SAPPORO HOLDINGS LIMITED

ANNUAL REPORT 2007

THE VALUE OF NEW PERSPECTIVES

PROFILE

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

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

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FINANCIAL HIGHLIGHTS

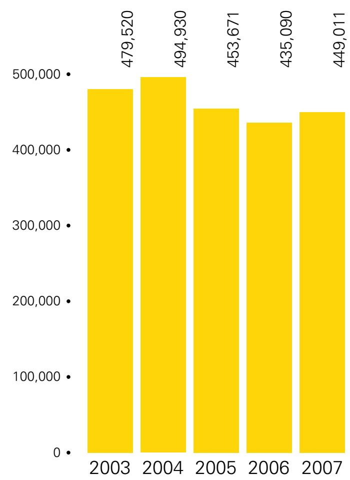
Years ended December 31

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Net sales	**¥449,011**	¥435,090	**$3,933,521**
Operating income	**12,362**	8,613	**108,301**
Net income	**5,509**	2,338	**48,260**
	Yen		U.S. dollars
Per share:			
Net income			
Primary	**¥14.10**	¥6.38	**$0.12**
Diluted	**13.76**	5.88	**0.12**
Cash dividends	**5.00**	5.00	**0.04**
	Millions of yen		Thousands of U.S. dollars
Net assets	**¥125,189**	¥113,496	**$1,096,707**
Total assets	**561,859**	589,597	**4,992,110**
Capital expenditures	**19,548**	30,790	**171,250**
Depreciation and amortization	**24,527**	21,930	**214,865**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥114.15=US$1, the exchange rate prevailing on December 31, 2007.

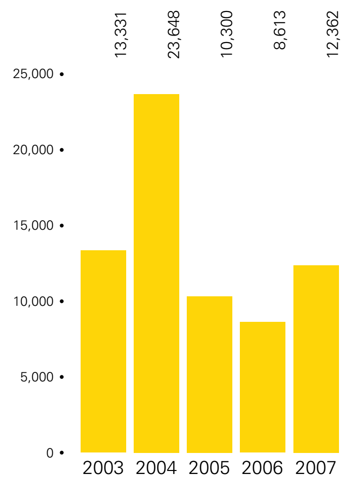
NET SALES

(¥ Million)



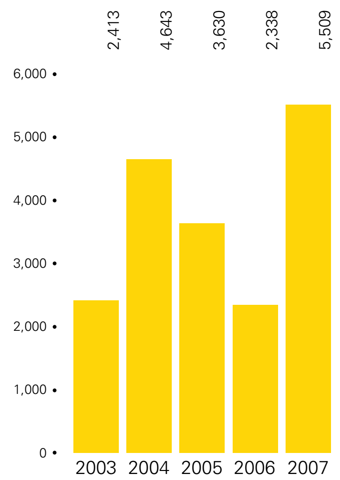
OPERATING INCOME

(¥ Million)



NET INCOME

(¥ Million)



NEW MANAGEMENT FRAMEWORK

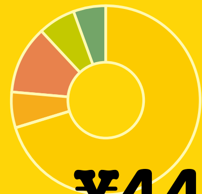
The Sapporo Group has defined two broad business domains under its New Management Framework: "Creating Value in Food" and "Creating Comfortable Surroundings." The Group is determined to develop businesses in these domains, taking full advantage of its assets and competitive strengths.

PERFORMANCE TARGETS

2007 **Results**

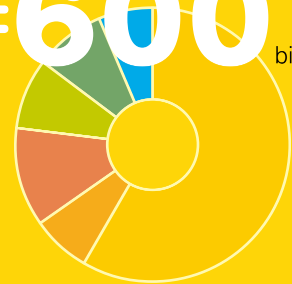
2016 **Targets**

NET SALES (incl. liquor taxes)



2007 **¥449** billion

2016 **¥600** billion



- Sapporo Breweries Ltd.
- Sapporo International Inc.
- Sapporo Beverage Co., Ltd.
- Sapporo Lion Ltd.
- Yebisu Garden Place Co., Ltd.
- New Business

GROUP STRATEGIES FOR GROWTH

SAPPORO BREWERIES LTD.

Alcoholic Beverages (Japan)

Unearth and expand new demand by leveraging strengths such as uniqueness, high quality, and technological prowess

- **Exclusiveness and new value offered by the *Yebisu* brand**
- **The Nasu Plant went into operation this year as a facility for creating high-value-added products**
- ***Grand Polaire*: Won a gold award for the fifth consecutive year in the Japan Wine Competition and has received high acclaim both in Japan and overseas**

SAPPORO INTERNATIONAL INC.

Alcoholic Beverages (International)

Strong track record in the growing premium / imported beverages market

SLEEMAN BREWERIES LTD.
- **Leading premium beer brewer in the Canadian market**
- **The *Unibroue* brand received the Platinum Award at the 2007 Montreal Beer Festival for the *Trois Pistoles***

SAPPORO U.S.A., INC.
- **No.1 Japanese brand in terms of sales for 23 consecutive years**
- **No.1 in sales for 17 consecutive years among Asian brands**

SAPPORO BEVERAGE CO., LTD.

Soft Drinks

Strategic business alliances

- **Go beyond existing Group boundaries to restructure the business and build unique competitive advantages through new strategies**

SAPPORO LION LTD.

Restaurants

Existing restaurants producing sales above the industry average
Highly acclaimed, new-format Japanese restaurants

- **Lion, an historic beer hall in Ginza, Tokyo, opened in 1934**
- **Recently opened, new-format Japanese restaurants: Tomoru, Kakoiya, and Irimoya**

YEBISU GARDEN PLACE CO., LTD.

Real Estate

Urban development aimed at enhancing the value of the Group's assets
Strategic business / capital alliances

- **Expand operations and business domains in the booming real estate market to maximize asset value**

OPERATING INCOME

2007 **¥12.3** billion

2016 **¥40** billion

ROE

2007 **4.6** %

2016 **>8.0** %

OPERATING MARGIN

2007 **4.0** %

2016 **9.0** %

D/E RATIO

2007 **1.7**

2016 **1.0**

NET SALES (¥ Billion)		OPERATING INCOME (¥ Billion)		PRODUCTS AND SERVICES
2005	335.9	2005	6.3	Beer *Happo-shu* (low-malt beer) *Draft One* (new product genres) Wine and spirits *Shochu* (Japanese distilled spirits)
2006	321.1	2006	3.7	
2007	315.8	2007	6.1	
2016 Target	350.0	2016 Target	15.0	
2005	5.1	2005	0.2	Beer
2006	5.2	2006	0.3	
2007	27.7	2007	1.6	
2016 Target	42.0	2016 Target	5.0	
2005	63.8	2005	–0.6	Soft drinks Mineral water products
2006	58.7	2006	–0.4	
2007	52.2	2007	–0.8	
2016 Target	70.0	2016 Target	2.0	
2005	26.3	2005	0.5	Ginza Lion and other general restaurant chains
2006	26.9	2006	0.4	
2007	28.9	2007	0.6	
2016 Target	50.0	2016 Target	2.5	
2005	21.6	2005	5.8	Yebisu Garden Place Sapporo Factory STRATA GINZA
2006	22.8	2006	6.4	
2007	24.1	2007	7.0	
2016 Target	50.0	2016 Target	15.0	

THE JAPANESE BEER INDUSTRY AND SAPPORO BREWERIES

MARKET ENVIRONMENT

The alcoholic beverages market is being impacted by shifts in consumer values regarding alcoholic beverages, the social environment and distribution, as well as changes in government policy and regulations.

With regard to the latter, April 2008 saw the start of a new system of specified health checkups and health guidance based on the Japanese Ministry of Health, Labour and Welfare's strategy to detect and prevent lifestyle-related diseases. In addition, the government is bringing in measures to combat global warming, tighten regulations governing alcohol and ensure fairer trading.

In terms of consumers' changing values regarding alcoholic beverages, the issue of providing healthy products that also taste great is taking on increasing importance. Consumer interest in food safety and quality is also rising, in part due to a number of food scandals that have aroused public interest. Companies are also being called upon to give greater consideration to environmental issues. Another trend in recent years is that consumers in Japan are embracing more moderate drinking habits.

On the social and economic front, households are directly feeling the pinch of rising product prices due to soaring raw material prices and this trend is expected to continue. The effect of a declining drinking-age population and the mass retirement of baby boomers is also of concern.

DEMAND TRENDS

Japan's beer market—made up of beer, *Happo-shu* and new product genres—saw total demand remain largely unchanged as a whole in 2007. Beer demand edged down 1.0% year on year and *Happo-shu* demand was down 2.6%, while new product genres saw demand rise 4.8%. A 2007 survey of the home-use alcohol market found that beer accounted for a share of 18.4%, up 0.8%, *Happo-shu* had a share of 23.5%, down 0.8%, and new product genres had a share of 25.7%, up 0.1% year on year.

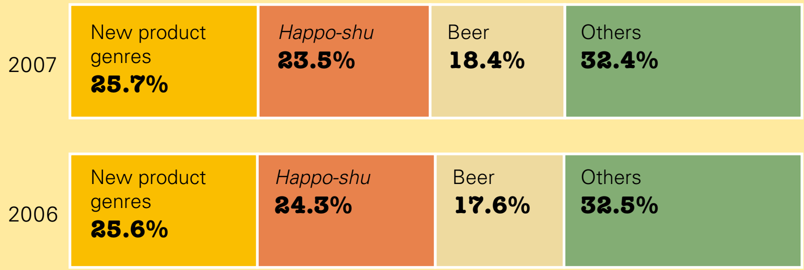
The beer market appears to have finally put a halt to a 10-year slide that has seen its share of overall demand for alcoholic beverages continue to decline.

The market environment suggests that there will inevitably be a change in the makeup of the market going forward, with a decline in total demand unavoidable as the number of people over the legal drinking age declines and price rises start to bite. Moreover, expansion of the premium beer market is expected to continue, as is the trend of consumers demanding products that are both healthy and tasty.

SAPPORO'S BASIC APPROACH

In light of the above, our approach is to propose value unique to Sapporo. This will entail developing marketing programs that address changing market dynamics and consumer needs; further enhancing the *Yebisu* brand, the frontrunner in the high-priced beer segment; strengthening the brand power of *Draft One* in the low-priced segment; and launching functional new beverages that cater to rising health consciousness. Through these and other actions to deliver Sapporo-only value propositions, we aim to raise our corporate value.

2007 SHARE BY ALCOHOL TYPE IN HOME-USE MARKET



(SCI data by INTAGE Inc.)

MESSAGE FROM THE PRESIDENT

In October 2007, we unveiled a New Management Framework for the Sapporo Group, which will serve as our basic guideline for adopting an aggressive management stance, one that eyes long-term goals. Indeed, we have set the year 2016—the 140th anniversary of the Sapporo Group—as a milestone date for achieving our basic strategies under the framework. As part of efforts to ensure we mark our anniversary successfully, since the beginning of 2008 we have been implementing Management Plan 2008-2009, which was drafted based on our new framework. In this year's letter, I will review our performance during 2007 and look at the initiatives we plan to implement to achieve the Group's vision.

TAKAO MURAKAMI
President and Representative Director, Group CEO

2007 PERFORMANCE

2007 saw the operating environment remain challenging for the Sapporo Group's businesses. In the alcoholic beverages, soft drinks and restaurant industries, profits came under pressure from escalating competition sparked by lackluster demand, as well as soaring raw materials and materials costs. The real estate industry, meanwhile, was a mixed bag, with robust demand for office space in central Tokyo pushing up rents still higher, whereas regional areas suffered from a glut of properties.

