The Worldwide Name in Quality

SAPPORO HOLDINGS LIMITED

Annual Report 2009

Contents

*All figures in this annual report are rounded to the nearest applicable unit.

For Sapporo Group Management Plan 2010–2011

At a Glance

Basic Policies

Shift into a growth trajectory by initiating growth strategies and strengthening existing businesses

We will use the plan's two-year term to transition from a phase of earnings-base strengthening that prioritized structural reform to a growth phase aimed at realizing our medium-term growth scenarios.

Initiating Growth Strategies

In order to further ensure that we increase our value in the medium- to long-term, we will take steps based on the medium-term growth scenarios and strategic challenges for each of our businesses.

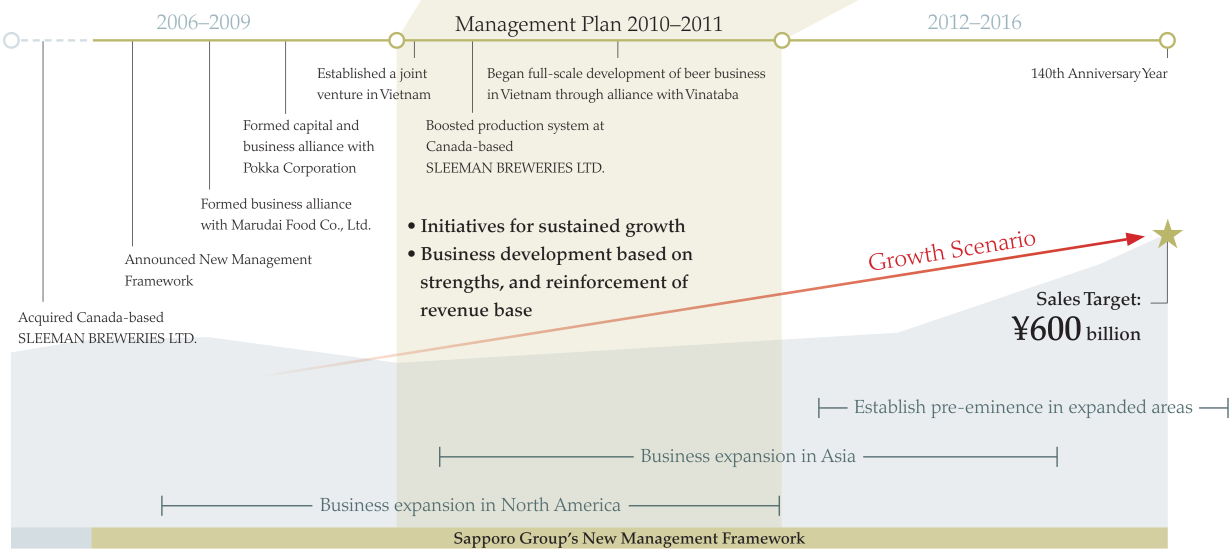
Strengthening Existing Businesses

In each business we will build competitive advantages by concentrating our management resources on our strong brands and enhancing our ability to adapt to environmental changes.

Performance Results and Targets

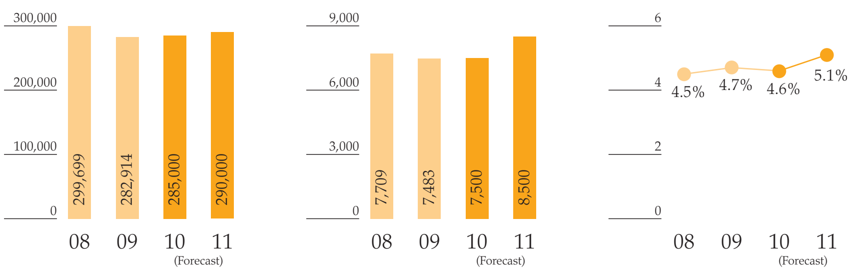
	2009 Results	2011 Targets
NET SALES (Incl. alcohol taxes)	¥387.5 billion	¥406 billion
OPERATING INCOME	¥12.9 billion	¥17 billion
NET INCOME	¥4.5 billion	¥6 billion
OPERATING MARGIN (Excl. alcohol taxes)	4.9 %	6.0 %
ROE	3.9 %	5.0 %
D/E RATIO	1.7	1.7

Road Map

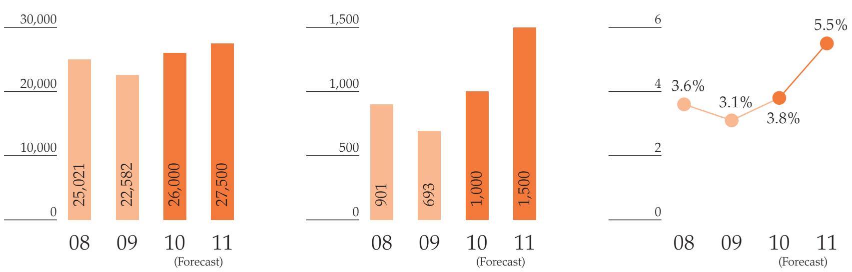


Business Segment	Basic Policies	Key Points
Alcoholic Beverages (Japan) Products and Services • Beer • *Happo-shu* (low-malt beer) • New product genres • Wine and spirits • *Shochu* (Japanese distilled spirits)	• Set sales on a growth trajectory in a maturing market by building a distinctive presence • Pursue efficiency through stronger prioritization of resources	**Bolster alcoholic-beverage marketing** • Enhance brand power by focusing resources on core products • Create and nurture growth brands • Diversify alcoholic beverages further **Cost structure reforms** See P. 12
Alcoholic Beverages (International) Products and Services • Beer	• Nurture business into a future Group growth driver • Expand business in the key North American market by increasing investment in brands and areas of strength • Launch full-scale business in Vietnam in the developing Asian market.	**Business growth in North America** • SLEEMAN BREWERIES LTD.: Step up investment in marketing for strong premium brands • Sapporo U.S.A., Inc.: Expand beyond the American-Japanese market to the wider US and ethnic Asian market • Bolster production capabilities • Reform cost structure **Expansion into the Asian Market** • Develop business in Vietnam • Develop business in Singapore See P. 14
Soft Drinks Products and Services • Soft drinks • Mineral water products	• Focus resources on core brands, strengthen brand power, and shift into a growth trajectory • Reap greater benefits from successful structural reforms by utilizing group synergies and strategic alliances	**Bolster marketing** • Strengthen and cultivate brands • Strengthen alliances **Accomplish cost structure reforms** • Implement a cost structure reform program • Create synergies through strategic alliances **Develop food products business** • Develop confectionary business • Yoghurt, dessert and chilled beverages business See P. 15
Restaurants Products and Services • Ginza Lion and other general restaurant chains	• Cut costs to mitigate the severe recessionary impact • Reform cost structure from a medium term perspective and develop economically robust restaurant formats and operational structure	**Business restructuring** • Cost reductions **Growth measures** • Strategy for opening restaurants See P. 16
Real Estate Products and Services • Yebisu Garden Place • Sapporo Factory • STRATA GINZA	• Maintain occupancy rates as the first priority given the harsh market outlook • Work to maintain rent levels while curtailing any declines • Acquire only prime new properties	**Boost existing property value** • Yebisu Garden Place • Sapporo Factory **Growth measures** • Develop real estate • Acquire new properties See P. 17

Net Sales (Incl. alcohol taxes) (¥ Million)	Operating Income (Loss) (¥ Million)	Operating Margin (Excl. alcohol taxes) (%)	Strengths



- 120th anniversary of the *Yebisu* brand
- Sourcing of malt and hops through 100% Collaborative Contract Farming System for safety and reliability
- *Grande Polaire* wine series awarded Gold Medal in the Japan Wine Competition for the fifth straight year

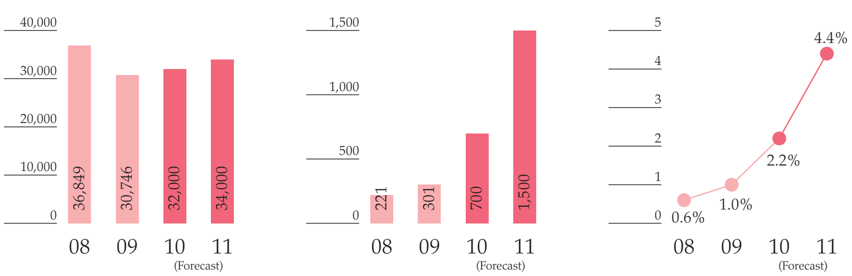


SLEEMAN BREWERIES LTD.

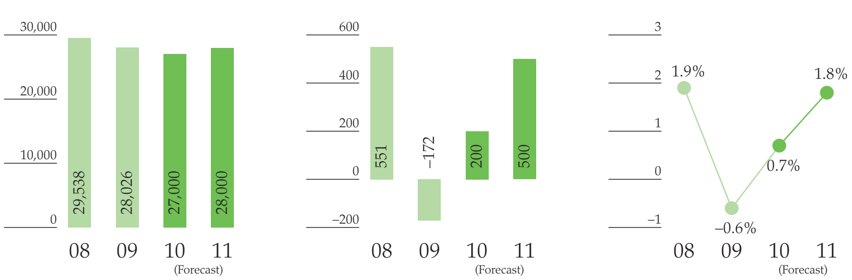
- Leading premium beer brewer in the Canadian market
- *Unibroue*, the Platinum Award winner of 2007 Montreal Beer Festival for the Trois Pistoles

Sapporo U.S.A., Inc.

