumstances including the issuance of common stock at prices below the fair market price and specific circumstances.

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

The assets pledged as collateral for short-term bank loans and long-term debt of ¥27,382 million ($229,871 thousand) and ¥33,791 million at December 31, 2006 and 2005, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Investment securities	**¥6,900**	¥9,234	**$57,927**
Property, plant and equipment, at net book value	**1,488**	1,646	**12,495**
Other investments	**80**	–	**672**

In addition, total assets of Silver 2501 Canada Inc. in the amount of ¥51,146 million ($429,366 thousand) are pledged as collateral for short-term bank loans of ¥4,252 million ($20,581 thousand) and long-term debt of ¥7,781 million ($65,322 thousand).

8. Shareholders' Equity

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

In December and November 2006, the Company issued 13,046,092 shares of common stock in conversions of convertible bonds into common stock. As a result, common stock and capital surplus increased by ¥3,470 million ($29,130 thousand), respectively.

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

9. Other Income (Expenses)

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Loss on sales and disposal of property, plant and equipment and intangibles, net	**¥(2,450)**	¥ (431)	¥ (9,070)	**$(20,567)**
Gift coupon income, net	**212**	330	221	**1,779**
Equity in income of an affiliate	**(50)**	(85)	14	**(414)**
Gain on entry of fixed assets for prior periods	**–**	382	–	**–**
Adjustment of gain on sales of fixed assets for prior periods	**95**	523	–	**798**
Gain on sales of investment securities	**2,222**	1,277	454	**18,650**
Subsidy for removal construction	**–**	96	96	**–**
Subsidy for installation of vending machines	**89**	–	–	**745**
Gain on sale of business (The Westin Tokyo)	**–**	–	6,820	**–**
Gain on exemption from future payments of substitutional portion of the WPFP (Note 2 (k))	**–**	–	115	**–**
Loss on disposal of inventories	**(952)**	(1,184)	(1,662)	**(7,990)**
Loss on provision of cost deduction of fixed assets	**–**	(279)	–	**–**
Loss on impairment of property, plant and equipment, and leased assets (Note 6)	**(1,785)**	(838)	(6,032)	**(14,987)**
Devaluation of marketable securities and investments	**(218)**	(400)	(642)	**(1,829)**
Loss on sales of investment securities	**–**	(45)	(3)	**–**
Write-off of deposit for trade	**–**	(243)	–	**–**
Loss on provision of doubtful accounts	**66**	(69)	–	**555**
Loss on floriculture business	**–**	–	(1,014)	**–**
Loss on repayment of bonds	**–**	–	(891)	**–**
Loss on liquidation of affiliate	**–**	–	(78)	**–**
Other	**263**	(89)	(92)	**2,209**
	¥(2,508)	¥(1,055)	¥(11,764)	**$(21,051)**

10. Retirement Benefit Plans

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

Employees' retirement benefits as of December 31, 2006 and 2005 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Retirement benefit obligation	**¥(57,989)**	¥(57,563)	**$(486,809)**
Fair value of pension plan assets	**30,152**	28,226	**253,124**
	(27,837)	(29,337)	**(233,685)**
Unrecognized net retirement benefit obligation at transition	**13,952**	15,502	**117,123**
Unrecognized actuarial gain or loss	**3,539**	2,991	**29,712**
Unrecognized past service cost	**(5,868)**	(6,271)	**(49,264)**
Prepaid pension cost	**(88)**	(80)	**(738)**
Employees' retirement benefits	**¥(16,302)**	¥(17,195)	**$(136,852)**

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, 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Service cost	**¥1,689**	¥ 1,796	¥1,800	**$14,179**
Interest cost	**1,126**	1,287	1,544	**9,449**
Expected return on plan assets	**(709)**	(1,051)	(983)	**(5,950)**
Amortization of net retirement benefit obligation at transition	**1,550**	1,550	1,572	**13,016**
Amortization of actuarial gain or loss	**355**	711	505	**2,980**
Amortization of past service cost	**(403)**	(26)	52	**(3,381)**
Other	**88**	282	190	**735**
	¥3,696	¥ 4,549	¥4,680	**$31,028**