Against this backdrop, we strove to achieve the second-year goals of the medium-term management plan we launched in 2006. As in 2006, we continued to review our cost structure from all conceivable angles, enabling us to minimize the impact of rising raw materials and materials costs. We also continued to nurture the seeds of growth in a host of areas in a bid to sustain growth in the future. For instance, we launched products boasting high added value in our alcoholic beverages and soft drinks businesses. Other areas we nurtured included our *shochu* (Japanese distilled spirits) business, which is now in its second year of operations; our alcoholic beverage operations in Canada; and development of Group-owned assets in our real estate business.

These efforts led us to post both sales and earnings growth in 2007. We recorded consolidated net sales of ¥449.0 billion, operating income of ¥12.3 billion and net income of ¥5.5 billion. Another highlight was that financial liabilities at ¥212.4 billion and a debt-to-equity (D/E) ratio of 1.7 times were largely in line with our plan.

NEW GROUP MANAGEMENT FRAMEWORK

Although the medium-term management plan we initiated in 2006 had one year left, we decided late last year that it was imperative to launch new measures before the completion of that plan. Changes in our markets that weren't anticipated when we launched the previous plan and the need to address expansion of the Group's business domains due to M&As and other developments made it necessary to revise measures contained in our previous plan. That's why we formulated our New Management Framework and with the goal of laying out a clear Group vision and to promote speedy strategic development based on our view of the future. The New Management Framework sets forth a basic strategy for the whole Group, which is based on our management philosophy and fundamental management policy. We regard the new framework as the backbone of our business plan and medium-term strategy. While we steadily implement the structural reforms that must be made by 2016 across the Group, each operating company aims to achieve their management targets by devising and developing concrete business plans in line with the new management framework.

BASIC STRATEGY

GROUP STRATEGIES FOR GROWTH

There are four Group strategies for growth under the New Management Framework: create high-value-added products and services, form strategic alliances, promote international expansion, and expand synergies among Group companies.

CREATION OF HIGH-VALUE-ADDED PRODUCTS AND SERVICES

We plan to channel business resources to fields in each Group business where we are the most competitive. In this way, we will maximize capital efficiency and build sustainable market advantages. Based on the fact that the structure of consumption is changing in Japan due to a change in the makeup of the country's population, we think that

SAPPORO GROUP'S NEW MANAGEMENT FRAMEWORK

MEDIUM- TO LONG-TERM MANAGEMENT POLICY WITH A VIEW TO 2016—THE 140TH YEAR SINCE THE GROUP'S FOUNDING

2016 TARGET

Net sales (incl. liquor taxes)	Net sales (excl. liquor taxes)	Operating income	Operating margin (excl. liquor taxes)	ROE	D/E ratio
¥600 billion	**¥450 billion**	**¥40 billion**	**9%**	**> 8%**	**1:1**

MANAGEMENT PHILOSOPHY

To make people's lives richer and more enjoyable.

FUNDAMENTAL MANAGEMENT POLICY

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

BASIC STRATEGIES

BUSINESS DOMAINS

Creating Value in Food
Creating Comfortable Surroundings

OVERALL STRATEGY

CSR-Focused Management
Corporate Governance
Human Resources Strategy
Financial Strategy

GROUP STRATEGIES FOR GROWTH

1. **Create High-Value-Added Products and Services**
2. **Form Strategic Alliances**
3. **Promote International Expansion**
4. **Expand Synergies Among Group Companies**

PRIORITIZED ALLOCATION OF MANAGEMENT RESOURCES

Pursuit of potential growth

- Promote international expansion in Alcoholic Beverages and other food product areas
- Expand activities in the Real Estate business

Expand profitability

- Move towards high-value-added products and services in all businesses

Accelerate growth through bold revisions to the allocation of management resources

Increase Corporate Value

the development of products and services imbuing clear added value will be more vital than ever to stand out from the crowd. We are therefore determined to leverage our accumulated strengths to develop business with a focus on creating products and services offering even higher levels of added value.

FORMATION OF STRATEGIC ALLIANCES

As markets rapidly change, we will promote strategic alliances with leading corporate partners to enable us to quickly build competitive advantages in our businesses on a large scale. We have already teamed up with YK, Crescent Partners in our soft drinks business to bring in external knowledge and personnel. The goal here is to revitalize business and secure unique proprietary competitive advantages through new strategies. In the real estate business as well, we have formed an alliance with the Morgan Stanley Group. The main aim of this tie-up is to acquire expertise for maximizing the value of real estate assets and expanding business domains. Going beyond these two alliances, we will consider other partnerships that can develop new businesses to create new value.

PROMOTION OF INTERNATIONAL EXPANSION

With the Japanese market maturing, we are casting our eyes further afield to the global market to also drive growth. In the alcoholic beverages, soft drinks and food business domains, in particular, the Sapporo Group aims to build brands leveraging its technological capabilities, business alliances and other means to promote business development in overseas markets. Our first goal is to expand business further in North America. We have positioned North America as an expansion area because we have a strong presence there already in alcoholic beverages. We plan to make substantial additional investments to build on this strength in North America and achieve business growth that will make this area a larger contributor to our earnings. Next, we will target the Asian market as a nurture area. Asia is a growing market and we are presently searching for business opportunities to advance our alcoholic beverages, soft drinks and other operations there. We want to quickly establish bases that will serve as beachheads in the region and turn Asia into a pillar of the Group's growth. The promotion of international operations will center on business expansion at Sapporo U.S.A., Inc., Sleeman Breweries Ltd. and Sapporo International Inc. The latter was established in 2007 to conduct business operations as the Sapporo Group's fifth operating company. Centered on these three entities, we are enhancing our business base, human resources, expertise and other aspects of our international operations. Looking ahead, our plan is to make further investments to achieve business expansion and growth to lift net sales to ¥600 billion in 2016.

EXPANSION OF GROUP SYNERGIES

When we shifted to a pure holding company structure in 2003, we listed capturing Group synergies as an important theme. Further steps are now being taken in this regard. As a concrete foundation for driving synergies, we are putting emphasis on R&D projects that cut across Group organizations. This is linking the very core parts of our businesses. We are also looking to capture synergies by consolidating support work in the Group. In 2006, we initiated a drive to consolidate personnel, general affairs, accounting and other Group support divisions. In October 2007, we spun off this consolidated body and established it as Sapporo Pro Assist Co., Ltd. Support functions for all the Group's operating companies now reside in one entity as a result of this move. This consolidation will see us make further gains in efficiency and in the quality of administrative support provided to business divisions.

SAPPORO GROUP'S NEW MANAGEMENT FRAMEWORK
GROUP STRATEGIES FOR GROWTH

1. CREATE HIGH-VALUE-ADDED PRODUCTS AND SERVICES

Business segments	Goals under the New Management Plan
Alcoholic Beverages (Japan)	● **To achieve sustained growth, evolve to become a creator of an alcoholic beverages culture** •Transition to a business model of creating high levels of value-added so as to continuously offer customers products and services they value highly •Build a solid operating base to facilitate the ability to respond to changes and the capacity to execute strategies
Real Estate	**Establish a strong competitive foundation for the Real Estate business** ● **Maximize the value of Group properties exhibiting high real-estate value** •Relationships with local communities built on a long history •Excellent locations as commercial sites •Fairly large scale operations; therefore also able to engage in independent development projects ● **Expand business by acquiring new properties** •Utilize accumulated know-how to enhance value •Harness results of strategic alliances
Restaurants	**Expand business by strengthening unique brands** ● **Strength brand loyalty to Sapporo Lion's unique, vintage-yet-new value, based on the concept of "Tradition, Safety, Reliability, Satisfaction"** •Maximize the brand value of large beer halls with long histories •Offer new dining formats that preempt contemporary demands ● **Group efforts to expand the Restaurants Business** •Expand the Restaurants Business, manifesting clear value and competitive advantages

2. FORM STRATEGIC ALLIANCES

Business segments	Objective and details of strategic alliances
Soft Drinks Restructure the Soft Drinks business to establish a stable earnings base	**Re-engineer the business based on new frameworks** ● **Enhance profitability through business restructuring** •Highest priority on executing comprehensive structural reforms •Transition to operating and sales framework that emphasizes earnings ● **Create high-value-added brands with strong market presences** •Strengthen product development capabilities, utilize alliances and other initiatives to strategically expand high-value-added brands
Real Estate Expand business domain of the Real Estate business	**Strategic alliance with the Morgan Stanley Group** ● **Establish framework for joint ownership of the Yebisu Garden Place property** ● **Cooperation in real estate management and new property acquisition**
	Establish Real Estate business entity in Hokkaido ● **Establish new company: Sapporo Toshi Kaihatsu Co., Ltd.** •Strengthen foundations of the Real Estate business in the Hokkaido area

3. PROMOTE INTERNATIONAL EXPANSION

Business segments	Efforts in expanding areas (North American market)	Efforts in developing areas (Asian markets)
Alcoholic beverages, soft drinks and food	● **Aiming to expand superiority in the premium beer genre in the Canadian market, execute focused marketing investment in major premium brands** ● **In the US market, bolster efforts to push commercial-use through kegs and the *Yebisu Beer* brand**	● **Start surveys in search of tangible business opportunities in Asia as a joint effort between Sapporo International Inc. and Sapporo Holdings** ● **Bolster frameworks to allow rapid mobilization of business development efforts when opportunities are discovered**
		● **Actively seek out business opportunities** •Utilize the Group's technology and brands, etc., and enter businesses where synergies are possible •Implement efforts to ensure rapid development, including alliances and business tie-ups

4. EXPAND SYNERGIES AMONG GROUP COMPANIES

Harness Group synergies in research and development
● **Organic collaboration through R&D frameworks (Group-K)** •Promote R&D that fosters synergies and advancement at the Group-wide level **Core technical competencies** Expertise to extract full potential of ingredients, Pursuit of flavor, Contribution to health, Refinement of ingredients, Future technologies, Production support, Guarantee of quality

OVERALL STRATEGY FOR ENHANCING CORPORATE VALUE

In executing the various strategies I have just outlined, four overarching strategies will also be important since they will govern the direction of the Group as a whole.

The first of these is CSR-focused management. We have established the Sapporo Group CSR Policy, underscoring the position that CSR-focused management has as one of our key strategies for supporting the sustained growth of the Group. Corporate governance is the second element of our overall strategy for enhancing Group value. Based on the Group's basic policy on the development of a group governance framework, we will endeavor to strengthen management monitoring functions with two goals in mind: improving management transparency and achieving management goals. At the same time, we will put in place new internal control systems that will underpin governance of the Group and embed them in the organization. The third overarching strategy concerns human resources. After all, it is people who create value. We intend to foster personnel exchanges within and outside the Group and provide career support as we seek to develop our people. Fourth is our financial strategy, consisting of strategic investments and actions to strengthen our financial foundations. Regarding the former, we will make strategic investments in fields that are expected to grow going forward. Priority fields for investment from the standpoint of Group and earnings growth will be international business, particularly in North America, and real estate operations. With respect to our financial foundations, we plan to reduce financial liabilities further and bolster our capital base. We believe that this will earn us a higher valuation in capital markets and higher ratings from rating agencies. Our efforts to strengthen our financial condition are vital for supporting future business activities and to enable us to respond to interest rate fluctuations and other business risks we may encounter in the future.

MANAGEMENT TARGETS AND SHAREHOLDER RETURNS

With our 140th anniversary in 2016 as one checkpoint, we have set a number of quantitative targets under our New Management Framework. We are targeting consolidated net sales of ¥600 billion and ¥450 billion inclusive and exclusive of liquor taxes, respectively, as two goals. Other goals include consolidated operating income of ¥40 billion, an operating margin exclusive of liquor taxes of 9%, ROE of at least 8%, and a D/E ratio of around 1.

Our New Management Framework also includes a basic policy on the distribution of profits to shareholders. While our policy is to first increase retained earnings, focus investments on growth areas and strengthen the Group's financial base, we also aim to provide a stable distribution of profits to shareholders. We are determined to increase dividends by improving Group performance.