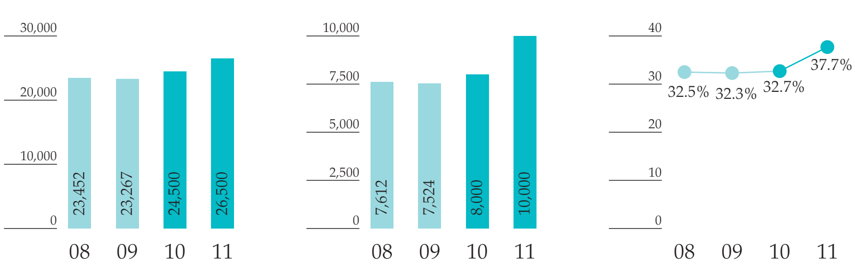
- Top Japanese-brand seller for 25 consecutive years
- Top Asian-brand seller for 19 consecutive years



- Synergies from cooperation with Pokka Corporation
- Utilization of proprietary technologies from the beer business



- Track record as a restaurant pioneer stretching back 110 years to Japan's first beer hall
- Strong support for new Japanese restaurant-format propositions
- Synergy with beer business



- Prime assets held by the Company
- High occupancy rate of Yebisu Garden Place

Note: In addition to the above, we plan to incur general corporate expenses of ¥3.9 billion in 2010 and ¥5.0 billion in 2011, including up-front investments for marketing related to Vietnam.

Profile

The Sapporo Group has been providing customers with new excitement and enjoyment since its foundation in 1876, building a strong Sapporo brand in the process. In October 2007 we formulated the Sapporo Group's New Management Framework, a medium- to long-term management vision, which takes 2016—our 140th anniversary—as a target date. Under this vision, and our two-year Sapporo Group Management Plan, we are determined to aggressively reform and develop each of our businesses to achieve sustained growth.

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.

120th Anniversary of YEBISU BEER

Yebisu Beer was born in 1890. That same year it became a hit at the Third Domestic Trade Expo held in Tokyo, where it was declared the favorite. It went on to achieve international acclaim, receiving a gold medal at the 1900 World Expo in Paris, and winning the Grand Prix award at the 1904 St. Louis Expo.

In 1901 a special freight station was built for Yebisu Beer. Subsequently the area around the "Yebisu Stop" came to be known as "Ebisu"—and is now a well-known part of central Tokyo. This extremely rare instance of naming a train station and district after the name of a specific product or trademark shows that Yebisu Beer had become a favorite among the members of the public.

Although production ceased for some years due to the outbreak of war, Yebisu Beer was revived in 1971 as a premium 100% barley beer in the German style. In the first year the beer sold 2 million cases, laying a foundation of popularity that has continued to this day.

On February 25, 2010 we celebrated the 120th anniversary of Yebisu Beer after selling 10.6 million cases in 2009. We remain committed to exploring and communicating new ways of enjoying Yebisu Beer as we develop and grow this popular premium brand.

1890
Yebisu Beer is launched

1901
The Yebisu freight station was built for handling Yebisu Beer

1928
Yebisu becomes the name for a district of Tokyo (Ebisu)

1971
Yebisu Beer is revived as a premium brand after a 28 year hiatus.

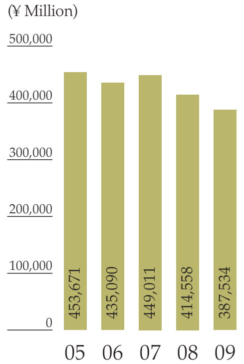
Present

Financial Highlights (Years ended December 31)

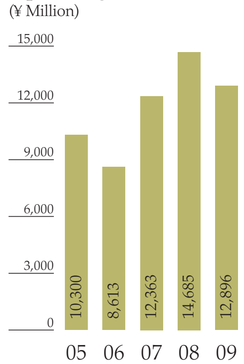
	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Net sales	¥387,534	¥414,558	$4,209,127
Operating income	12,896	14,685	140,067
Net income	4,535	7,640	49,260
	Yen		**U.S. dollars**
Per share:			
Net income:			
Primary	¥11.57	¥19.49	$0.13
Diluted	11.05	18.89	0.12
Cash dividends	7.00	7.00	0.08
	Millions of yen		**Thousands of U.S. dollars**
Net assets	¥118,591	¥116,862	$1,288,048
Total assets	506,875	527,287	5,505,319
Capital expenditures	23,485	29,378	255,075
Depreciation and amortization	22,547	21,605	244,889
Financial liabilities	196,794	189,252	2,137,443

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥92.07=US$1, the exchange rate prevailing on December 31, 2009.

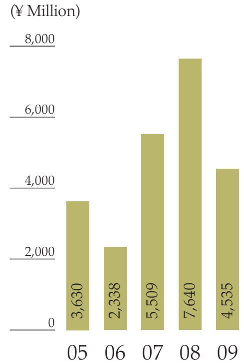
Net Sales
(¥ Million)



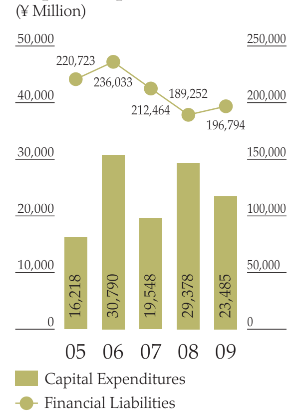
Operating Income
(¥ Million)



Net Income
(¥ Million)



Financial Liabilities and Capital Expenditures
(¥ Million)



Takao Murakami
President and Representative Director, Group CEO

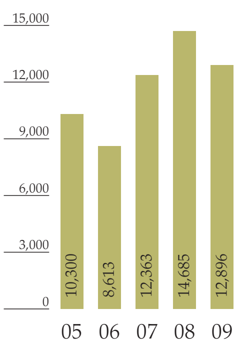
Progress With the Sapporo Group's New Management Framework and *Growth Scenarios*

Performance in 2009

QUESTION 1

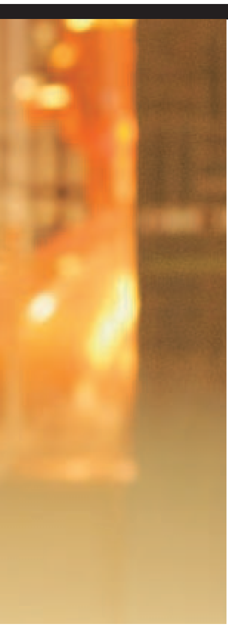
How did the Sapporo Group perform in 2009, and what is your evaluation of its performance?

Operating Income
(¥ Million)



ANSWER 1

The operating environment in 2009 remained harsh and we worked hard to realize our New Management Framework, focusing our efforts in the key areas of building on our competitive strength, strengthening our earnings base, and implementing measures to ensure sustainable growth. As a result, net sales in 2009 were ¥387.5 billion, down 7%, or ¥27.0 billion, from the previous year. Operating income was ¥12.9 billion, down 12% or ¥1.8 billion, but if we exclude a ¥2.4 billion charge due to accounting standard and tax code changes that took effect in 2009, then our operating income would have been ¥15.3 billion—an actual increase in real terms. Net income declined 41%, or ¥3.1 billion, to ¥4.5 billion, because the Company had booked a gain on the sale of property, plant and equipment in the previous year. So, although we saw a regrettable decline in net sales, real operating income

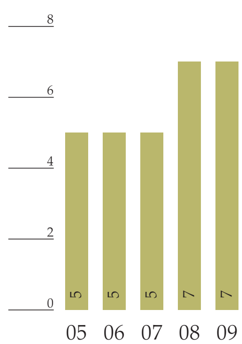


increased for a third consecutive period, indicating that we achieved almost all of our initial targets in the key areas I mentioned before. (Please refer to the Review of Operations section of this report for details on business results for each business segment in 2009.) Our financial liabilities and debt-to-equity (D/E) ratio were higher than we had planned due to investments made based on our growth strategy; however, we met our targets for operating margin and ROE.

QUESTION 2

What is your policy on shareholder returns in this period?

Cash Dividends per Share
(¥)



ANSWER 2

After giving consideration to our performance and our financial condition in this period, we decided to pay an annual dividend of ¥7 per share. Returning an appropriate level of earnings to our shareholders is an important management policy for Sapporo Holdings, and our basic policy is to maintain a stable dividend. We plan to use internal reserves to maximize our corporate value by strategically investing it in growth areas and using it to strengthen our financial base, according to our new management plan.

Progress With the New Management Framework

QUESTION 3

Around two years have passed since you announced the New Management Framework. How is it progressing?

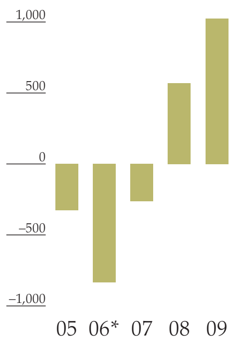
ANSWER 3

To achieve our New Management Framework, we have implemented rolling plans each year focused on the key areas of building on our competitive strength, strengthening our earnings base, and implementing measures to ensure sustainable growth.