"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, 2006 were as follows:

	2006	2005	2004
Discount rate	**2.00%**	2.00%	2.00%
Expected rate of return on plan assets	**2.5 – 3.0%**	2.5 – 3.0%	3.0 – 4.5%
Period of recognition of past service cost	**11 – 15 years**	15 years	15 years
Method of amortization	**Straight-line method**	Straight-line method	Straight-line method
Period of recognition of actuarial gain or loss (amortized by the straight-line method over the average number of remaining years of service of the eligible employees commencing in the following year)	**10 – 15 years**	10 – 15 years	10 – 15 years
Period of recognition of net retirement benefit obligation	**15 years**	15 years	15 years

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 40.7% for the years ended December 31, 2006 and 2005, and 43.9% for the year ended December 31, 2004. This difference in tax rates arose as a result of the abolishment of the consolidated added value tax and the adoption of the standard enterprise tax effective April 1, 2004. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

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

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2006 differ from the corresponding statutory tax rates for the following reasons:

	2006	2005	2004
Statutory tax rates	**40.7%**	40.7%	43.9%
Effect of:			
Disallowed expenses, including entertainment expenses	**3.9**	6.9	2.8
Dividends and other income deductible for income tax purposes	**(0.3)**	(0.7)	(2.7)
Inhabitants' per capita taxes	**4.8**	3.0	2.7
Unschedulable temporary differences	**41.8**	9.3	49.7
Changes in valuation allowance	**(49.5)**	(18.7)	(55.0)
Adjustment of income taxes for prior years	**–**	3.5	–
Other, net	**(0.0)**	0.8	(2.0)
Effective tax rates	**41.3%**	44.8%	39.4%

The significant components of deferred tax assets and liabilities at December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Deferred tax assets:			
Property, plant and equipment	**¥ 12,247**	¥ 11,769	**$ 102,816**
Employees' retirement benefits	**6,601**	6,849	**55,417**
Costs relating to closing of a factory	**–**	205	**–**
Tax loss carryforwards	**1,228**	1,048	**10,313**
Investment securities	**1,509**	1,489	**12,664**
Allowance for doubtful receivables	**1,110**	1,187	**9,317**
Accrued expenses	**864**	457	**7,250**
Gift coupon income	**732**	753	**6,144**
Enterprise tax payable	**149**	–	**1,255**
Other	**1,774**	1,660	**14,892**
Gross deferred tax assets	**26,214**	25,417	**220,068**
Valuation allowance	**(14,924)**	(15,367)	**(125,287)**
Total deferred tax assets	**11,290**	10,050	**94,781**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**3,823**	3,261	**32,091**
Unrealized holding gain on securities	**7,765**	11,322	**65,186**
Property, plant and equipment	**5,927**	–	**49,760**
Other	**17**	255	**139**
Total deferred tax liabilities	**17,532**	14,838	**147,176**
Net deferred tax assets (liabilities), net	**¥ (6,242)**	¥ (4,788)	**$ (52,395)**

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, 2006 and 2005, 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)
	2006	2005	**2006**
Acquisition costs:			
Machinery and vehicles	**¥ 853**	¥ 636	**$ 7,162**
Other	**15,917**	15,830	**133,619**
	¥16,770	¥16,466	**$140,781**
Accumulated depreciation:			
Machinery and vehicles	**¥ 286**	¥ 254	**$ 2,398**
Other	**7,715**	7,099	**64,770**
	¥ 8,001	¥ 7,353	**$ 67,168**
Accumulated loss on impairment:			
Machinery and vehicles	**¥ –**	¥ –	**$ –**
Other	**193**	243	**1,615**
	¥ 193	¥ 243	**$ 1,615**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net book value:			
Machinery and vehicles	**¥ 567**	¥ 382	**$ 4,764**
Other	**8,009**	8,488	**67,234**
	¥ 8,576	¥ 8,870	**$ 71,998**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥3,141 million ($26,367 thousand) and ¥3,100 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, 2006 and 2005, respectively.