I have used my letter this year to talk mainly about our New Management Framework. In January, we launched Management Plan 2008-2009, which we devised based on this basic policy, and have already taken active steps in line with it. As the first year of the New Management Framework, I see 2008 as a major turning point in our bid to drive growth. We are committed to pushing forward as a united group to deliver higher corporate value.

T. Murakami

Takao Murakami
President and Representative Director, Group CEO

SAPPORO GROUP'S NEW MANAGEMENT FRAMEWORK
OVERALL STRATEGY FOR ENHANCING CORPORATE VALUE

CSR-FOCUSED MANAGEMENT

- CSR-focused management is positioned as one of the key strategies for supporting the sustained growth of the Sapporo Group.
- Based on the *Sapporo Group CSR Policy*, the Group will work to ensure continuous understanding of and adherence to the rationale, objectives, and practices that CSR-focused management entails within the Group, and implement concrete measures that meet the requirements of the business.

CORPORATE GOVERNANCE

- Adhering to the Group's basic policy on the development of a group governance framework, Sapporo will bolster management monitoring functions to improve transparency and achieve management goals with the aim of continuously enhancing the corporate value of the entire Group.
- Sapporo will develop new internal control systems to act as the fundamental basis for Group governance and establish them firmly within the organization.

HUMAN RESOURCES STRATEGY

- Sapporo will foster interaction and exchange between Group personnel and provide career-development support with the aim of developing human resources able to contribute to the creation of value.
- Towards the creation of value, Sapporo will work to instill vibrancy and abundant motivation into the organization by providing opportunities for Group personnel to utilize and experience the skills and abilities they have acquired.

FINANCIAL STRATEGY

- Execute strategic investments in areas of potential future growth, with due consideration given to the business domain and basic strategies.
- To build solid foundations that support the Group's future business activities and enable it to respond and adapt to changes in the operating environment, such as future interest rate fluctuations, work to reduce financial liabilities and strengthen the capital base with the aim of raising the Group's market valuation.

BASIC APPROACH TO STRATEGIC INVESTMENT 2008-2009

Over the two years, execute ¥45.0 billion in strategic investment; reduce financial liabilities by ¥35.0 billion

- **Cash flow from operating activities**
- **Partial divestiture of ownership in Yebisu Garden Place**
- **2-year total ¥100 billion**

↓

- **Capital investment** **¥20.0 billion**
- **Strategic investment** **¥45.0 billion**
  - Business restructuring toward creation of high levels of value-added
  - Expand the Real Estate business through acquisition of new properties
  - Business expansion through M&As, etc.
- **Strengthen financial base** **¥35.0 billion**
  - Reduce balance of financial liabilities

→

- **Enhance profitability**
- **Bolster operating base**
- **Expansion of business opportunities**
- **Response to risks**

↓

Sustained enhancement of corporate value

REVIEW OF OPERATIONS ALCOHOLIC BEVERAGES (Japan)

SAPPORO BREWERIES LTD.

In our Japanese Alcoholic Beverages business, we are aiming to strengthen our brands in beer, *Happo-shu*, new product genres and other alcoholic drinks. Our approach is to deliver value propositions unique to Sapporo under the corporate slogan: "Flavor and confidence; Sapporo Breweries is committed to pure quality." We are setting our sights on achieving still more growth going forward as a core business of the Sapporo Group.

PERFORMANCE TARGETS OF MANAGEMENT PLAN 2008-2009 (Billions of yen)

	2007	2008 Target	2009 Target
NET SALES	315.8	323.2	321.0
OPERATING INCOME	6.1	7.5	8.0

2007 IN REVIEW

The Japanese beer market, which is made up of beer, *Happo-shu* and new product genres, witnessed stagnant total demand through to the end of the third quarter in 2007, despite a host of new product launches by all industry players from the outset of the year. Thanks to an upturn in demand in the fourth quarter, however, overall demand for the full year is estimated to have only declined by a marginal 0.3% from 2006.

In terms of results in this business, Net Sales declined ¥5.2 billion, or 2%, year on year to ¥315.8 billion, contrasting with operating income, which climbed ¥2.3 billion, or 63%, to ¥6.1 billion.

In beer, sales of our premium *Yebisu* brand grew 18% year on year. Not only did this brand increase its market share for the 15th straight year on this growth but *Yebisu* cemented its top share in the premium beer category. Keg draft beer for commercial use also turned in a solid performance, with a sales growth rate exceeding that of total demand.

Our wine business saw sales rise over 2006 on the back of healthy growth in total demand for both domestic and imported wines. Price increases on imported wines also boosted monetary sales. In its second year, our *shochu* (Japanese distilled spirits) business posted a ¥2.5 billion increase in sales, the result of an increase in sales in the first quarter (Sapporo Breweries entered this business in April 2006), and steady sales in the second half of 2007.

Notwithstanding these encouraging performances, net sales were down as a whole in the Japanese Alcoholic Beverages business. This decline primarily reflected lower *Happo-shu* sales volume, and the fact that the new genre category fell short of its sales volume targets due to the impact of market changes and other factors.

On the cost front, the cost of goods sold increased because of rising prices of raw ingredients and materials, most notably aluminum cans. In response to these higher costs, we took steps to reduce costs on factory production lines and to curb advertising and sales promotion expenses. At the same time, all areas of our operations pushed forward with rigorous cost-cutting measures. In large part due to these efforts, we were able to post a year-on-year increase in operating income.

ANTICIPATING MARKET CHANGE AND DIVERSIFYING CUSTOMER NEEDS

The Japanese alcoholic beverages industry is expected to see lackluster growth in total demand in the wake of price rises and due to a declining drinking-age population. As a result, we are likely to see a change in competitive relationships between product categories. In the beer market, total demand is projected to decline and the composition of the market by product category is expected to change due to the impact of price increases. In contrast, the markets for functional beverages and premium beers are expected to continue growing.

Determined to lift earnings through the proposal of value unique to Sapporo, we are conducting a marketing program that seeks to address these market changes, as well as diversifying customer needs. Specifically, we plan to concentrate business resources on the *Yebisu* brand, the top brand in the premium beer market segment, and *Draft One* in the low-priced segment. Our goal is to build even stronger brands. We also aim to grow sales volume by more than the market growth rate by responding to increasing health consciousness with new products possessing functional properties.

In October 2007, full-scale operations commenced at the Nasu Plant, which is capable of manufacturing products in small lots as required. Sapporo Breweries regards this facility as a strategically important new base and intends to use it to manufacture high-value-added products.

In other areas, we intend to strengthen wine operations, where more growth is expected going forward, as a mainstay category of our alcoholic beverage business in Japan. Our flagship domestic wine *Grand Polaire* has garnered strong market acceptance, underscored by a fifth consecutive gold award in the Japan Wine Competition. We aim to raise the power of this brand further and link it to new market growth.

Cost is another area we are focusing on to respond to new dynamics in our operating environment. With the cost of raw materials and ingredients set to rise further, we are working within Sapporo Breweries on a number of fronts, including reviewing the production system and making sure that sales promotion expenses are used efficiently. Through these steps targeting costs and other measures, we hope to increase operating income year on year. Other measures we have already taken include terminating production at our Osaka Plant (in March 2008) and in April, we plan to raise prices for beer and beer-type beverages.

"FLAVOR AND CONFIDENCE; SAPPORO BREWERIES IS COMMITTED TO PURE QUALITY."

Sapporo Breweries continues to place top priority on safety and quality amid rising public interest in food safety triggered by various food scandals in Japan. Under the corporate slogan "Flavor and Confidence; Sapporo Breweries Is Committed to Pure Quality," we are striving to take our quality to even higher levels of excellence. Our commitment to ensuring the quality of beer starts from the time seeds are planted. We will leverage our system of sourcing 100% of our malt and hops through our Collaborative Contract Farming System (CCFS)—a noteworthy achievement for a beer company anywhere in the world and unquestionably one of our strengths—to continue this commitment to quality. We believe that this sort of competitive edge will also translate into higher brand equity in our alcoholic beverage business, including in respect to *shochu* and wine.

Nasu Plant

A Collaborative Contract Farming hop grower for Sapporo Breweries

SAPPORO INTERNATIONAL INC.

Our international Alcoholic Beverages business was boosted by the recent consolidation of Sleeman Breweries Ltd. In this business, we are aiming to grow sales with a focus on the premium market in North America in particular by conducting marketing that leverages the strength of our brands. We are also strengthening the structure of our overseas business to ensure we can capture opportunities presented by market expansion going forward, especially in Asia.

PERFORMANCE TARGETS OF MANAGEMENT PLAN 2008-2009 (Billions of yen)

	2007	2008 Target	2009 Target
NET SALES	27.7	28.6	30.0
OPERATING INCOME	1.6	1.2	1.4

2007 IN REVIEW

Beer consumption in North America is approximately 26 million kl annually, more than 4 times that of the Japanese market. However, growth in total demand is estimated to have been minimal in 2007 in a market where competition is escalating. However, parts of the premium beer segment such as imported beers and craft beers continued to grow as demand remained firm. Sapporo has been the leading Japanese beer brand in terms of market share in the North American market for 23 years now.

In 2007, Sapporo International Inc. conducted vigorous sales activities in growth markets, centered on premium beer markets. The past fiscal year also saw the consolidation of Canada-based Sleeman Breweries. Established in 1834 and boasting leading brands in the premium beer category, this company helped boost sales. Meanwhile, Sapporo U.S.A., Inc. reported solid growth, recording an 8% increase in sales volume year on year. Sales volume of exports to other countries also rose, increasing by 17%.

Together, these factors lifted net sales in the international Alcoholic Beverages business by ¥22.4 billion, or 425%, year on year to ¥27.7 billion. Operating income soared ¥1.2 billion, or 332%, to ¥1.6 billion on the back of this top-line growth.

BRAND-DRIVEN GROWTH

Total demand in the North American beer market in 2008 is projected to be flat or marginally higher at best. With Sleeman Breweries as a beachhead in the premium market, we are looking to outperform the market in terms of sales volume growth in both Canada and the U.S. in 2008.

In Canada, Sleeman Breweries will invest heavily in marketing to build on the superiority of its mainstay brands in the premium market, namely *Sleeman*, *Okanagan Spring* and *Unibroue*. Where the U.S. market is concerned, in addition to developing the Sapporo brand, we will look to develop in the commercial-use market, focusing mainly on Japanese food restaurants, with the start of *Yebisu* beer exports targeting the high-end market.

Outside North America, we will look to advance into Asia. Not only in the alcoholic beverages market, but also food markets, as we have positioned this as a region to develop further.

SAPPORO BEVERAGE CO., LTD.

The Soft Drinks business recorded lower sales and earnings in 2007. To turn results around in the current fiscal year, we are undertaking a rigorous review of our business strategy and working to create high-value-added brands and to improve operating efficiency quickly. By developing distinctive products grounded on Group synergies, we will make this business profitable again.

PERFORMANCE TARGETS OF MANAGEMENT PLAN 2008-2009 (Billions of yen)

	2007	2008 Target	2009 Target
NET SALES	52.2	43.6	43.0
OPERATING INCOME	-0.8	-0.5	0.1

2007 IN REVIEW

In 2007, the soft drinks industry in Japan saw strong shipments continue from the very beginning of the year, thanks in part to favorable weather. Mineral water products, both domestic and imported, continued to grow from 2006, while the addition of products under major brands in the carbonated beverages and tea drinks categories also boosted the market. Owing to these and other factors, overall demand in the Japanese soft drinks market is estimated to have increased around 4% year on year.