Building on our Competitive Strength and Strengthening our Earnings Base

In the Alcoholic Beverages (Japan) business, which is our main business, we focused our marketing on the core beer and

Operating Income (Loss) From Wine, Western Liquor, and Japanese Liquor (*Shochu*) Business
(¥ Million)



*Year of entry into the *shochu* business

SLEEMAN BREWERIES' Sales

Y-o-Y sales volume	2007	2008	2009
SLEEMAN brands	104%	106%	110%
Overall Canadian demand (Sapporo Holdings estimate)	100%	100%	98%

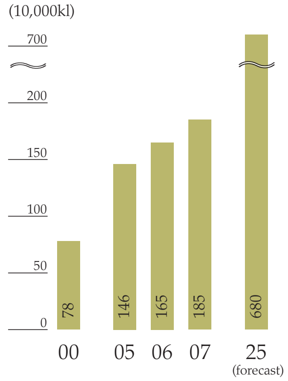
beer-type products. As a result, Yebisu brand products in aggregate and *Mugi to Hop* each outperformed overall demand growth in their respective categories, increasing their market share. The wine and *shochu* businesses also showed significant increases in earnings, as a result of initiatives to bolster the business base and increase brand power. In the Alcoholic Beverages (International) business, Canada-based SLEEMAN BREWERIES LTD. aggressively marketed its premium-genre products, which hold the top share in the Canadian market. This resulted in a 110% growth in sales, compared with the previous year, outstripping overall demand growth by a large margin. SLEEMAN BREWERIES' sales growth has beat overall demand growth in Canada every year since it was brought into the Sapporo Group.

Measures to Ensure Sustainable Growth

During the period under review, we forged several strategic alliances with a view to developing new businesses to drive future growth for our group over the medium and long terms. We believe these alliances will produce significant results as stepping stones to sustainable growth.

In the Alcoholic Beverages (International) business, we will advance into the Vietnamese beer market. We have partnered with the Vietnamese state-owned tobacco company, Vietnam National Tobacco Corporation, to launch a beer business in the Vietnamese market by building a brewery on the outskirts of Ho Chi Minh City. With a population of around 86 million, Vietnam is the third most populous ASEAN country after Indonesia and the Philippines. The Vietnamese beer market is about one-third the current size of Japan's at approximately 2 million kiloliters per year, and is the third-largest beer market in Asia following China and Japan. With demand growing year by year, Vietnam is undoubtedly going to become a major beer consumer in the future. The Ministry of Industry and Trade of Vietnam forecasts beer consumption of 6.8 million kiloliters by 2025—a scale on par with current overall beer consumption in Japan. With the help of our powerful local partner, we aim to begin operation of our brewery in fall of 2011 in this market that is brimming with growth potential.

Beer Production Volume in Vietnam



*2025 forecast by the Ministry of Industry and Trade of Vietnam

In the Soft Drinks business, our strategic alliances include a joint venture with Marudai Food Co., Ltd. set up in April 2009, and a strategic capital and business alliance with Pokka Corporation created in September 2009. We have built a framework for business cooperation with Marudai Food Co., Ltd. by investing in a 49% stake in Marudai's subsidiary Azumino Food Co., Ltd. We have used this framework to enter the yoghurt, dessert and chilled beverages market, a food products field that has growth potential. This represents a new challenge for us, but we believe that the venture offers an opportunity to leverage the Group's know-how, skills and marketing capabilities to grow the business. In our alliance with Pokka Corporation, we made a 21.4% capital contribution. Following the tie up, we will first work on initiatives to realize synergies in production and procurement with the Soft Drinks businesses. Then we will work to maximize these synergies by providing forums for discussion with our Japanese and International Alcoholic Beverages businesses and in our Restaurants business.

New Medium-Term Management Plan "Sapporo Group Management Plan 2010–2011"

QUESTION 4

What are the goals of the new management plan that you have announced? Could you please clarify the relationship of the new plan to the New Management Framework?

ANSWER 4

The New Management Framework is an overarching plan that operates at a higher level than the Management Plan. We consider 2010 and 2011 to be a period of transition along the road to achieving the vision of the New Management Framework—a period where we transition from a phase of strengthening our earnings base through structural reform, to a growth phase. As I mentioned before, we are already seeing some results from the efforts made up to 2009 to strengthen our earnings base. We must now launch strategies for growth, and as these are specific measures for enhancing our existing businesses, many of them have been included in the 2010-2011 Management Plan. By bringing these measures to fruition we will put ourselves on a growth trajectory to reach the 2016 targets of the New Management Framework. This is how the Plan relates to the Framework.

QUESTION 5

Please tell us about the numerical targets and the strategy of the Management Plan 2010–2011.

Management Targets
(¥ Billion)

	Sales		Operating Income	
	2010	2011	2010	2011
Alcoholic Beverages (Japan)	285.0	290.0	7.5	8.5
Alcoholic Beverages (International)	26.0	27.5	1.0	1.5
Soft Drinks	32.0	34.0	0.7	1.5
Restaurants	27.0	28.0	0.2	0.5
Real Estate	24.5	26.5	8.0	10.0
General Corporate			(3.9)	(5.0)
Total	394.5	406.0	13.5	17.0

ANSWER 5

This is a two-year plan based on two key strategies. The first is to launch growth strategies. As I mentioned earlier, this involves taking steps based on medium-term growth scenarios and strategic challenges for each of our businesses to further ensure that we increase our value in the medium- to long-term. The second key strategy is to strengthen our existing businesses. Specifically, we will build competitive advantages in each business by concentrating our management resources on our strong brands and enhancing our ability to adapt to environmental changes. We also plan to support the implementation of these growth strategies by making a total of ¥65 billion in strategic investments over the two year period. We will fund this investment with the cash flow from our existing businesses; however, we also plan to use our most liquid Group assets to fund implementation of future strategies if needed. Please see the table for our numerical targets for the two years. We will achieve these targets by steadily executing these business plans I have mentioned.

QUESTION 6

One of the key strategies in the Management Plan 2010–2011 is to take action based on medium-term growth scenarios for each business. What kind of scenarios are these?

ANSWER 6

The kind of growth required from each business in order to achieve the targets of the New Management Framework is indicated by the direction of each business and the strategic challenges that it needs to address. It is important, however, to remember that we are talking about medium-term growth scenarios, so although we will launch the growth strategies in 2010-2011, the timeframe for their complete execution will extend beyond 2011, and in some cases may be as long as four to five years.

In the Japanese Alcoholic Beverages business, we will enhance the Group's earnings base by adding high value to alcoholic beverages across the board. In particular we will focus on developing and launching new high-added-value brands and products that suit Sapporo's image. We are also planning to boost our operating income to over ¥2 billion in the medium term by expanding our business in fields outside of beer; for example, by our successful strengthening of business in wine and *shochu* which I touched on earlier, and our introduction of new products in the growth field of ready to drink (RTD) beverages.

In the international Alcoholic Beverages business, we will expand our businesses in the two regions of North America and Asia, which we see as being drivers for Group growth. This expansion will rely mainly on SLEEMAN BREWERIES in Canada, Sapporo U.S.A. in the US, and our beer business in Vietnam; however, as we develop in further areas we will look for opportunities to expand overseas with our other Group businesses other than beer as well; namely soft drinks, food products, and restaurants.

In the Soft Drinks business, we will work to establish brands with distinctive value and to expand our business through strategic partnerships and M&As. In terms of business areas, we aim to expand from soft drinks to business areas such as chilled drinks and food products, and we also intend to expand these businesses internationally. Finally, we plan to broaden our partnership with Pokka Corporation while expanding through further strategic alliances and M&As.

The restaurant business is an important area for customer contact. We will continue to strengthen our brand power and our earnings base in this area. In this business, we will further concentrate on opening restaurants in the Tokyo, Sapporo, and Nagoya areas, where we already have many establishments. These large urban areas feature healthy demand and by concentrating our restaurants here we can also expect operational synergies such as cooperation in terms of personnel exchanges among neighboring locations.

In the Real Estate business, we will raise the value of the Group's existing properties by renovating and developing them, and expand the business by acquiring new assets. In particular we will begin examining ways to develop our properties in Ginza, Ebisu, Sapporo and other areas, and maximize their value.

QUESTION 7

We should consider the strategies in the Management Plan 2010–2011 as the first steps towards achieving the growth scenarios for each business. Could you then explain the two key strategies of launching growth strategies and strengthening existing business in more detail?

ANSWER 7

In the Japanese Alcoholic Beverages business, we will set sales on a growth trajectory by building a distinctive presence in this maturing market. We will also pursue greater efficiencies by stepping up the prioritization of resources. In particular, we will strengthen the marketing of our three core products in beer and beer-type beverages—Yebisu Beer, Sapporo Draft Black Label, and *Mugi to Hop*—under the slogan 'Bringing more cheer to your "Cheers!" (translated from Japanese)' In addition we will nurture new brands by offering new value propositions. In this vein, we have already proposed distinctive new products that are limited in availability by number or region, and we will continue to propose products that have such distinctive features. In cost structure reforms, also, in addition to thoroughly implementing our previous measures, we will take additional steps to raise production efficiency such as concentrating our beer production lines.