Loss on impairment of leased assets amounted to ¥243 million for the year ended December 31, 2005 and the amount of depreciation is ¥50 million ($421 thousand) for the year ended December 31, 2006. There is no recorded loss on impairment at leased assets for the year ended December 31, 2006.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2006 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)
2007	¥2,909	$24,420
2008 and thereafter	5,689	47,759
Total	¥8,598	$72,179

ii) Lessor

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

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

Future minimum lease receivables, including the interest portion thereon, subsequent to December 31, 2006 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)
2007	¥ 8	$ 69
2008 and thereafter	13	111
Total	¥21	$180

(b) Operating lease

Future minimum lease payments subsequent to December 31, 2006 for operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2007	¥1,016	$ 8,533
2008 and thereafter	1,966	16,502
Total	¥2,982	$25,035

13. Derivative Financial Instruments

The Company and its consolidated subsidiaries manage the exposure of their 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 to be limited because these contracts are effectively offset against the market risk that exists in borrowings and fluctuation of foreign currency rates. These financial instruments are executed with creditworthy financial institutions. The

Company 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 the Company financial instruments is insignificant.

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

We regularly report the conditions of derivative instruments to the board of directors.

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

Derivative financial instruments

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2006			2005			2006		
	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									
Canada Dollars	**¥ 957**	**¥1,151**	**¥195**	¥–	¥–	¥–	**$ 8,029**	**$9,665**	**$1,636**
Option contracts:									
To Sell-put									
Canada Dollars	**¥ 717**	**¥ 16**	**¥ 0**	¥–	¥–	¥–	**$ 6,022**	**$ 138**	**$ 2**
	¥1,674	**¥1,167**	**¥195**	¥–	¥–	¥–	**$14,051**	**$9,803**	**$1,638**

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2006			2005			2006		
	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	**¥5,129**	**¥(95)**	**¥(95)**	$–	$–	$–	**$43,062**	**$(803)**	**$(803)**
	¥5,129	**¥(95)**	**¥(95)**	$–	$–	$–	**$43,062**	**$(803)**	**$(803)**

14. Contingent Liabilities

Contingent liabilities at December 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Guarantee of loans, principally loans for employees' housing	**¥ 2,675**	¥ 3,046	**$22,459**
Debt assumption,			
2.06% bonds due 2007	**10,000**	10,000	**84,696**
1.31% bonds due 2008	**10,000**	10,000	**84,696**

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	**2006**	2005	2004	**2006**
Net income	**¥6.38**	¥10.20	¥13.07	**$0.05**
Diluted net income	**5.88**	9.18	12.01	**0.05**

As of December 31	Yen 2006	Yen 2005	U.S. dollars (Note 1) 2006
Net assets	**¥300.13**	¥305.00	**$2.52**

16. Segment Information

Financial information by business segment is summarized as follows:

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
Operating revenues	**¥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**

Year ended or as of December 31, 2006 — Thousands of U.S. dollars (Note 1)