In this market, we worked to reach more customers through efforts to nurture and strengthen core brands, namely *Yebisu Sabo* and *Gabunomi*. We also engaged in the development of distinctive new products based on cooperation with Group companies, leading to the launch of *Hop Kenkyu-sho*, a product of joint-development efforts with Sapporo Breweries. Furthermore, we began selling *Cranberry Original* as a key offering in products with health benefits. Despite these efforts to establish our products in the soft drinks marketplace during 2007, sales volumes fell short of 2006 due to the impact of a large drop in sales of *Fujiya* brand beverage products.

In terms of costs, we worked to cut transportation expenses, sales promotion expenses and vending machine costs. However, these efforts were not enough to compensate for lower gross profits accompanying the lower sales and rising costs of raw materials and ingredients.

Overall, the Soft Drinks business posted a ¥6.4 billion, or 11%, decline in Net Sales to ¥52.2 billion. The business also posted an operating loss of ¥0.8 billion, which was ¥0.4 billion more than 2006.

REFOCUSING BRAND STRATEGY TO BUILD A GREATER MARKET PRESENCE

With the aim of establishing a more powerful presence in the market, we are refocusing our brand strategy. This will entail reducing the number of items in our product lineup while also creating high-value-added brands, which will highlight our commitment to the quality of ingredients, one of our hallmarks. Harnessing the potential of fruit juice, in particular, we will propose new value in functional fruit juice beverages.

Our business strategy also calls for us to improve our profit structure and efficiency, and strive for low-cost operations in a bid to improve operating income and stay on top of costs, which are expected to increase due to rising prices for raw materials and ingredients.

In October 2007, we forged a strategic business alliance with YK, Crescent Partners, which will move into full gear in 2008. Under this tie-up, we hope to improve our cost structure through greater business prioritization and to make gains with our brand strategy through an improved ability to develop products.

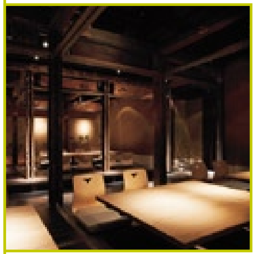
REVIEW OF OPERATIONS RESTAURANTS

SAPPORO LION LTD.

Existing restaurants recorded higher sales for four years running in the past fiscal year. In 2008, we will endeavor to maintain this momentum. Our strategy for the Restaurants business will also see us propose and accelerate the opening of new format establishments, all while balancing expenses. By strengthening legacy brands and continuing to create distinctive and unique formats, our goal is to expand our business.

PERFORMANCE TARGETS OF MANAGEMENT PLAN 2008-2009 (Billions of yen)

	2007	2008 Target	2009 Target
NET SALES	28.9	30.1	32.0
OPERATING INCOME	0.6	0.8	1.0



2007 IN REVIEW

In the Japanese restaurant industry in 2007, same restaurant sales continued to increase year on year from the beginning of the year, driven by fast food establishments. Signs of a slowdown intensified, however, in the latter half of the year as a string of interest-grabbing food scandals and news of price increases raised fears that consumers would not eat out as much. In the Japanese *izakaya* dining format, while large chains continue to open more restaurants, sales at existing restaurants are consistently underperforming year on year. This despite the continued exit of small establishments from the industry.

Responding to this market environment, our Restaurants business worked to set its operations apart through improvements to the quality of cuisine and services. It also aggressively opened new restaurants in a bid to drive sales growth.

Regarding existing restaurants, Sapporo Lion and other beer halls turned in solid performances above the industry average. With new format existing establishments—such as Tomoru, Kakoiya and Irimoya, which serve distinctive Japanese cuisine in high-quality settings—also posting a high growth rate in sales, net sales in existing restaurants as a whole rose for the fourth consecutive year.

In 2007, we opened 12 restaurants with a combined total floor area of 4,575m^2—which is more than in any of the past 10 years. The costs associated with these openings and other factors led to an increase in expenses. On the other hand, we closed six aging establishments, including restaurants where there was no hope of turning operations around by refurbishing or converting them to a different format. The net result was that we had 201 restaurants at the end of 2007.

In terms of results, the Restaurants business posted a ¥1.9 billion, or 7%, increase in net sales to ¥28.9 billion, and a ¥0.1 billion, or 43%, jump in operating income to ¥0.6 billion.

TOP-LINE GROWTH THROUGH THE PURSUIT OF UNIQUENESS

One of our goals in the Restaurants business in 2008 is to deliver a fifth straight year of sales growth at existing establishments. We will differentiate our restaurants by improving quality and raising their brand profiles as we seek to raise the amount spent per customer. In pursuit of greater differentiation in formats and uniqueness, we will continue with efforts to strengthen our brand. M&As will form part of our strategy here. In April 2008, we will open Nasu Mori no Beer En, a large restaurant complex, as we strive to create distinctive establishments that leverage the power of our brand. Actions to grow sales in 2008 will also include opening new restaurants mainly in the Tokyo metropolitan area. Profit margins will be improved by opening stores more efficiently and curbing the costs of such openings.

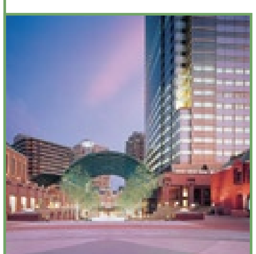
REVIEW OF OPERATIONS REAL ESTATE

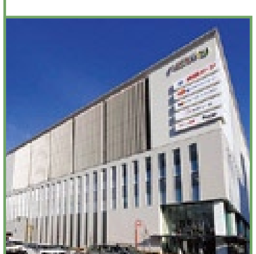
YEBISU GARDEN PLACE CO., LTD.

Yebisu Garden Place Co., Ltd. is continuing to advance its urban development business, which seeks to raise the value of the Group's assets accumulated over many years. Two flagship projects are Yebisu Garden Place and Sapporo Factory, a multifaceted commercial complex in Sapporo City, Hokkaido.

PERFORMANCE TARGETS OF MANAGEMENT PLAN 2008-2009 (Billions of yen)

	2007	2008 Target	2009 Target
NET SALES	24.1	23.7	25.0
OPERATING INCOME	7.0	7.4	8.4





2007 IN REVIEW

In the Japanese real estate industry during 2007, occupancy rates and rents for office buildings, particularly in central Tokyo, continued to improve in a robust office leasing market.

In this favorable market, the Real Estate business was able to maintain high occupancy rates at Yebisu Garden Place and other existing lease properties in the Tokyo area. It succeeded as well in raising rents for tenants. Besides Yebisu Garden Place, other properties contributed handsomely to higher sales. One was FRONTIER-KAN, which started operating inside the Sapporo Factory complex in the latter half of 2006. Others to contribute were STRATA GINZA and newly developed properties that commenced business in 2007, including two rental apartment buildings targeted at university students in Sendai and Fukuoka, and leased facilities for commercial use around Sapporo Garden Park in Sapporo.

As a result, the Real Estate business posted Net Sales of ¥24.1 billion, representing an increase of ¥1.3 billion, or 6%, year on year. Operating income also rose, increasing ¥0.6 billion, or 10%, to ¥7.0 billion.

USING STRATEGIC ALLIANCES TO RAISE VALUE FURTHER

The Japanese real estate industry as a whole is expected to continue growing steadily, centered on the office leasing market.

In March 2008, Sapporo Toshi Kaihatsu Co., Ltd., a new company formed with investment from local Hokkaido companies, began operations. The following month a business alliance began at Yebisu Garden Place with the Morgan Stanley Group.

These sorts of new strategic partnerships will enable us to build on our real estate management and other expertise. At the same time, we will step up our efforts to acquire and develop new properties from outside the Group and enhance the value of existing businesses. In 2008, we will also continue working to maintain high occupancy rates and to raise rents for existing leased properties. These actions are all part of our strategy to conduct an urban development business that aims to raise the value of Group-owned assets accumulated over our long history.

MANAGEMENT

(As of March 30, 2008)

BOARD OF DIRECTORS

Takao Murakami
President and Representative Director, Group CEO

Masaru Fukunaga
Representative Director and Executive Managing Director

Yoshiyuki Mochida
Managing Director

Hiroaki Eto
Director*

Tetsuo Seki
Director*

Hiroshi Tanaka
Director*

Tsutomu Kamijo
Director

Hidenori Tanaka
Director

Kazuo Ushio
Director

Nobuhiro Hashiba
Director

BOARD OF CORPORATE AUDITORS

Kenichi Shishido
Isao Takehara **
Norio Henmi **
Keizo Ae

* Outside Director
** Outside Auditor

FIVE-YEAR SUMMARY

Years ended December 31

	Millions of yen				
	2007	2006	2005	2004	2003
Net sales	**¥449,011**	¥435,090	¥453,671	¥494,930	¥479,520
Alcoholic Beverages	**343,670**	326,420	341,077	364,585	341,924
Soft Drinks	**52,239**	58,731	63,897	69,324	65,169
Restaurants	**28,954**	26,995	26,331	26,611	26,591
Real Estate	**24,148**	22,828	21,696	22,506	33,430
Other	**–**	116	670	11,904	12,406
Operating cost and expenses	**436,649**	426,477	443,371	471,282	466,189
Operating income	**12,362**	8,613	10,300	23,648	13,331
Income before income taxes and minority interests	**221**	3,978	6,573	7,762	2,270
Net income	**5,509**	2,338	3,630	4,643	2,413
	Yen				
Per share:					
Net income:					
Primary	**¥ 14.10**	¥ 6.38	¥ 10.20	¥ 13.07	¥ 6.95
Diluted	**13.76**	5.88	9.18	12.01	–
Net assets	**319.07**	300.13	305.00	259.81	245.80
Cash dividends	**5.00**	5.00	5.00	5.00	5.00
	Millions of yen				
Year-end data:					
Net assets	**¥125,189**	¥113,496	¥111,411	¥ 92,263	¥ 87,364
Total assets	**561,859**	589,597	563,845	602,112	630,637
Financial liabilities	**212,464**	236,033	220,723	289,854	323,369
ROE (%)	**4.6**	2.1	3.6	5.2	2.5
Capital expenditures	**19,548**	30,790	16,218	10,269	10,081
Depreciation and amortization	**24,527**	21,930	22,075	25,330	28,435

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAPPORO HOLDINGS LIMITED AND THE SAPPORO GROUP

The Sapporo Group recently formulated a New Management Framework, setting forth management goals and basic strategies for the Group for 2016, its 140th anniversary. Management is now steadily working toward these long-term goals, adopting an aggressive stance to raise the Group's competitiveness. This will involve reviewing the allocation of business resources, strategic investments and other management actions.

In terms of the scope of consolidation, the Company had 32 consolidated subsidiaries and 5 equity-method affiliates in the year ended December 31, 2007.

OPERATIONAL OVERVIEW

Although corporate performance in Japan was relatively strong through fiscal 2007, growth in personal spending eased off, and signs of a slowdown in economic activity have spread. The impact of the subprime mortgage crisis in the US was felt during the second half of the year, and the future remains uncertain as sharp fluctuations occur in exchange rates, stock prices, oil prices, and other indicators.

The discovery of numerous cases of false food labeling has affected the alcoholic beverages, soft drinks, and restaurants industries, in which Sapporo Group companies operate, and the stance of companies in these industries toward the safety and reliability of food has come under increased scrutiny. Intensifying competition between companies amid floundering aggregate demand, in addition to the rising trend in the cost of raw ingredients and materials, is putting a squeeze on corporate earnings.

In the real estate industry, however, demand for offices in central Tokyo is vibrant and rents remain on an upward trend, but disparities between areas are widening as excess supply emerges in regional areas.