In the international Alcoholic Beverages business, we will further expand our North American business and commence operations in Vietnam. In North America we are discussing a new production system as we envisage a shortfall in capacity following business expansion by SLEEMAN BREWERIES. In the Vietnam business we will commence export sales. We are proceeding with construction of our production base with plans to start operation in fall of 2011. In future we will consider further expansion of the production base with the goal of expanding our business to cover all of Vietnam, after conducting a market receptivity study and examining the distribution network. In other initiatives, we plan to utilize the powerful Singapore sales network of our alliance partner Pokka Corporation to promote sales of beer in the Singapore household market.

In the Soft Drinks business we plan to strengthen our core brands and further boost cost effectiveness through our alliance with Pokka Corporation. In our food products business, moreover, last year we increased the facilities for our confectionary business in preparation for the launch of new products in our line of *Sapporo Potekaru* non-oil-fried potato chips in the Tokyo area this spring. Several major convenience store (CVS) chains have already decided to carry the product, and we intend to watch and wait for an opportunity to introduce more new products and to expand our sales area. In our yoghurt, desserts and chilled beverage business with Azumino Food Co., Ltd. we will work to develop new products that take advantage of technical synergies with Sapporo Breweries.

In the Restaurants business, our most urgent target is to return to profitability after making a loss last year. To do this, we will improve cost efficiency across all aspects of restaurant operations and close unprofitable restaurants. On the other hand, our new *Yebisu Bar* establishments, which utilize Group synergies, have been extremely well received. We currently have two *Yebisu Bar* locations, with plans to open more in future.

In the Real Estate business we will strive to raise the value of our main property, Yebisu Garden Place, in order to maintain a high occupancy rate and generate an appropriate level of rent. We will also proceed with other developments such as our office building in Shinjuku 5-chome, Tokyo, due to open in June 2010, and our sports facility, PAL Urayasu, in Chiba, which is scheduled to open in the first half of 2011. In addition, we will acquire a property in Tokyo's Shibuya ward in the first half of 2010, which will help us to maximize our earnings.

We are committed to achieving the numerical targets in our plan by steadily carrying out the measures set forth in the 2010-2011 Management Plan, and ultimately to realizing the growth scenarios envisaged in the New Management Framework. I'd like to thank our shareholders and all other stakeholders for their ongoing support and understanding.

T. Murakami

Takao Murakami

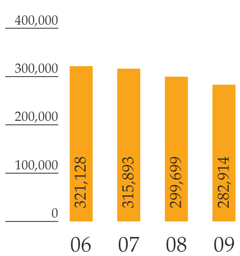
President and Representative Director, Group CEO

From left: *Mugi to Hop*, *Yebisu*, Kegged draft beer

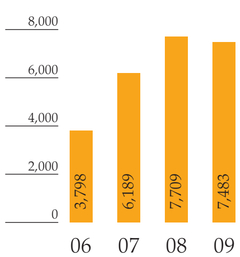
Sapporo Breweries Ltd.

In Japan, deflationary forces continued to intensify throughout 2009 amid continued deterioration in the employment environment in the wake of the global economic crisis that erupted in autumn 2008. The Japanese beer and beer-type beverages market saw total demand decrease by 2.1% year on year, largely as a result of unseasonable summer weather. With consumers increasingly tightening their belts, demand for beer and *happo-shu* (low-malt beer) decreased while demand for new product genres grew a hefty 21%.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



Beer Business

In the beer business, we promoted our *Yebisu Beer* brand's unique taste proposition and endeavored to create new demand with limited special offerings such as *Yebisu Silk* and *Kohaku Yebisu*. *Yebisu* brand unit sales consequently fared better than overall beer demand in terms of year-on-year changes. Our overall sales volume for beer was down 9% year on year in 2009 as a result of consumers' growing preference for low-priced products and a slump in demand in the commercial-use market. In new product genres, sales of a new product launched in March 2009 fell short of our target, but second-year sales volume of our *Mugi to Hop* brand grew substantially by 116% year-on-year. We also offered consumers new value with *Off no Zeitaku*, a functional new product genre beer launched in October 2009. Our total sales volume for new product genres grew 27%, outpacing overall growth in demand for new product genres. Our overall 2009 beer and beer-type beverages net sales fell 5% year on year as low-priced, new product genres accounted for a larger share of total sales.

From left: *Yebisu Silk*, *Yebisu <the Black>*, *Yebisu <the Hop>*, Kegged *Yebisu Stout Creamy Top*

Wine Business

Sales of the imported *Mythique* and *Beringer* brands held firm, roughly in line with overall wine demand. Among our domestic wines, our line of wine containing no antioxidant additives sold briskly but underperformed overall wine demand, largely due to 2008 price increases on our low-end products. Our overall wine sales consequently decreased, but the wine business's earnings grew.

Shochu Business

Shochu (Japanese distilled spirits) sales grew 4% year on year, increasing earnings for this business. This was mainly due to steady penetration into the commercial-use market of *Waramugi*, *Karariimo*, and other singly distilled *shochu*, coupled with strong sales of multiply distilled, large-volume product sales.

Overall, the Alcoholic Beverages (Japan) business posted net sales of ¥282.9 billion, down ¥16.8 billion, or 6%, year on year. Although we cut costs, most notably manufacturing and sales promotion expenses, certain expenses increased due to accounting standard and tax code changes. Consequently, operating income decreased ¥0.2 billion, or 3%, year on year to ¥7.5 billion.

The Japanese Beer Industry and Sapporo Beer

Demand Trends

In 2009, Japan's beer market—made up of beer, *happo-shu* and new product genres—saw demand for new product genres increase by a sharp 21% year on year, reflecting unseasonable summer weather and intensifying deflationary forces due to the protracted economic downturn. With consumers increasingly tightening their belts, demand for beer and *happo-shu* fell 7% and 16% year on year, respectively. Consequently, total demand in Japan's beer market decreased just over 2% year on year.

Sapporo's Basic Approach

In 2010, total demand in Japan's beer market should continue to contract based on concerns over the deepening recession and the possible onset of a deflationary spiral. Accordingly, total demand in Japan's beer market in 2010 is projected to decrease by nearly 2% from 2009.

Amid such a market environment, we aim to boost earnings by offering uniquely Sapporo value propositions. Toward this end, our first priority is to conduct marketing that induces consumers to experience our beer products' refreshing taste, using a communication message of *Bringing more cheer to your "Cheers!"* (translated from the Japanese).

More specifically, we will primarily focus on further increasing the market presence of three brands in particular: our long-standing *Yebisu Beer* and Sapporo Draft Beer Black Label brands, and *Mugi to Hop*, a new product genre brand with favorable prospects for continued sales growth in 2010.

We also aim to win more fans for Sapporo products—by targeting acquisition of new growth brands, and actively proposing new taste sensations again.

From left: *La Cuvée Mythique*, *Waramugi*

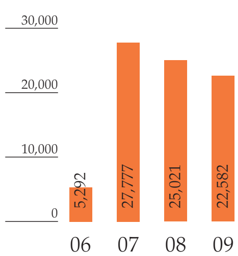
Alcoholic Beverages (International)

Sapporo brand and SLEEMAN brand

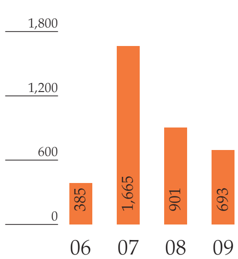
Sapporo International Inc.

In the North American beer market, total demand was estimated to have contracted by some 2–3% as consumer spending was dampened by the U.S. economy's pronounced slowdown since fall 2008. Demand for U.S. domestic beers (particularly low-priced brands) held relatively firm, but demand for imported beers in the premium price range generally declined by about 10%. Economic conditions had a mixed impact on beer consumption. Beer consumption in the home-use market held steady while consumption in the commercial-use markets declined.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



SLEEMAN BREWERIES LTD.

We conducted proactive sales activities targeted at the premium market segments in which we have strong brands. As a result, Canadian subsidiary SLEEMAN BREWERIES' sales volume grew 10% over last year (excluding outsourced production of Sapporo brand products) amid a slump in overall demand for beer in Canada of 2% from the previous year. SLEEMAN BREWERIES' sales growth has significantly outstripped overall demand growth in Canada every year since it was acquired by the Sapporo Group in 2006.

Sapporo U.S.A., Inc.

At Sapporo U.S.A., by contrast, sales volume declined 13% year on year, reflecting a sales mix heavily weighted toward the super-premium price range and the commercial-use market.

Overall, net sales in the Alcoholic Beverages (International) business decreased ¥2.4 billion, or 10%, year on year to ¥22.6 billion, as forex effects pushed down sales in yen terms despite higher sales in local currency terms. Operating income declined ¥0.2 billion, or 23%, to ¥0.7 billion.

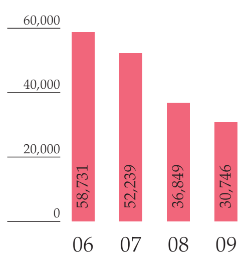
Soft Drinks

From left: *Ribbon Citron*, *Gerolsteiner*, *Gabunomi Milk Coffee*

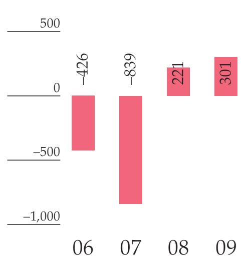
Sapporo Beverage Co., Ltd.