	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	**$2,740,260**	**$493,040**	**$226,625**	**$ 191,635**	**$ 978**	**$3,652,538**	**$ –**	**$3,652,538**
Intra-group sales and transfers	**51,456**	**2,636**	**–**	**22,458**	**57**	**76,607**	**(76,607)**	**–**
Total	**2,791,716**	**495,676**	**226,625**	**214,093**	**1,035**	**3,729,145**	**(76,607)**	**3,652,538**
Operating expenses	**2,756,593**	**499,254**	**222,784**	**160,251**	**991**	**3,639,873**	**(59,638)**	**3,580,235**
Operating income (loss)	**$ 35,123**	**$ (3,578)**	**$ 3,841**	**$ 53,842**	**$ 44**	**$ 89,272**	**$ (16,969)**	**$ 72,303**
Identifiable assets	**$2,945,689**	**$139,274**	**$117,199**	**$1,619,163**	**$ –**	**$4,821,325**	**$128,282**	**$4,949,607**
Depreciation and amortization	**$ 113,104**	**$ 2,395**	**$ 5,438**	**$ 63,155**	**$ 7**	**$ 184,099**	**$ –**	**$ 184,099**
Loss on impairment	**$ 13,931**	**$ –**	**$ 1,056**	**$ –**	**$ –**	**$ 14,987**	**$ –**	**$ 14,987**
Capital expenditures	**$ 169,782**	**$ 8,561**	**$ 9,305**	**$ 70,835**	**$ –**	**$ 258,483**	**$ –**	**$ 258,483**

Year ended or as of December 31, 2005 — Millions of yen

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

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

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 ¥2,119 million ($17,785 thousand), ¥1,938 million and ¥1,752 million for the years ended December 31, 2006, 2005 and 2004, respectively.
   (ii) Unallocated assets, which amounted to ¥21,522 million ($180,677 thousand), ¥39,687 million and ¥75,501 million at December 31, 2006, 2005 and 2004, respectively, consisted principally of cash and cash equivalents, short-term and long-term investments and assets of general administration at December 31, 2005 and 2004.
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, 2006, 2005 and 2004. 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. In "The New Medium-Term Management Plan (from 2006 to 2008)", the company decided to strengthen the fitness club business by utilizing management resources of real estate. Therefore, fitness club business included the business segment of "Other" in prior periods changed to the business segment of "Real Estate" from this period. Accordingly, net sales and operating income in the business segment of "Real Estate" increased by ¥709 million and ¥90 million at December 31, 2006, respectively. On the other hand, net sales and operating income in the business segment of "Other" decreased by ¥709 million and ¥90 million at December 31, 2005, respectively.

17. Subsequent Events

(Appropriation of retained earnings)

On March 29, 2007, the following appropriation of retained earnings was approved at the annual general meeting of the Company's shareholders:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	**¥1,891**	**$15,873**

(Exercise the right of the redemption of all of the bonds outstanding at their principal amount in accordance with Condition 6.2 of its prospectus)

The board of directors decided the redemption of all of the bonds outstanding at their principal amount in accordance with Condition 6.2 of its prospectus on February 5, 2007. As of March 7, 2007, the company will redeem all of the bonds outstanding at their principal amount in accordance with Condition 6.2, since the closing price of the shares for each of the 30 consecutive trading days (from December 4, 2006 to January 18, 2007) is more than 125% of the Conversion Price in effect on each of those trading days of ¥532 per share.

Summary of the redemption:

1) Name of the bond: SAPPORO HOLDINGS LIMITED ¥20,000,000,000 Zero Coupon Convertible Bonds due 2007 (Zero Coupon Convertible Bonds with stock acquisition rights)
2) Date of issue: April 23, 2004
3) Date of original expiration: April 23, 2007
4) Total stated amount of bonds: ¥20,000,000,000
5) Principal amount of the bonds outstanding as of February 4, 2007: ¥6,415,000,000
6) Redemption price: at their principal amount February 5, 2007
7) Date of redemption: March 7, 2007
8) Issuing stock: common stock
9) Convertible price: ¥532 per share

By March 5, 2007, all of the bonds were converted into common stock. As a result, the amount of common stock and capital surplus of the company increased by ¥3,815 million, respectively.

CORPORATE DATA

(As of December 31, 2006)

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Capital
¥50,066 million

Number of Shares Issued
379,617,498

Fiscal Year-end
December 31

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

Number of Employees
4,112
(Consolidated)
93
(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.

Auditors
Ernst & Young ShinNihon

SAPPORO

SAPPORO HOLDINGS LIMITED

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

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

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