CONSOLIDATED OPERATING RESULTS

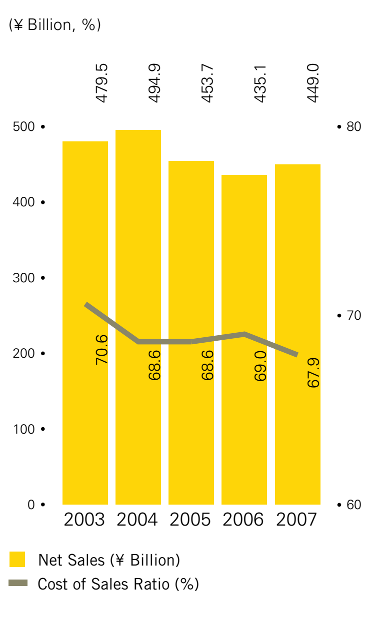
Net Sales

Net sales rose ¥13,921 million, or 3.2%, year on year to ¥449,011 million. By business segment, Alcoholic Beverages saw a 5.3% increase in net sales to ¥343,670 million due to growth in the international Alcoholic Beverages business, including sales from Sleeman Breweries Ltd., which was included in consolidated results for the first time in 2007. This increase came despite lower *Happo-shu* sales volume. The Soft Drinks segment recorded an 11.1% decline in net sales to ¥52,239 million owing to a large drop in sales volume of Fujiya brand beverage products. Net sales in the Restaurants segment rose 7.3% year on year to ¥28,954 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 net sales of 5.8% to ¥24,148 million.

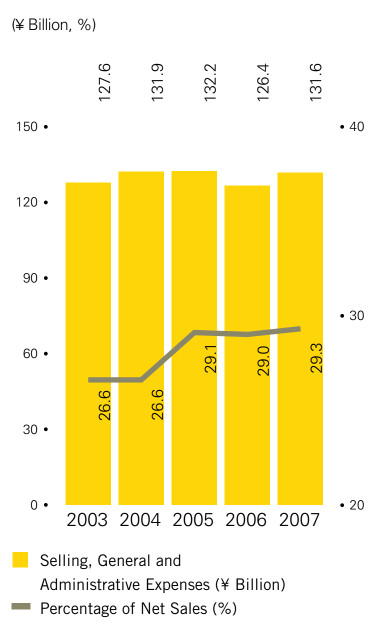
Cost of Sales and Gross Profit

The cost of sales increased ¥4,956 million, or 1.7%, from 2006 to ¥305,078 million, mainly due to the inclusion of Sleeman Breweries in the consolidated financial statements for the first time in 2007. The cost of sales ratio decreased 1.1 percentage points to 67.9%, thanks in part to a cost-cutting program applied to factory production lines.

NET SALES AND COST OF SALES RATIO



SELLING, GENERAL AND ADMINISTRATIVE EXPENSES AND PERCENTAGE OF NET SALES



Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥5,215 million, or 4.1%, to ¥131,571 million, the result mainly of a ¥3,009 million rise in personnel expenses due to the consolidation of Sleeman Breweries and other factors.

Operating Income

Operating income jumped ¥3,750 million, or 43.5%, year on year to ¥12,362 million.

Other Income (Expenses)

Other expenses increased ¥7,506 million to ¥12,141 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 ¥3,279 million, compared with ¥2,127 million in expenses in 2006. The rise reflected an increase in financial liabilities in line with the Company conducting aggressive M&A activities, and rising interest rates.

The Company booked gains on the sale of property, plant and equipment of ¥6,770 million, ¥6,700 million higher than a year earlier due to the sale of real estate in a bid to more efficiently utilize business resources and raise asset efficiency.

The Company also recorded depreciation expenses resulting from revision of residual value of ¥6,583 million, due to the booking of extraordinary depreciation expenses following the decision to terminate production at Sapporo Breweries' Osaka Plant.

Furthermore, there was a loss on impairment of property, plant and equipment of ¥6,939 million. This reflected the recording of an impairment loss in the Real Estate segment due to the decision to transfer the Sapporo Factory complex and its business to a newly established company.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests declined ¥3,757 million to ¥221 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥3,349 million. Deferred income taxes, however, increased ¥8,548 million due to the booking of deferred tax assets in conjunction with the impairment loss on Sapporo Factory and the extraordinary depreciation of the Osaka Plant.

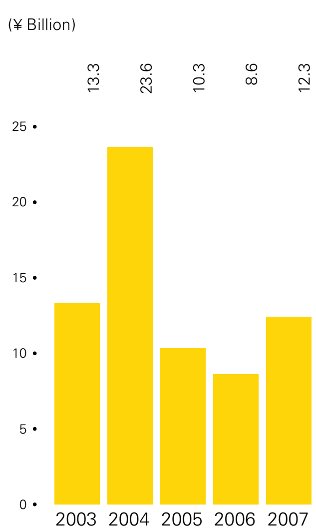
As a result, net income was ¥5,509 million, up 135.6% year on year.

SEGMENT INFORMATION

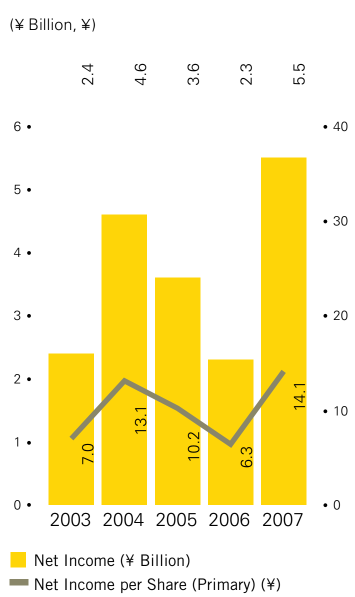
(Millions of yen)

	Net Sales	Operating Income (Loss)	Depreciation and Amortization Expenses	Capital Expenditures
Alcoholic Beverages	343,670	7,854	15,525	13,988
Japan	315,893	6,189	–	–
International	27,777	1,665	–	–
Soft Drinks	52,239	(839)	425	395
Restaurants	28,954	656	799	1,706
Real Estate	24,148	7,073	7,777	3,459

OPERATING INCOME



NET INCOME AND NET INCOME PER SHARE (PRIMARY)



ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

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

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

Assets

Total assets at December 31, 2007 stood at ¥561,859 million, down ¥27,738 million, or 4.7%, from a year ago. This was the result mainly of declines in cash and cash equivalents, and notes and accounts receivable—trade, as well as property, plant and equipment, net due to accumulated depreciation and impairment losses.

Liabilities

Financial liabilities decreased ¥23,569 million to ¥212,464 million due to decreases in short-term bank loans and current portion of long-term debt. This decrease was despite an increase due to the issuance of corporate bonds. Total liabilities decreased ¥39,432 million, or 8.3%, to ¥436,670 million.

Net Assets

Common stock and capital surplus each rose by around ¥3,820 million as a result of the exercise of stock acquisition rights attached to corporate bonds and the conversion of convertible bonds to stock. Retained earnings increased ¥3,820 million to ¥14,293 million. Furthermore, the application of fair market accounting for financial instruments resulted in a ¥1,677 million decrease in unrealized holding gain on securities to ¥9,641 million. As a result, net assets increased ¥11,693 million to ¥125,189 million.

CASH FLOWS

Consolidated cash and cash equivalents as of December 31, 2007 were ¥5,882 million, a decline of ¥2,400 million, or 29.0%, from the previous fiscal year-end. Factors behind this decrease are as follows.

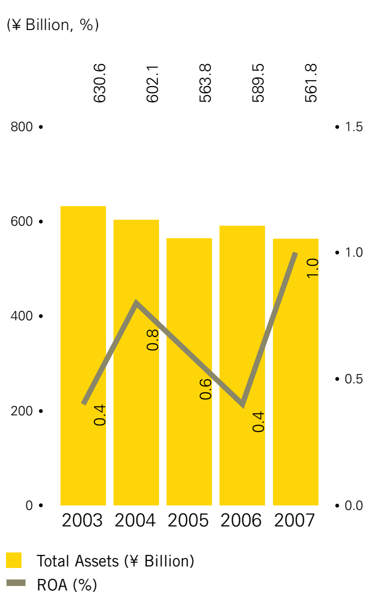
Cash Flows From Operating Activities

Net cash provided by operating activities was ¥30,691 million, ¥2,102 million, or 7.4%, higher than in 2006. This is the net result primarily of income before income taxes and minority interests of ¥221 million, depreciation and amortization of ¥24,527 million, depreciation expenses resulting from revision of residual value of ¥6,583 million, and loss on impairment of property, plant and equipment and leased assets of ¥6,939 million. It also reflects a decrease in notes and accounts receivable of ¥4,388 million, as well as outflows such as a ¥3,015 million decrease in notes and accounts payable and ¥3,159 million decrease in deposits received.

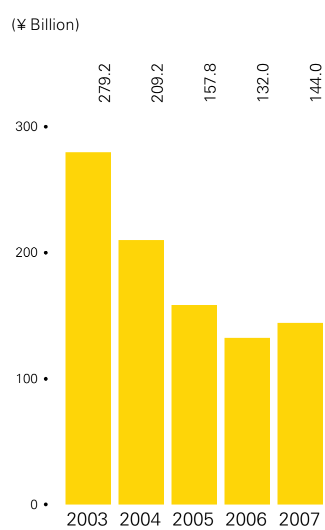
Cash Flows From Investing Activities

Investing activities used net cash of ¥13,495 million, ¥40,920 million less than in 2006. This mainly reflects ¥17,816 million for

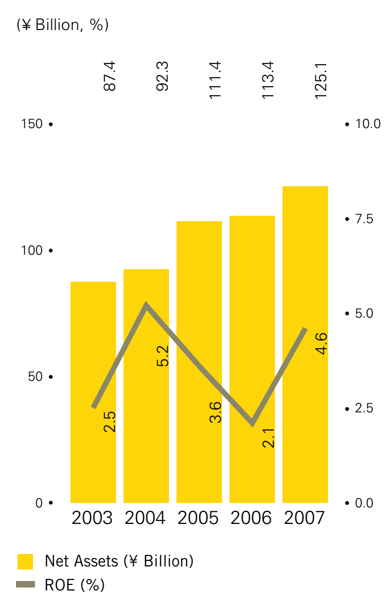
TOTAL ASSETS AND ROA



LONG-TERM DEBT



NET ASSETS AND ROE



purchases of property, plant and equipment and ¥2,068 million for purchases of intangibles.

Cash Flows From Financing Activities

Financing activities used net cash of ¥19,569 million, a change of ¥28,921 million from the net cash provided in the previous fiscal year. This was primarily the net result of ¥19,925 million in proceeds from issuance of bonds, ¥24,002 million in proceeds from long-term debt, ¥10,000 million in payments for the redemption of bonds, ¥50,335 million in repayment of long-term debt and a ¥5,000 million decrease in short-term bank loans.

MANAGEMENT INDICATORS

The current ratio increased by 5.1 percentage points from 47.6% to 52.7% due to a ¥39,593 million year-on-year decrease in short-term bank loans and current portion of long-term debt.

The equity ratio increased from 19.2% to 22.3% in line with the decrease in total assets.

Return on equity (ROE) increased from 2.1% to 4.6% due to the 135.6% year-on-year increase in net income.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, decreased from 2.1 times to 1.7 times due to a decrease in financial liabilities.

OUTLOOK FOR 2008

The Company is forecasting consolidated net sales of ¥449,200 million, a slight increase of ¥189 million year on year. Net income is forecast to rise ¥7,292 million, or 132%, to ¥12,800 million, based on expected extraordinary gains from the sale of some assets in the Real Estate business.

Regarding the annual dividend applicable to 2008, the Company plans to increase it by ¥2.0 per share from 2007 to ¥7.0 per share. This is based on expectations that steady execution of the Company's management plan, which will involve strategic investments and ongoing actions to strengthen the financial base, will raise earnings.

RISK FACTORS

Major risks that could potentially impact the operating results and financial position of the Sapporo Group, including stock price, are found below. Forward-looking statements in the following text reflect the judgment of management as of December 31, 2007.