Overall demand in the Japanese soft drinks market was estimated to have contracted by around 3% year on year mainly as a result of consumer belt-tightening in response to the economic downturn, unseasonable summer weather, and weak demand in the vending machine channel.

Net Sales
(¥ Million)



Operating Income (Loss)
(¥ Million)



Soft Drinks

In our Soft Drinks business, we pursued marketing strategies focused mainly on cultivating and strengthening existing brands. Activities included campaigns to win new orders for *Ribbon Citron*, which celebrated its 100th anniversary in 2009, and for *Gabunomi*, in which we introduced a collaborative bottle label featuring the popular animation series *One Piece.* For *Gerolsteiner* naturally carbonated water, we conducted TV advertising and consumer campaigns, expanded customer-contact points and raised its profile in the front of stores. Despite such measures, the Soft Drinks business's sales volume declined 18% from 2008, partly reflecting the reduction of unprofitable sales. Meanwhile, as part of measures to secure a stable earnings base we optimized production operations, rationalized procurement costs for raw materials and supplies, and reduced product and raw-material disposal losses.

Also, we entered into a capital and business alliance with Pokka Corporation from September 2009, and have started working to realize synergies in production, procurement and other areas.

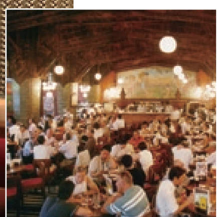
Foods Business

Our *Sapporo Potekaru* non-oil-fried potato chips, which were launched in February 2009, through Sapporo Finefoods Co.,Ltd. have proven even more popular than we had expected, and we have been working to step up production.

From April 2009 we also entered the growing yoghurt, chilled drinks and desserts market through Azumino Food Co., Ltd., a joint venture with Marudai Food Co., Ltd.

Overall, the Soft Drinks business posted a ¥6.1 billion, or 17%, decrease in net sales to ¥30.7 billion. Although we incurred initial investment costs in the Foods business, our ongoing program to boost earnings power by selectively focusing resources on key areas helped us achieve operating income of ¥0.3 billion, up ¥0.1 billion, or 36%, year on year.

Restaurants

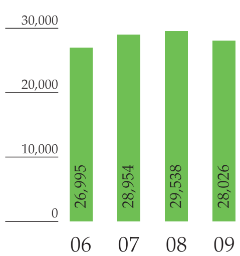


From left: Sapporo Lion Beer Hall in Ginza 7-chome, *Tomoru* in Ginza Corridor

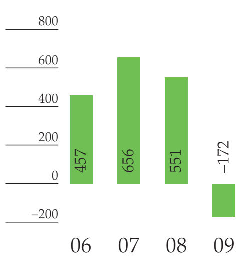
Sapporo Lion Ltd.

In the Japanese restaurant industry, restaurant chains lowered prices in rapid succession in response to consumers' growing frugality amid severe deterioration in personal incomes and the employment environment. The pub and Japanese *izakaya* formats saw falling demand from the corporate sector, which contributed to a relentless falloff in customer traffic and decline in average spending-per-customer in our existing restaurants.

Net Sales
(¥ Million)



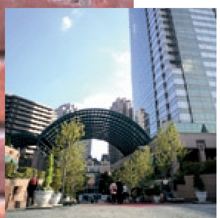
Operating Income (Loss)
(¥ Million)



In our Restaurants business we avoided becoming embroiled in cut-price competition while seeking to restore customer traffic through such means as expanding the price range for group event courses and offering smaller servings of featured menu items at lower prices. We also endeavored to boost revenues by conducting a Beer Hall Day campaign to commemorate the 110th anniversary of the *Sapporo Lion Beer Hall* chain's inception and deploying a Group-wide sales force to visit companies to attract corporate group events to our restaurants. We opened 13 new restaurant locations in 2009. In November, we simultaneously opened new *Kakoiya* and *Tomoru* restaurants at the Shinjuku Sanchome Toho Building. We also opened our first *Yebisu Bar*, a new format we developed by tapping into Group synergies, in Tokyo's Ginza Corridor district. We also closed six restaurant locations in 2009 to end the year with a total of 211 locations.

In terms of results, the Restaurants business posted a ¥1.5 billion, or 5%, year-on-year decrease in net sales to ¥28.0 billion, and an operating loss of ¥0.2 billion, a change of ¥0.7 billion from operating income in the previous year. These results primarily reflected a large drop in sales at existing restaurants.

Real Estate

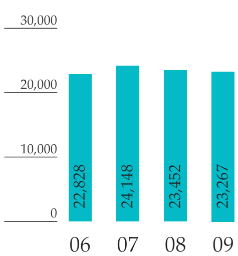



From left: Yebisu Garden Place, Sapporo Factory *Renga-kan*

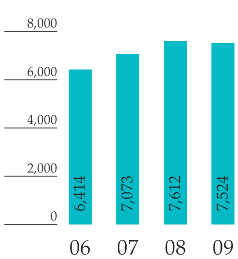
Yebisu Garden Place Co., Ltd.

In the real estate sector, Tokyo-area office building rents and vacancy rates continued to worsen from January 2009. Although the deterioration trend has gradually slowed since mid-2009, it has yet to reverse.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



Existing Properties

We strived to maintain or raise occupancy rates and rents, and to further reduce costs, at existing properties. We maintained high occupancy rates mainly at central-Tokyo office buildings such as the Yebisu Garden Place office tower, but felt the impact of the economic downturn as occupancy rates stagnated at upscale rental apartments.

Real Estate Development

We opened the MLB café TOKYO commercial property in Ebisu (Tokyo) in September, completed construction of the Chikusa Garden Terrace condominium complex in Nagoya, and we are continuing construction work on an office building project in Shinjuku, Tokyo, scheduled to open in June 2010.

New Income-Generating Property Acquisitions

In February, we acquired Rose City Higashi Sapporo, a rental condominium building in Sapporo, and in August, we acquired Ebisu Square, an office building located in Ebisu.

As a result of the above, and partly due to the April 2008 sale of a 15% co-ownership stake in Yebisu Garden Place, the Real Estate segment posted net sales of ¥23.3 billion, a year-on-year decrease of ¥0.2 billion, or 1%, and operating income of ¥7.5 billion, a year-on-year decline of ¥0.1 billion, or 1%.

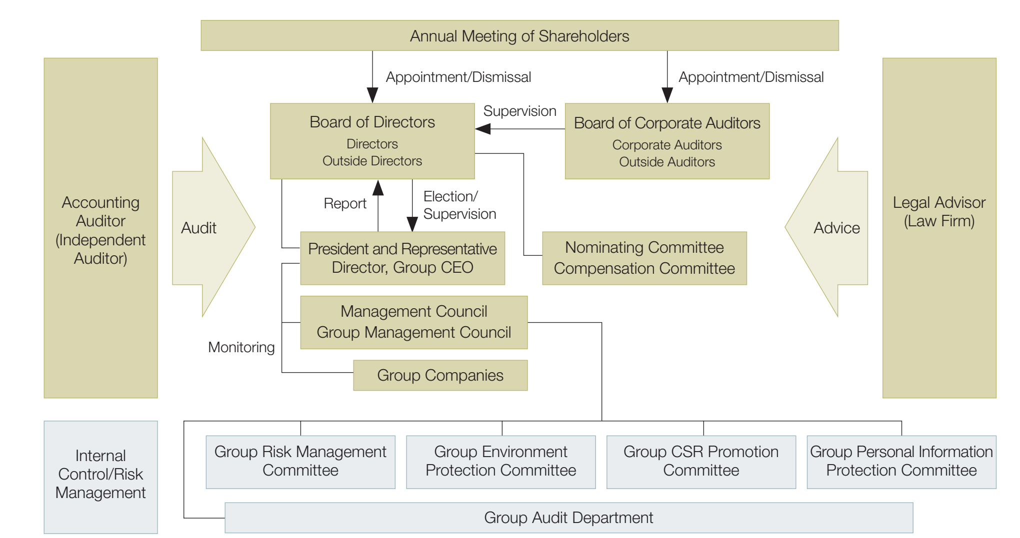
The Sapporo Group regards strengthening and enhancing corporate governance as one of its top management priorities. The Group is working to increase the transparency of its operations by clarifying supervisory, business execution and auditing functions throughout the Group under the holding company framework. The Group is also working to strengthen management supervisory functions towards the achievement of management goals.

Corporate Governance Framework

To strengthen management supervisory functions, the Sapporo Group has clarified the supervisory functions (holding company) and business execution functions (operating companies) within the Group. The Board of Directors performs a supervisory role and makes decisions on statutory matters and important matters relating to business execution. The Board of Directors also elects and supervises the President and Representative Director, who also serves as Group CEO, to control business execution across the entire group; the group operating officers, who control business execution in the main business segments; and other key personnel. Sapporo Holdings has 10 directors, three of whom are outside directors.

To assist the President and Representative Director, Group CEO in making decisions about operations, the Company established a Management Council to deliberate on important issues. The Group has also established a Group Management Council responsible for ensuring flexible decision-making and coordinated strategies for the entire Group. The council tracks business progress at each operating company and meets to discuss material issues related to business execution at each company.

Corporate Functions and Internal Control Relationships



Although Sapporo Holdings uses the corporate auditor system, it has also established a Nominating Committee and a Compensation Committee with the goals of increasing transparency in respect to the nomination and remuneration of directors and preserving a sound management structure.

Upgrading the Internal Control System

The Group has established separate projects for creating systems to ensure appropriate financial reporting, CSR/Compliance, Group Governance and Risk Management, and is taking concrete steps to put these systems in place. The goal is to achieve full adherence to the basic policies decided by the Board of Directors, and to constantly upgrade and enhance the systems for the entire group. The project secretariats of these projects all sit on an Internal Control Liaison Committee that the Group has also established to facilitate mutual understanding and coordination regarding the status of each project.

Internal Audits and Corporate Audits

At the meeting of the Board of Corporate Auditors, the corporate auditors decide on the audit policy and allocate auditing duties. Each corporate auditor attends important meetings such as the Board of Directors meeting, the Management Council, and the Group Management Council; reads over requests for approval; and audits each operating company and their subsidiaries. This system allows proper auditing of the execution of duties by directors. The corporate auditors also receive an explanation of the audit plan from the independent auditors and the independent auditors' report. In addition, corporate auditors meet with the independent auditors as needed to exchange information about the status of the independent audit, or any accounting related issues. Sapporo Holdings has four corporate auditors, two of whom are outside auditors.

Internal audits are performed by the Group Audit Department across the entire Group, including operating companies and their subsidiaries. The Group Audit Department and the corporate auditors meet regularly to exchange views on the results of the internal audits, the status of internal control and other related matters. The internal audit report of the Group Audit Department is read by the corporate auditors as part of the information that they share.

Risk Management

The Group Risk Management Committee is charged with quickly deliberating on responses including disclosure of information, in the event that an emergency affecting the entire Group arises, or if facts that could lead to an emergency come to light. The Group Risk Management Committee then acts quickly to propose, adjust and execute appropriate response measures. In addition, the Group has established other specialist committees including the Group CSR Promotion Committee, the Group Environment Protection Committee and the Group Personal Information Protection Committee.

Compliance

The Group has set out the Sapporo Group Code of Business Conduct to provide a solid set of ethical guidelines for the conduct of all executives and employees. Acting as the CSR Department secretariat, the Group CSR Promotion Committee has created a Group-wide compliance system and established a Whistle-Blower's Hotline and Helpline to help with prevention and early detection of misconduct. In addition, the Group Audit Department, which is an internal auditing body that is independent of the executive chain of command, audits the general business operations of Sapporo Holdings and its subsidiaries to ensure compliance with laws and regulations, the Company's Articles of Incorporation and internal rules.

Management (As of March, 2010)

A scene from the Museum of Yebisu Beer, which opened on February 25, 2010 to commemorate 120 years of Yebisu Beer

Board of Directors

1 Takao Murakami
President and Representative Director, Group CEO

2 Yoshiyuki Mochida
Managing Director

3 Tsutomu Kamijo
Managing Director

4 Fumiaki Terasaka
Managing Director

5 Hiroaki Eto
Director*

6 Hiroshi Tanaka
Director*

7 Nobuo Katsumata
Director*

8 Kazuo Ushio
Director

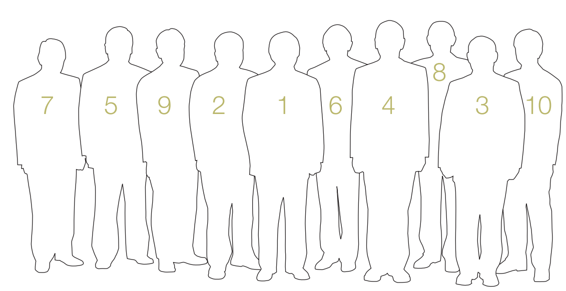
9 Hidenori Tanaka
Director

10 Yoichi Kato
Director

Board of Corporate Auditors

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

* Outside Director
** Outside Auditor



Five-Year Summary (Years ended December 31)

	Millions of yen				
	2009	2008	2007	2006	2005
Net sales	¥387,534	¥414,558	¥449,011	¥435,090	¥453,671
Alcoholic Beverages	305,496	324,720	343,670	326,420	341,077
Soft Drinks	30,746	36,849	52,239	58,731	63,897
Restaurants	28,026	29,538	28,954	26,995	26,331
Real Estate	23,267	23,452	24,148	22,828	21,696
Other	–	–	–	116	670
Operating cost and expenses	374,638	399,873	436,649	426,477	443,371
Operating income	12,896	14,685	12,363	8,613	10,300
Income before income taxes and minority interests	8,874	17,970	221	3,978	6,573
Net income	4,535	7,640	5,509	2,338	3,630
	Yen				
Per share:					
Net income:					
Primary	¥ 11.57	¥ 19.49	¥ 14.10	¥ 6.38	¥ 10.20
Diluted	11.05	18.89	13.76	5.88	9.18
Net assets	302.16	297.60	319.07	300.13	305.00
Cash dividends	7.00	7.00	5.00	5.00	5.00
	Millions of yen				
Year-end data:					
Net assets	¥118,591	¥116,862	¥125,189	¥113,496	¥111,411
Total assets	506,875	527,287	561,859	589,597	563,845
Financial liabilities	196,794	189,252	212,464	236,033	220,723
ROE (%)	3.9	6.3	4.6	2.1	3.6
Capital expenditures	23,485	29,378	19,548	30,790	16,218
Depreciation and amortization	22,547	21,605	24,527	21,930	22,075

Management's Discussion and Analysis

Sapporo Holdings Limited and the Sapporo Group

The Sapporo Group endeavored to strengthen its earnings base and expand operations that capitalize on its strengths in pursuit of sustained growth in accordance with the key priorities of its rolling two-year Management Plan based on the Sapporo Group's New Management Framework unveiled in 2007.

To realize sustained growth into the future, the Group laid the groundwork for attaining the Management Plan's targets through such means as deciding to expand the beer business into Vietnam, forming a capital and operational alliance with Pokka Corporation, and initiating a joint venture with the Marudai Food Group in the yoghurt, dessert, and chilled beverage markets. In terms of strengthening its earnings base, the Group made progress toward achieving the Management Plan's earnings targets by continuously tightening cost controls and reforming its cost structure with the aim of achieving earnings stability amid a changing economic environment.

In terms of the scope of consolidation, the Company had 35 consolidated subsidiaries and 7 equity-method affiliates in the year ended December 31, 2009.

Operational Overview

In 2009, the perennially export-dependent Japanese economy was hard hit by a major contraction in global demand amid a synchronous global recession ensuing from the financial crisis that began the previous autumn.

Against such a backdrop, the Japanese economy was beset by deepening deflation as companies were forced to downsize their workforces and curtail investment, resulting in large declines in domestic consumer spending and capital investment.

In the alcoholic beverage, soft drink, and restaurant industries in which the Group operates, weak consumer spending and unseasonable summer weather weighed heavily on corporate earnings.

In the real estate industry, Tokyo-area office building rents and vacancy rates continued to worsen from January. Although the deterioration trend has gradually slowed since mid-2009, it has yet to reverse.

Consolidated Operating Results

Net Sales

Net sales decreased ¥27,024 million, or 6.5%, year on year to ¥387,534 million.

By business segment, Alcoholic Beverages saw a 5.9% year-on-year decline in net sales to ¥305,496 million. This decrease partly reflected lower sales volume and a higher share of low-priced new product genres in total sales in the Alcoholic Beverages (Japan) business, as well as the impact of a stronger yen on the Alcoholic Beverages (International) business.

The Soft Drinks segment recorded a 16.6% year-on-year drop in net sales to ¥30,746 million, partly due to the discontinuation of unprofitable sales and changes in accounting standards.

The Restaurants segment recorded a 5.1% year-on-year decrease in net sales to ¥28,026 million, largely due to weak consumer spending.

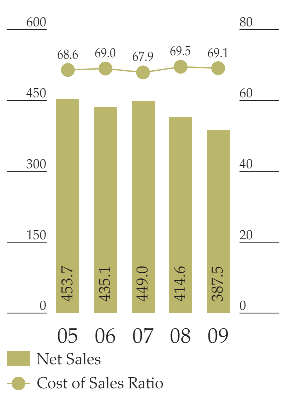
The Real Estate segment recorded a 0.8% year-on-year decrease in net sales to ¥23,267 million, partly the result of the sale of a 15% co-ownership stake in Yebisu Garden Place.

Cost of Sales

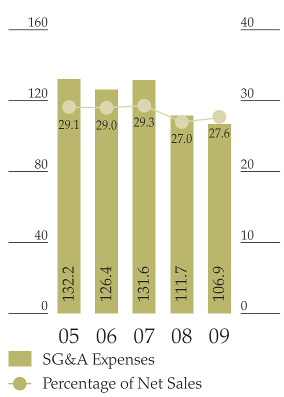
Cost of sales decreased ¥20,456 million, or 7.1%, year on year to ¥267,690 million in line with the lower net sales. The cost of sales ratio decreased 0.4 percentage points to 69.1%.

This decrease mainly reflected overall cost reductions and a better product mix, despite factors pushing up the cost of sales, including the application of the "Accounting Standard for Measurement of Inventories" and a change in the useful lives for depreciation of machinery assets.