High Dependency on Specific Business Areas

In 2007, Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 76.5% of consolidated net sales. The Group could thus be significantly affected by the performance of this business.

Overseas Business Activities

The Sapporo Group is aiming to grow earnings by expanding business activities in overseas markets. In particular, it is expanding the alcoholic beverages business particularly in the U.S. and Canada. As part of its expansion drive, the Sapporo Group conducted a takeover bid for the shares of Sleeman Breweries Ltd. This resulted in the acquisition of this company effective October 18, 2006 (October 17 Canada time) to make it a subsidiary of the Sapporo Group. The overseas business activities of the Sapporo Group are subject to a variety of factors that could adversely affect operating results. These factors include economic trends, changes in the competitive landscape, and exchange rate fluctuations, in addition to changes to regulations governing investment, trade, taxation, foreign exchange and other areas, differences in business customs and labor relations, as well as other governmental and social factors.

Food Product Safety

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

OEM Products and Purchased Products

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

Impact of Laws and Regulations

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

Financial Liabilities

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

Holding Company Risk

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

Dilution of Share Value

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

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents	**¥ 5,882**	¥ 8,282	**$ 51,527**
Time deposits	**630**	634	**5,515**
Marketable securities (Note 4)	**13**	63	**114**
Notes and accounts receivable—trade	**69,685**	73,616	**610,472**
Less: Allowance for doubtful receivables	**(276)**	(224)	**(2,416)**
Inventories (Note 5)	**24,042**	24,403	**210,616**
Deferred tax assets (Note 11)	**2,291**	2,068	**20,067**
Refundable income taxes	**134**	46	**1,170**
Other current assets	**15,318**	19,084	**134,190**
Total current assets	**117,718**	127,972	**1,031,255**
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	**1,884**	1,993	**16,502**
Other	**35,510**	40,090	**311,079**
Long-term loans receivable	**10,229**	10,451	**89,615**
Less: Allowance for doubtful receivables	**(2,236)**	(2,602)	**(19,584)**
Deferred tax assets (Note 11)	**7,542**	1,675	**66,067**
Other investments	**19,339**	19,941	**169,418**
	72,268	71,548	**633,097**
Property, plant and equipment (Notes 6 and 7):			
Land	**71,153**	71,333	**623,330**
Buildings and structures	**399,170**	402,617	**3,496,889**
Accumulated depreciation	**(192,926)**	(181,948)	**(1,690,107)**
Machinery and vehicles	**209,050**	212,682	**1,831,367**
Accumulated depreciation	**(157,096)**	(157,171)	**(1,376,226)**
Construction in progress	**4,695**	4,442	**41,127**
Other	**21,724**	21,982	**190,310**
Accumulated depreciation	**(17,266)**	(17,209)	**(151,255)**
Property, plant and equipment, net	**338,504**	356,728	**2,965,435**
Intangibles	**33,369**	33,349	**292,323**
	¥ 561,859	¥ 589,597	**$ 4,922,110**

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

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 31,750**	¥ 36,632	**$ 278,143**
Current portion of long-term debt (Note 7)	**32,665**	67,376	**286,160**
Notes and accounts payable:			
Trade	**26,122**	28,930	**228,836**
Construction	**6,222**	11,025	**54,505**
Liquor taxes payable	**38,140**	38,276	**334,123**
Income taxes payable (Note 11)	**2,750**	1,526	**24,087**
Accrued bonuses (Note 2 (j))	**1,056**	764	**9,254**
Deposits received	**48,726**	52,148	**426,856**
Other current liabilities	**36,071**	32,209	**315,999**
Total current liabilities	**223,502**	268,886	**1,957,963**
Long-term debt (Note 7)	**144,049**	132,025	**1,261,927**
Dealers' deposits for guarantees	**31,904**	33,657	**279,491**
Employees' retirement benefits (Note 10)	**15,135**	16,302	**132,590**
Directors' and corporate auditors' severance benefits	**115**	118	**1,012**
Deferred tax liabilities (Note 11)	**6,183**	9,985	**54,162**
Other long-term liabilities	**15,782**	15,128	**138,258**
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity:			
Common stock (Notes 8 and 15)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2007 393,971,493 shares	**53,887**	–	**472,069**
— at December 31, 2006 379,617,498 shares	**–**	50,066	**–**
Capital surplus	**46,310**	42,485	**405,698**
Retained earnings (Note 8)	**14,293**	10,473	**125,212**
Treasury stock, at cost	**(849)**	(572)	**(7,435)**
Total shareholders' equity	**113,641**	102,452	**995,544**
Valuation and translation adjustments:			
Unrealized holding gain on securities	**9,641**	11,318	**84,457**
Foreign currency translation adjustments	**1,853**	(276)	**16,234**
Total valuation and translation adjustments	**11,494**	11,042	**100,691**
Minority interests	**54**	2	**472**
Total net assets	**125,189**	113,496	**1,096,707**
	¥561,859	¥589,597	**$4,922,110**

CONSOLIDATED STATEMENTS OF INCOME

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Net sales	**¥449,011**	¥435,090	¥453,671	**$3,933,521**
Operating cost and expenses:				
Cost of sales	**305,078**	300,122	311,191	**2,672,607**
Selling, general and administrative expenses	**131,571**	126,355	132,180	**1,152,613**
Operating income	**12,362**	8,613	10,300	**108,301**
Other income (expenses):				
Interest and dividend income	**1,026**	916	824	**8,991**
Interest expense	**(4,305)**	(3,043)	(3,496)	**(37,720)**
Other, net (Note 9)	**(8,862)**	(2,508)	(1,055)	**(77,630)**
Income before income taxes and minority interests	**221**	3,978	6,573	**1,942**
Income taxes (Note 11):				
Current	**3,349**	1,729	29	**29,339**
Deferred	**(8,635)**	(87)	2,914	**(75,643)**
	(5,286)	1,642	2,943	**(46,304)**
Minority interests	**2**	2	–	**14**
Net income (Note 15)	**¥ 5,509**	¥ 2,338	¥ 3,630	**$ 48,260**

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)
	2007	2006	2005	**2007**
Common stock:				
Balance at beginning of year	**¥ 50,066**	¥46,596	¥43,832	**$438,600**
Conversion of convertible bonds	**3,820**	3,470	2,764	**33,469**
Balance at end of year	**¥ 53,887**	¥50,066	¥46,596	**$472,069**
Capital surplus:				
Balance at beginning of year	**¥ 42,485**	¥39,010	¥36,242	**$372,183**
Conversion of convertible bonds	**3,820**	3,470	2,764	**33,469**
Gain on decrease in treasury stock	**5**	5	4	**46**
Balance at end of year	**¥ 46,310**	¥42,485	¥39,010	**$405,698**
Retained earnings (Note 8)**:**				
Balance at beginning of year	**¥ 10,473**	¥ 9,963	¥ 8,108	**$ 91,743**
Net income	**5,509**	2,338	3,630	**48,260**
Increase resulting from inclusion of newly consolidated subsidiary	**202**	–	–	**1,773**
Cash dividends	**(1,891)**	(1,826)	(1,775)	**(16,564)**
Decrease resulting from change in fiscal year-end of consolidated subsidiary	**–**	(2)	–	**–**
Balance at end of year	**¥ 14,293**	¥10,473	¥ 9,963	**$125,212**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (572)**	¥ (461)	¥ (337)	**$ (5,009)**
Net increase	**(277)**	(111)	(124)	**(2,427)**
Balance at end of year	**¥ (849)**	¥ (572)	¥ (461)	**$ (7,435)**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 11,318**	¥16,502	¥ 4,804	**$ 99,151**
Net change during the year	**(1,677)**	(5,184)	11,698	**(14,694)**
Balance at end of year	**¥ 9,641**	¥11,318	¥16,502	**$ 84,457**
Foreign currency translation adjustments (Note 2 (m))**:**				
Balance at beginning of year	**¥ (276)**	¥ (199)	¥ (386)	**$ (2,422)**
Net change during the year	**2,130**	(77)	187	**18,657**
Balance at end of year	**¥ 1,853**	¥ (276)	¥ (199)	**$ 16,234**
Minority Interests:				
Balance at beginning of year	**¥ 2**	¥ –	–	**$ 21**
Net change during the year	**52**	2	–	**451**
Balance at end of year	**¥ 54**	¥ 2	–	**$ 472**

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)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 221**	¥ 3,978	¥ 6,573	**$ 1,940**
Depreciation and amortization	**24,527**	21,930	22,075	**214,865**
Depreciation expenses resulting from revision of residual value	**6,583**	–	–	**57,670**
Loss on impairment of property, plant and equipment and leased assets	**6,939**	1,785	838	**60,792**
Goodwill amortization expense	**870**	–	–	**7,619**
Amortization of goodwill	**276**	–	–	**2,421**
(Decrease) increase in employees' retirement benefits	**(1,167)**	(893)	537	**(10,221)**
(Decrease) increase in allowance for doubtful receivables	**(295)**	(274)	20	**(2,584)**
Interest and dividend income	**(1,026)**	(916)	(824)	**(8,991)**
Interest expense	**4,280**	3,041	3,496	**37,497**
Gain on sales of property, plant and equipment	**(6,770)**	(70)	(2,729)	**(59,307)**
Loss on sales and disposal of property, plant and equipment	**1,301**	2,520	3,160	**11,396**
Gain on sales of investment securities	**(767)**	(2,222)	(1,277)	**(6,716)**
Loss on devaluation of investment securities	**394**	218	400	**3,450**
Gain on sale of consolidated subsidiary	**–**	(102)	–	**–**
Loss from provision for cost reduction of fixed assets	**–**	–	279	**–**
Decrease in notes and accounts receivable	**4,388**	1,656	8,139	**38,441**
Decrease in inventories	**778**	621	1,127	**6,812**
Decrease in notes and accounts payable	**(3,015)**	(5,264)	(2,234)	**(26,415)**
Decrease in liquor taxes payable	**(207)**	(515)	(5,119)	**(1,818)**
(Decrease) increase in deposits received	**(3,159)**	5,237	19,463	**(27,676)**
Decrease (increase) in other current liabilities	**327**	(1,874)	(1,810)	**2,868**
Other	**1,810**	126	(5,739)	**15,857**
Subtotal	**36,288**	28,982	46,375	**317,899**
Interest and dividends received	**991**	883	822	**8,685**
Interest paid	**(4,238)**	(3,153)	(3,591)	**(37,126)**
Income taxes paid	**(2,351)**	(409)	(5,104)	**(20,594)**
Income taxes refundable	**–**	2,286	575	**–**
Net cash provided by operating activities	**30,691**	28,589	39,077	**268,865**
Cash flows from investing activities:				
Net increase in time deposits	**(22)**	(15)	(608)	**(195)**
Purchases of investment securities	**(251)**	(947)	(634)	**(2,198)**
Proceeds from sales of investment securities	**2,805**	2,777	2,236	**24,570**
Purchases of affiliates' securities	**(87)**	(894)	–	**(766)**
Purchases of newly consolidated subsidiaries	**–**	(31,177)	–	**–**
Purchases of property, plant and equipment	**(17,816)**	(18,516)	(10,718)	**(156,072)**
Proceeds from sales of property, plant and equipment	**7,206**	69	6,922	**63,130**
Purchases of intangibles	**(2,068)**	(3,299)	(1,786)	**(18,116)**
Increase in long-term loans receivable	**(75)**	(30)	(647)	**(654)**
Collection of long-term loans receivable	**415**	500	568	**3,632**
Other	**(3,602)**	(2,883)	(3,008)	**(31,555)**
Net cash used in investing activities	**(13,495)**	(54,415)	(7,675)	**(118,224)**
Cash flows from financing activities:				
Net (decrease) increase in short-term bank loans	**(5,000)**	30,526	–	**(43,799)**
Proceeds from long-term debt	**24,002**	9,200	12,500	**210,267**
Repayment of long-term debt	**(50,335)**	(48,321)	(36,130)	**(440,957)**
Proceeds from issuance of bonds	**19,925**	29,885	–	**174,551**
Redemption of bonds	**(10,000)**	(10,000)	(40,000)	**(87,604)**
Net increase in commercial paper	**4,000**	–	–	**35,042**
Cash dividends paid	**(1,889)**	(1,832)	(1,783)	**(16,548)**
Purchase of treasury stock	**(284)**	(117)	(132)	**(2,491)**
Proceeds from sales of treasury stock	**13**	11	12	**110**
Net cash (used in) provided by financing activities	**(19,569)**	9,352	(65,533)	**(171,429)**
Effect of exchange rate changes on cash and cash equivalents	**(44)**	7	174	**(383)**
Net decrease in cash and cash equivalents	**(2,417)**	(16,467)	(33,957)	**(21,171)**
Cash and cash equivalents at beginning of year	**8,282**	24,749	58,706	**72,558**
Cash and cash equivalents of additional consolidated subsidiaries	**16**	0	–	**140**
Cash and cash equivalents at end of year	**¥ 5,882**	¥ 8,282	¥ 24,749	**$ 51,527**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in conformity with that of 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, 2005 and 2006 to the 2007 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2007 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥114.15=U.S.$1.00, the exchange rate prevailing on December 31, 2007.

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, 2007, 4 additional subsidiaries have been included within the scope of consolidation, reflecting their newly-founded subsidiary and the increase in materiality. Accordingly, the number of consolidated subsidiaries has increased to 32. However, as the effect of this change was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2007 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 4 affiliates for the years ended December 31, 2005 and in 5 affiliates for the years ended December 31, 2007 and 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.

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

(q) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the 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 Boards of Japan Guidance No. 8, December 9, 2005" (Accounting Standards Boards of Japan Guidance No.8, December 9, 2005). The amount of shareholders' equity under the former accounting standards was ¥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 Standards for Business Combinations)

Effective from the fiscal year beginning January 1, 2007, the Company has applied "Accounting Standards for Business Combinations" (Business Accounting Council, October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 22, 2006).

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

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

No such securities existed at December 31, 2007 and 2006.

(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, 2007 and 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2007	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥11,084**	**¥27,264**	**¥16,181**	**$ 97,096**	**$238,847**	**$141,750**
Other	**120**	**147**	**28**	**1,048**	**1,291**	**244**
Subtotal	**¥11,203**	**¥27,412**	**¥16,209**	**$ 98,146**	**$240,140**	**$141,994**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 2,784**	**¥ 2,484**	**¥ (300)**	**$ 24,390**	**$ 21,762**	**$ (2,628)**
Subtotal	**¥ 2,784**	**¥ 2,484**	**¥ (300)**	**$ 24,390**	**$ 21,762**	**$ (2,628)**
Total	**¥13,987**	**¥29,896**	**¥15,909**	**$122,535**	**$261,902**	**$139,366**

December 31, 2006	Millions of yen		
	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥13,180	¥32,321	¥19,141
Debt securities	4	5	1
Other	119	155	36
Subtotal	¥13,303	¥32,481	¥19,178
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 927	¥ 833	¥ (94)
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥ 927	¥ 833	¥ (94)
Total	¥14,230	¥33,314	¥19,084

(c) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2007 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Sales	**¥2,043**	¥3,382	¥2,099	**$17,902**
Gain on sales of securities	**767**	2,222	1,277	**6,716**
Loss on sales of securities	**–**	–	45	**–**

(d) The carrying value of securities whose fair value was not determinable at December 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 30**	¥ 50	**$ 263**
(2) Investments in subsidiaries and affiliates	**1,884**	1,993	**16,502**
(3) Other securities:			
Equity investments in unlisted companies.	**5,039**	5,247	**44,143**
Domestic debt securities offered privately	**72**	102	**634**
Other	**486**	1,440	**4,254**

(e) The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31, 2007 were as follows:

December 31, 2007	Millions of yen		Thousands of U.S. dollars (Note 1)	
	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	**¥ 3**	**¥69**	**$ 26**	**$608**
Corporate debt securities	**10**	**20**	**88**	**175**
Other	**100**	**–**	**876**	**–**
Other.	**–**	**–**	**–**	**–**
Subtotal	**¥113**	**¥89**	**$990**	**$783**

5. INVENTORIES

Inventories at December 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Finished goods and merchandise	**¥ 9,655**	¥ 9,353	**$ 84,578**
Real estate for sale	**47**	22	**409**
Work in process	**4,220**	4,618	**36,968**
Raw materials	**9,367**	9,840	**82,058**
Supplies	**754**	570	**6,603**
	¥24,042	¥24,403	**$210,616**

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, 2007 and 2006:

Year ended December 31, 2007

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd.	Idle real estate	Lands	**¥ 192**	**$ 1,678**
Idle real estate (Kitakanbara-gun, Niigata)				
			¥ 192	**$ 1,678**
Sapporo Breweries Ltd.	Warehouse for	Buildings	**¥ 13**	**$ 110**
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	physical distribution			
			¥ 13	**$ 110**
Sapporo Soft Drinks Co., Ltd.	Property for Soft	Buildings	**¥ 12**	**$ 102**
(Shibuya-ku,Tokyo)	Drinks business	Lease	**437**	**3,826**
		Other	**122**	**1,071**
			¥ 571	**$ 4,999**
Sapporo Lion Ltd.	Restaurants	Buildings	**¥ 201**	**$ 1,760**
Restaurants for business (Kawaguchi-shi, Saitama and other)	for operations	Machinery	**7**	**58**
		Other	**7**	**63**
			¥ 215	**$ 1,881**
Yebisu Garden Place Co., Ltd.	Real estate for lease	Buildings	**¥5,801**	**$50,820**
Sapporo Factory (Sapporo-shi, Hokkaido)		Machinery	**66**	**574**
		Other	**83**	**731**
			¥5,950	**$52,125**
			¥6,939	**$60,792**

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

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

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

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

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

A recoverable amount has been calculated for Sapporo Factory due to the planned transfer of this asset to a subsidiary. An impairment loss has been booked for the amount expected to be difficult to recover. The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flows discounted by 5.2%.

Year ended December 31, 2006

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

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

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

For warehouses of physical distribution, KEIYO Physical Distribution Center, the amount by which the carrying amount of these assets exceeds its recoverable amount is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to the change of division on the management accounting.

For warehouses of physical distribution, Sapporo Higashi warehouse and one other, the amount by which the carrying amount of these assets exceeds the expected present value of these assets is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to change in usage.

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

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

Year ended December 31, 2005

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd. KEIYO Physical Distribution Center (Narashino-shi, Chiba)	Warehouse for physical distribution	Land	¥314
			¥314
Sapporo Breweries Ltd. Idle real estate (Kitakanbara-gun, Niigata)	Idle real estate	Land	¥208
			¥208
Sapporo Logistics System Ltd. Komaki Warehouse (Komaki-shi, Aichi)	Warehouse for physical distribution	Leased assets (Buildings)	¥243
			¥243
Sapporo Breweries Ltd.	Restaurants	Land	¥ 7
Restaurants for lease (Iwamizawa-shi, Hokkaido and 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 division in management accounting. The idle estate and the real estate for lease are grouped with each estate, and the restaurants are mainly grouped with each store.

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

For 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%.

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, 2007 and 2006 were 1.09% and 0.82%, respectively.

Long-term debt at December 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
1.2% convertible bonds due 2009	**¥ 19,710**	¥ 19,720	**$ 172,668**
1.31% bonds due 2008	**–**	–	**–**
1.27% bonds due 2007	**–**	10,000	**–**
1.85% bonds due 2011	**10,000**	10,000	**87,604**
1.56% bonds due 2010	**10,000**	10,000	**87,604**
1.90% bonds due 2012	**10,000**	10,000	**87,604**
Zero coupon convertible bonds with stock acquisition rights due 2007	**–**	7,597	**–**
1.87% bonds due 2011	**10,000**	–	**87,604**
2.26% bonds due 2013	**10,000**	–	**87,604**
Loans from banks and insurance companies maturing from 2005 to 2018 with weighted–average annual interest rates: 2007—2.05% 2006—1.76%			
Secured	**25,478**	27,382	**223,198**
Unsecured	**81,526**	104,702	**714,201**
	176,714	199,401	**1,548,086**
Less current portion	**(32,665)**	(67,376)	**(286,160)**
	¥144,049	¥132,025	**$1,261,927**

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, 2007 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2008	¥ 32,665	$ 286,160
2009	35,761	313,278
2010	24,446	214,155
2011	34,563	302,789
2012	35,670	312,484
2013 and thereafter	13,608	119,215
	¥176,714	$1,548,086

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, 2007, 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 ¥25,478 million ($223,198 thousand) and ¥27,382 million at December 31, 2007 and 2006, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Investment securities	**¥6,813**	¥6,900	**$59,681**
Property, plant and equipment, at net book value	**–**	1,488	**–**
Other investments	**80**	80	**701**

8. SHAREHOLDERS' EQUITY

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

In 2007, the Company issued 14,353,995 shares of common stock in conversions of convertible bonds into common stock. As a result, common stock and capital surplus increased by approximately ¥3,820 million ($33,469 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, 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Loss on sales and disposal of property, plant and equipment and intangibles, net	**¥ 5,469**	¥(2,450)	¥ (431)	**$ 47,911**
Gift coupon income, net	**–**	212	330	**–**
Equity in income of an affiliate	**(132)**	(50)	(85)	**(1,160)**
Gain on entry of fixed assets for prior periods	**–**	–	382	**–**
Adjustment of gain on sales of fixed assets for prior periods	**–**	95	523	**–**
Gain on sales of investment securities	**767**	2,222	1,277	**6,716**
Subsidy for removal construction	**–**	–	96	**–**
Subsidy for installation of vending machines	**32**	89	–	**285**
Reversal of provision for doubtful receivables	**27**	66	(69)	**239**
Loss on disposal of inventories	**(858)**	(952)	(1,184)	**(7,516)**
Loss on provision of cost deduction of fixed assets	**–**	–	(279)	**–**
Loss on impairment of property, plant and equipment and leased assets (Note 6)	**(6,939)**	(1,785)	(838)	**(60,792)**
Devaluation of marketable securities and investments	**(394)**	(218)	(400)	**(3,450)**
Loss on sales of investment securities	**–**	–	(45)	**–**
Write-off of deposit for trade	**–**	–	(243)	**–**
Depreciation expenses resulting from revision of residual value	**(6,583)**	–	–	**(57,670)**
Amortization of goodwill	**(276)**	–	–	**(2,421)**
Other	**25**	263	(89)	**228**
	¥(8,862)	¥(2,508)	¥(1,055)	**$(77,630)**

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, 2007 and 2006 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Retirement benefit obligation	**¥(56,498)**	¥(57,989)	**$(494,946)**
Fair value of pension plan assets	**30,846**	30,152	**270,227**
	(25,652)	(27,837)	**(224,719)**
Unrecognized net retirement benefit obligation at transition	**12,402**	13,952	**108,643**
Unrecognized actuarial gain or loss	**3,672**	3,539	**32,172**
Unrecognized past service cost	**(5,467)**	(5,868)	**(47,895)**
Prepaid pension cost	**(90)**	(88)	**(791)**
Employees' retirement benefits	**¥(15,135)**	¥(16,302)	**$(132,590)**