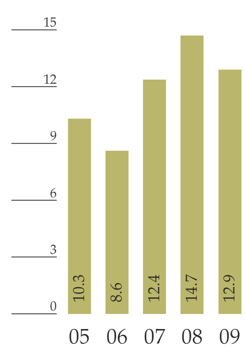
Net Sales and Cost of Sales Ratio
(¥ Billion, %)



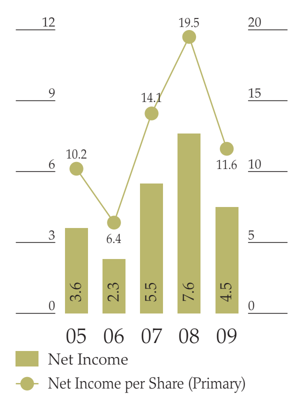
SG&A Expenses and Percentage of Net Sales
(¥ Billion, %)



Operating Income
(¥ Billion)



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



Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased ¥4,779 million, or 4.3%, year on year to ¥106,948 million.

The main reasons were a decrease in sales incentives and commissions due to reduced unprofitable sales in the Soft Drinks business, and a decrease in sales promotion and advertising expenses in the Alcoholic Beverages business, as the Company used sales promotion and advertising spending more efficiently by focusing spending on core brands.

Operating Income

Operating income decreased ¥1,789 million, or 12.2%, year on year to ¥12,896 million, partly due to accounting standard and tax code changes.

The impact from accounting standard and tax code changes mainly consisted of higher operating expenses, specifically an ¥829 million yen increase due to the application of the "Accounting Standard for the Measurement of Inventories" and a ¥1,569 million increase due to a change in the useful lives for depreciation of machinery assets.

Other Income (Expenses)

Other expenses were ¥4,022 million, compared with other income of ¥3,285 million in the previous year.

With regard to net financial income (expenses), calculated as the sum of interest and dividend income minus interest expense, the Company recorded expenses of ¥2,688 million in fiscal 2009, a slight improvement on the previous year, despite increased financial liabilities. This mainly reflected reduced interest expenses at foreign subsidiaries.

The Company recorded equity in income of affiliates of ¥276 million compared with equity in loss of affiliates of ¥1 million in the previous year. This change partly reflected the addition of two affiliates accounted for by the equity-method: Pokka Corporation and Azumino Food Co., Ltd.

The Company also recorded a ¥948 million gain on sales of property, plant and equipment, mainly due to the sale of part of the former Osaka plant site.

There was a large improvement in other expenses due to the transfer of the loss on disposal of inventories to cost of sales in line with a change in accounting standards. Previously, the loss on disposal of inventories was recorded under other expenses.

The Company recorded a loss on disposal of property, plant and equipment of ¥1,524 million, mainly due to upgrading beer-production facilities and other assets.

The Company booked a loss on impairment of property, plant and equipment of ¥926 million on properties for which investment recovery is expected to be difficult due to declining profitability.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests decreased ¥9,096 million to ¥8,874 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥4,350 million. Income taxes accounted for 49.0% of income before income taxes and minority interests. The difference between this percentage and the statutory effective tax rate of 40.7% mainly reflected the recording of a valuation allowance.

As a result, net income was ¥4,535 million, down 40.6% year on year.

Segment Information

	Millions of yen			
	Net Sales	Operating Income/ Loss	Depreciation and Amortization	Capital Expenditures
Alcoholic Beverages	305,496	8,176	15,220	10,054
(Japan)	282,914	7,483	–	–
(International)	22,582	693	–	–
Soft Drinks	30,746	301	385	1,466
Restaurants	28,026	(172)	776	875
Real Estate	23,267	7,524	6,161	11,073

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, 2009 stood at ¥506,875 million, down ¥20,412 million, or 3.9%, from a year ago.

This was mainly the result of a decrease in current assets due to lower cash and cash equivalents. However, this decrease was partly offset by an increase in investment securities due to the acquisition of Pokka Corporation shares, and new property.

Liabilities

Financial liabilities increased ¥7,542 million to ¥196,794 million.

Total liabilities decreased ¥22,140 million, or 5.4%, from a year earlier to ¥388,284 million. This mainly reflected decreases in corporate bonds and short-term bank loans as well as lower deposits accompanying the termination of gift voucher certificates. However, these decreases were partly offset by increased long-term loans.

Net Assets

Retained earnings increased ¥315 million to ¥20,287 million at the fiscal year-end, due to the higher net income.

Foreign currency translation adjustments improved year on year. This mainly reflected weaker exchange rates for the yen at foreign subsidiaries on December 31, 2009, compared with the previous fiscal year-end.

As a result, net assets increased ¥1,728 million from a year earlier to ¥118,591 million.

Cash Flows

Consolidated cash and cash equivalents as of December 31, 2009 were ¥6,268 million, an decrease of ¥15,950 million, or 71.8%, from the previous fiscal year-end. Factors behind this decrease were as follows.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥12,454 million, ¥9,838 million, or 44.1%, lower than in the previous fiscal year. The main contributors were income before income taxes and minority interests of ¥8,874 million, depreciation and amortization of ¥22,547 million, and goodwill amortization expense of ¥1,032 million. These were partly offset by a ¥19,751 million decrease in deposits received, and other factors.

Cash Flows From Investing Activities

Investing activities used net cash of ¥32,227 million, a change of ¥49,083 million from the net cash provided by the previous fiscal year.

This change mainly reflected payments of ¥8,043 million for purchases of affiliates' securities, ¥18,399 million for purchases of property, plant and equipment, and ¥3,429 million for purchases of intangibles.

Cash Flows From Financing Activities

Financing activities provided net cash of ¥3,746 million, a change of ¥25,953 million from the net cash used in the previous fiscal year. This was primarily the net result of proceeds of ¥50,000 million from long-term debt, a net decrease of ¥6,399 million in short-term bank loans, the repayment of long term debt of ¥17,254 million, and the redemption of bonds of ¥19,710 million.

Management Indicators

The current ratio declined 0.3 of a percentage point from 60.7% to 60.4%.

This was the combined result of a ¥27,140 million decrease in total current assets, which reflected a ¥16,106 million decrease in cash and cash equivalents and time deposits, and a ¥43,952 million decrease in current liabilities.

The equity ratio rose from 22.1% a year earlier to 23.4%, reflecting higher equity capital due to increases in retained earnings and valuation and translation adjustments.

Return on equity (ROE) decreased from 6.3% to 3.9% due to the 40.6% year-on-year decrease in net income.

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

Outlook For 2010

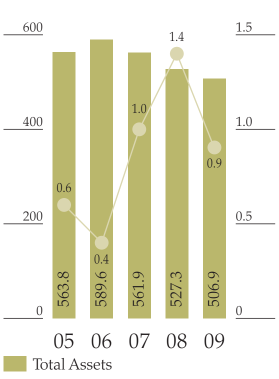
The Company is forecasting consolidated net sales of ¥394,500 million, an increase of ¥6,966 million, or 1.8%, year on year.

Operating income is projected to increase ¥604 million, or 4.7%, year on year to ¥13,500 million mainly based on steady earnings underpinned by ongoing cost controls in the Alcoholic Beverages business and projected sales volume growth in overseas markets.

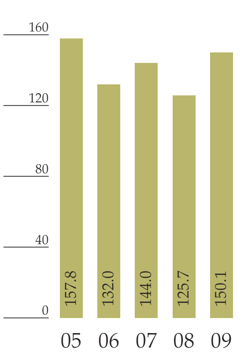
Net income is forecast to increase ¥265 million, or 5.8%, year on year to ¥4,800 million, mainly based on the projected increase in consolidated operating income.

Regarding the annual dividend applicable to 2010, the Company plans to continue paying an annual dividend of ¥7.0 per share, the same as in 2009, while continuing to steadily execute its management

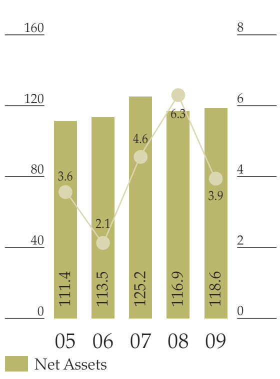
Total Assets and ROA
(¥ Billion, %)



Long-term Debt
(¥ Billion)



Net Assets and ROE
(¥ Billion, %)



plan, which will involve strategic investments and ongoing actions to strengthen the financial base.

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, 2009.

High Dependency on Specific Business Areas

In 2009, Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 78.8% 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.

In Southeast Asia, which is regarded as a strategic business development region, the Sapporo Group has decided to build a brewery in Vietnam and plans to develop business on a full scale in the country.

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.

Regarding Dilution of Net Income per Share

Consolidated subsidiary Sapporo Beverage Co., Ltd has issued a *First Series of Unsecured Convertible Bonds With Stock Acquisition Rights*. If the stock acquisition rights on these bonds are exercised, net income per share may be diluted.

Capital Investment Plans

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

Impact of Laws and Regulations

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

Retirement Benefit Obligations

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

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

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

The Sapporo Group records impairment losses on property, plant and equipment and leased assets, and on intangibles at the Company and consolidated subsidiaries in Japan in line with impairment criteria based on Japanese accounting standards for the impairment of fixed assets.

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

Holding Company Risk

Sapporo Holdings derives income from brand licensing fees and commissions for management guidance, as well as interest and dividends paid by Group operating companies.