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, 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Service cost	**¥1,598**	¥1,689	¥ 1,796	**$14,002**
Interest cost	**1,133**	1,126	1,287	**9,925**
Expected return on plan assets	**(757)**	(709)	(1,051)	**(6,631)**
Amortization of net retirement benefit obligation at transition	**1,550**	1,550	1,550	**13,582**
Amortization of actuarial gain or loss	**414**	355	711	**3,623**
Amortization of past service cost	**(401)**	(403)	(26)	**(3,514)**
Other	**513**	88	282	**4,496**
	¥4,050	¥3,696	¥ 4,549	**$35,483**

"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, 2007 were as follows:

	2007	2006	2005
Discount rate	**2.00%**	2.00%	2.00%
Expected rate of return on plan assets	**2.5 – 3.0%**	2.5 – 3.0%	2.5 – 3.0%
Period of recognition of past service cost	**11 – 15 years**	11 – 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 each of the three years in the period ended December 31, 2007. 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, 2007 differ from the corresponding statutory tax rates for the following reasons:

	2007	2006	2005
Statutory tax rates	**40.7%**	40.7%	40.7%
Effect of:			
Disallowed expenses, including entertainment expenses	**42.5**	3.9	6.9
Dividends and other income deductible for income tax purposes	**(23.1)**	(0.3)	(0.7)
Inhabitants' per capita taxes	**95.5**	4.8	3.0
Unschedulable temporary differences	**1,076.2**	41.8	9.3
Changes in valuation allowance	**(3,492.1)**	(49.5)	(18.7)
Adjustment of income taxes for prior years	**139.8**	–	3.5
The tax rate difference of overseas subsidiary	**(279.2)**	–	–
Other, net	**13.4**	0.0	0.8
Effective tax rates	**(2,386.3)%**	41.3%	44.8%

The significant components of deferred tax assets and liabilities at December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Deferred tax assets:			
Property, plant and equipment	**¥16,402**	¥ 12,247	**$143,687**
Employees' retirement benefits	**6,083**	6,601	**53,291**
Investment securities	**1,359**	1,509	**11,903**
Tax loss carryforwards	**1,096**	1,228	**9,599**
Allowance for doubtful receivables	**875**	1,110	**7,665**
Accrued expenses	**1,064**	864	**9,318**
Gift coupon income	**845**	732	**7,407**
Accrued bonuses	**426**	–	**3,734**
Enterprise tax payable	**164**	149	**1,434**
Other	**1,959**	1,774	**17,165**
Gross deferred tax assets	**30,273**	26,214	**265,203**
Valuation allowance	**(8,897)**	(14,924)	**(77,939)**
Total deferred tax assets	**¥21,376**	¥ 11,290	**$187,264**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**¥ 5,605**	¥ 3,823	**$ 49,101**
Unrealized holding gain on securities	**6,268**	7,765	**54,912**
Property, plant and equipment	**5,841**	5,927	**51,170**
Other	**13**	17	**112**
Total deferred tax liabilities	**17,727**	17,532	**155,295**
Net deferred tax assets (liabilities), net	**¥ 3,649**	¥ (6,242)	**$ 31,969**

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, 2007 and 2006, 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)
	2007	2006	**2007**
Acquisition costs:			
Machinery and vehicles	**¥ 890**	¥ 893	**$ 7,795**
Other	**15,796**	15,917	**138,382**
	¥16,686	¥16,809	**$146,177**
Accumulated depreciation:			
Machinery and vehicles	**¥ 399**	¥ 300	**$ 3,495**
Other	**8,391**	7,715	**73,506**
	¥ 8,790	¥ 8,015	**$ 77,002**
Accumulated loss on impairment:			
Machinery and vehicles	**¥ –**	¥ –	**$ –**
Other	**483**	192	**4,230**
	¥ 483	¥ 192	**$ 4,230**
Net book value:			
Machinery and vehicles	**¥ 491**	¥ 593	**$ 4,300**
Other	**6,923**	8,009	**60,645**
	¥ 7,413	¥ 8,602	**$ 64,945**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥3,247 million ($28,451 thousand) and ¥3,148, 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, 2007 and 2006, respectively.

Loss on impairment of leased assets amounted to ¥436 million, and the amount of depreciation was ¥146 million ($1,281 thousand) for the year ended December 31, 2007. There was no recorded loss on impairment of leased assets for the year ended December 31, 2006.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2007 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)
2008	¥2,626	$23,007
2009 and thereafter	4,802	42,064
Total	¥7,428	$65,070

ii) Lessor

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

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

Future minimum lease receivables, including the interest portion thereon, subsequent to December 31, 2007 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)
2008	¥ 8	$ 73
2009 and thereafter	6	53
Total	¥14	$126

(b) Operating lease

Future minimum lease payments subsequent to December 31, 2007 for operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2008	¥1,115	$ 9,770
2009 and thereafter	3,651	31,986
Total	¥4,766	$41,756

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

Derivative financial instruments

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2007			2006			**2007**		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward contracts:									
To purchase									
Canadian dollars	**¥588**	**¥835**	**¥246**	¥ 957	¥1,151	¥194	**$5,153**	**$7,316**	**$2,163**
Option contracts:									
To Sell-put									
Canadian dollars	**–**	**–**	**–**	717	16	0	**–**	**–**	**–**
	¥588	**¥835**	**¥246**	¥1,674	¥1,167	¥194	**$5,153**	**$7,316**	**$2,163**

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2007			2006			**2007**		
	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	**¥5,235**	**¥(48)**	**¥(48)**	¥5,129	¥(95)	¥(95)	**$45,863**	**$(421)**	**$(421)**
	¥5,235	**¥(48)**	**¥(48)**	¥5,129	¥(95)	¥(95)	**$45,863**	**$(421)**	**$(421)**

14. CONTINGENT LIABILITIES

Contingent liabilities at December 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Guarantee of loans, principally loans for employees' housing	**¥1,955**	¥ 2,675	**$17,127**
Debt assumption,			
2.06% bonds due 2007	**–**	10,000	**–**
1.31% bonds due 2008	**10,000**	10,000	**87,604**

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	**2007**	2006	2005	**2007**
Net income	**¥14.10**	¥6.38	¥10.20	**$0.12**
Diluted net income	**13.76**	5.88	9.18	**0.12**

	Yen		U.S. dollars (Note 1)
As of December 31	**2007**	2006	**2007**
Net assets	**¥319.07**	¥300.13	**$2.80**

16. SEGMENT INFORMATION

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2007	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥343,670	¥52,239	¥28,954	¥ 24,148	–	¥449,011	–	¥449,011
Intra-group sales and transfers	6,324	330	–	2,640	–	9,294	(9,294)	–
Total	349,994	52,569	28,954	26,788	–	458,305	(9,294)	449,011
Operating expenses	342,139	53,409	28,298	19,715	–	443,561	(6,912)	436,649
Operating income (loss)	¥ 7,854	¥ (839)	¥ 656	¥ 7,073	–	¥ 14,744	¥ (2,382)	¥ 12,362
Identifiable assets	¥334,828	¥ 9,618	¥14,543	¥187,816	–	¥546,805	¥15,054	¥561,859
Depreciation and amortization	¥ 15,525	¥ 425	¥ 799	¥ 7,777	–	¥ 24,527	–	¥ 24,527
Loss on impairment	¥ 204	¥ 571	¥ 215	¥ 5,950	–	¥ 6,940	–	¥ 6,940
Capital expenditures	¥ 13,988	¥ 395	¥ 1,706	¥ 3,459	–	¥ 19,548	–	¥ 19,548

Year ended or as of December 31, 2007	Thousands of U.S. dollars (Note 1)							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	$3,010,689	$457,637	$253,650	$ 211,545	–	$3,933,521	–	$3,933,521
Intra-group sales and transfers	55,397	2,893	–	23,127	–	81,417	(81,417)	–
Total	3,066,086	460,530	253,650	234,672	–	4,014,938	(81,417)	3,933,521
Operating expenses	2,997,279	467,883	247,903	172,708	–	3,885,773	(60,553)	3,825,220
Operating income (loss)	$ 68,807	$ (7,353)	$ 5,747	$ 61,964	–	$ 129,165	$ (20,864)	$ 108,301
Identifiable assets	$2,933,226	$ 84,261	$127,401	$1,645,343	–	$4,790,231	$131,877	$4,922,108
Depreciation and amortization	$ 136,010	$ 3,724	$ 7,002	$ 68,129	–	$ 214,865	–	$ 214,865
Loss on impairment	$ 1,787	$ 4,999	$ 1,881	$ 52,126	–	$ 60,792	–	$ 60,792
Capital expenditures	$ 122,545	$ 3,458	$ 14,950	$ 30,298	–	$ 171,250	–	$ 171,250

Year ended or as of December 31, 2006	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥326,420	¥58,731	¥26,995	¥ 22,828	¥116	¥435,090	–	¥435,090
Intra-group sales and transfers	6,129	314	–	2,675	7	9,125	(9,125)	–
Total	332,549	59,045	26,995	25,503	123	444,215	(9,125)	435,090
Operating expenses	328,365	59,471	26,538	19,089	118	433,581	(7,104)	426,477
Operating income (loss)	¥ 4,184	¥ (426)	¥ 457	¥ 6,414	¥ 5	¥ 10,634	¥ (2,021)	¥ 8,613
Identifiable assets	¥350,890	¥16,590	¥13,961	¥192,875	¥ 0	¥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	¥ 0	¥ 126	¥ 0	¥ 0	¥ 1,785	–	¥ 1,785
Capital expenditures	¥ 20,224	¥ 1,020	¥ 1,108	¥ 8,438	¥ 0	¥ 30,790	–	¥ 30,790

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
Net sales	¥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	¥ 13,841	¥ 215	¥ 636	¥ 7,337	¥ 47	¥ 22,076	–	¥ 22,076
Loss on impairment	¥ 794	–	¥ 44	–	–	¥ 838	–	¥ 838
Capital expenditures	¥ 12,143	¥ 274	¥ 1,158	¥ 1,544	¥1,099	¥ 16,218	–	¥ 16,218

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 ¥2,477 million ($21,701 thousand), ¥2,119 million and ¥1,938 million for the years ended December 31, 2007, 2006 and 2005, respectively.
   (ii) Unallocated assets, which amounted to ¥21,013 million ($184,086 thousand), ¥21,522 million and ¥39,687 million at December 31, 2007, 2006 and 2005, respectively, consisted principally of cash and cash equivalents, short-term and long-term investments and assets of general administration.
3. Sales outside Japan and sales to overseas customers comprised less than 10% of the Company's consolidated sales for each of the years ended December 31, 2007, 2006 and 2005. 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, the fitness club business included in 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 28, 2008, 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	**¥1,961**	**$17,178**

(Reform of Retirement Benefits System)

At the Board of Directors meeting held in January 2008, the Company and consolidated subsidiary Sapporo Breweries Ltd. decided to revise part of their existing retirement benefit systems by introducing a defined contribution pension plan and abolishing lump-sum payment plans included in the retirement benefit system as of May 1, 2008.

In accordance with the switch to this revised system, effective from the fiscal year beginning January 1, 2008 the Company and Sapporo Breweries Ltd. plan to apply "Accounting for the Transfer between Retirement Benefit Plans" (ASB Guidance No. 1, January 31, 2002).

CORPORATE DATA
(As of December 31, 2007)

COMPANY NAME
SAPPORO HOLDINGS LIMITED

BUSINESS
Holding company

DATE OF ESTABLISHMENT
September 1949

CAPITAL
¥53,887 million

NUMBER OF SHARES ISSUED
393,971,493

FISCAL YEAR-END
December 31

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

NUMBER OF EMPLOYEES
4,075
(Consolidated)

48
(Parent company)

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

SECURITIES TRADED: COMMON STOCK
Tokyo Stock Exchange, First Section

ANNUAL MEETING OF SHAREHOLDERS
The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary.

SAPPORO

SAPPORO HOLDINGS LIMITED

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

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