Any deterioration in the financial position of Group operating companies could result in nonpayment, which may adversely affect Sapporo Holdings' business performance.

Consolidated Balance Sheets (December 31, 2009 and 2008)

ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current assets:			
Cash and cash equivalents	¥ 6,268	¥ 22,218	$ 68,077
Time deposits	120	276	1,303
Notes and accounts receivable—trade	60,121	62,259	652,987
Marketable securities (Note 4)	47	39	511
Inventories (Note 5)	22,949	21,409	249,255
Refundable income taxes	1,237	2,970	13,434
Allowance for doubtful receivables	(193)	(168)	(2,094)
Deferred tax assets (Note 11)	2,788	6,267	30,281
Other current assets	8,942	14,147	97,116
Total current assets	102,278	129,418	1,110,870
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	10,003	1,676	108,641
Other	25,388	24,784	275,742
Long-term loans receivable	11,073	10,480	120,265
Allowance for doubtful receivables	(1,764)	(1,809)	(19,155)
Deferred tax assets (Note 11)	4,825	5,039	52,403
Other investments	15,340	17,523	166,609
	64,864	57,694	704,506
Property, plant and equipment (Notes 6 and 7):			
Land	84,384	78,894	916,525
Buildings and structures	361,277	358,590	3,923,937
Accumulated depreciation	(184,898)	(177,716)	(2,008,237)
Machinery and vehicles	182,374	180,773	1,980,816
Accumulated depreciation	(138,387)	(134,476)	(1,503,067)
Construction in progress	8,487	9,146	92,185
Other	19,784	20,046	214,881
Accumulated depreciation	(15,182)	(16,047)	(164,899)
Property, plant and equipment, net	317,839	319,208	3,452,142
Intangibles	21,894	20,967	237,802
	¥ 506,875	¥ 527,287	$ 5,505,319

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

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term bank loans (Note 7)	¥ 20,593	¥ 26,934	$ 223,671
Current portion of long-term debt (Note 7)	26,142	36,582	283,932
Notes and accounts payable—trade	20,185	23,829	219,239
Liquor taxes payable	35,242	35,586	382,776
Income taxes payable (Note 11)	843	724	9,157
Accrued bonuses (Note 2 (k))	1,639	1,351	17,800
Deposits received	27,084	46,835	294,171
Other current liabilities	37,523	41,362	407,552
Total current liabilities	169,252	213,204	1,838,298
Long-term debt (Note 7)	150,059	125,736	1,629,840
Dealers' deposits for guarantees	32,011	32,023	347,682
Employees' retirement benefits (Note 10)	7,488	7,531	81,326
Directors' and corporate auditors' severance benefits	46	53	495
Deferred tax liabilities (Note 11)	12,098	12,304	131,396
Other long-term liabilities	17,331	19,573	188,234
Contingent liabilities (Note 14)			
Total liabilities	388,284	410,424	4,217,272
Net assets			
Shareholders' equity:			
Common stock (Note 15)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2009 393,971,493 shares	53,887	–	585,279
— at December 31, 2008 393,971,493 shares	–	53,887	–
Capital surplus	46,318	46,326	503,078
Retained earnings (Note 8)	20,287	19,972	220,343
Treasury stock, at cost	(1,132)	(1,058)	(12,291)
Total shareholders' equity	119,360	119,126	1,296,409
Valuation and translation adjustments			
Unrealized holding gain on securities	2,638	3,046	28,650
Deferred hedge gains	1	–	11
Foreign currency translation adjustments	(3,627)	(5,536)	(39,399)
Total valuation and translation adjustments	(989)	(2,490)	(10,738)
Minority interests	219	226	2,377
Total net assets	118,591	116,862	1,288,048
	¥506,875	¥527,287	$5,505,319

Consolidated Statements of Income (Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net sales	¥387,534	¥414,558	¥449,011	$4,209,127
Operating cost and expenses:				
Cost of sales	267,690	288,146	305,078	2,907,467
Selling, general and administrative expenses	106,948	111,726	131,571	1,161,594
Operating income	12,896	14,685	12,363	140,067
Other income (expenses):				
Interest and dividend income	936	969	1,026	10,161
Interest expense	(3,623)	(3,717)	(4,306)	(39,352)
Other, net (Notes 6 and 9)	(1,334)	6,033	(8,862)	(14,489)
Income before income taxes and minority interests	8,874	17,970	221	96,387
Income taxes (Note 11):				
Current	913	519	3,349	9,915
Deferred	3,437	9,835	(8,635)	37,335
	4,350	10,354	(5,286)	47,249
Minority interests	11	25	2	122
Net income (Note 15)	¥ 4,535	¥ 7,640	¥ 5,509	$ 49,260

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)
	2009	2008	2007	**2009**
Common stock:				
Balance at beginning of year	**¥53,887**	¥53,887	¥50,066	**$585,279**
Conversion of convertible bonds	**–**	–	3,820	**–**
Balance at end of year	**¥53,887**	¥53,887	¥53,887	**$585,279**
Capital surplus:				
Balance at beginning of year	**¥46,326**	¥46,310	¥42,485	**$503,157**
Conversion of convertible bonds	**–**	–	3,820	**–**
Disposition of treasury stock	**(7)**	15	5	**(79)**
Balance at end of year	**¥46,318**	¥46,326	¥46,310	**$503,078**
Retained earnings (Note 8):				
Balance at beginning of year	**¥19,972**	¥14,293	¥10,473	**$216,924**
Net income	**4,535**	7,640	5,509	**49,260**
Increase resulting from inclusion of newly consolidated subsidiary	**–**	–	202	**–**
Cash dividends	**(2,743)**	(1,961)	(1,891)	**(29,798)**
Changes due to change in accounting policies applied to foreign subsidiaries	**(1,477)**	–	–	**(16,044)**
Balance at end of year	**¥20,287**	¥19,972	¥14,293	**$220,343**
Treasury stock, at cost:				
Balance at beginning of year	**¥(1,058)**	¥ (849)	¥ (572)	**$(11,493)**
Net increase	**(73)**	(209)	(277)	**(797)**
Balance at end of year	**¥(1,132)**	¥(1,058)	¥ (849)	**$(12,291)**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 3,046**	¥ 9,641	¥11,318	**$ 33,085**
Net change during the year	**(408)**	(6,595)	(1,677)	**(4,435)**
Balance at end of year	**¥ 2,638**	¥ 3,046	¥ 9,641	**$ 28,650**
Deferred hedge gains:				
Balance at beginning of year	**–**	–	–	**–**
Net change during the year	**1**	–	–	**11**
Balance at end of year	**¥ 1**	–	–	**$ 11**
Foreign currency translation adjustments (Note 2 (n)):				
Balance at beginning of year	**¥(5,536)**	¥ 1,853	¥ (276)	**$(60,133)**
Net change during the year	**1,909**	(7,390)	2,130	**20,734**
Balance at end of year	**¥(3,627)**	¥(5,536)	¥ 1,853	**$(39,399)**
Minority interests:				
Balance at beginning of year	**¥ 226**	¥ 54	¥ 2	**$ 2,457**
Net change during the year	**(7)**	172	52	**(80)**
Balance at end of year	**¥ 219**	¥ 226	¥ 54	**$ 2,377**

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)
	2009	2008	2007	2009
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 8,874	¥ 17,970	¥ 221	$ 96,387
Depreciation and amortization	22,547	21,605	24,527	244,889
Depreciation expenses resulting from revision of residual value	–	–	6,583	–
Loss on impairment of property, plant and equipment	926	8,207	6,939	10,056
Goodwill amortization expense	1,032	867	870	11,209
Amortization of goodwill	–	–	276	–
Decrease in employees' retirement benefits	(43)	(7,604)	(1,167)	(472)
Decrease in allowance for doubtful receivables	(23)	(523)	(295)	(253)
Interest and dividend income	(936)	(969)	(1,026)	(10,161)
Interest expense	3,623	3,715	4,280	39,352
Gain on sales of property, plant and equipment	(948)	(25,893)	(6,770)	(10,298)
Loss on sales and disposal of property, plant and equipment	1,524	5,836	1,301	16,547
Gain on sales of investment securities	(20)	(21)	(767)	(213)
Loss on devaluation of investment securities	244	747	394	2,651
Decrease in notes and accounts receivable	2,668	5,761	4,388	28,977
(Increase) decrease in inventories	(981)	1,057	778	(10,655)
Decrease in other current assets	5,976	–	–	64,910
Decrease in notes and accounts payable	(3,884)	(1,447)	(3,015)	(42,190)
Decrease in liquor taxes payable	(433)	(2,287)	(207)	(4,704)
Decrease in deposits received	(19,751)	(1,854)	(3,159)	(214,523)
Increase (decrease) in other current liabilities	(4,402)	4,806	327	(47,814)
Other	(1,836)	254	1,810	(19,939)
Subtotal	14,156	30,226	36,288	153,758
Interest and dividends received	932	974	991	10,125
Interest paid	(3,545)	(3,743)	(4,238)	(38,501)
Income taxes paid	(1,952)	(5,165)	(2,351)	(21,197)
Income taxes refundable	2,862	–	–	31,085
Net cash provided by operating activities	12,454	22,292	30,691	135,270
Cash flows from investing activities:				
Net increase in time deposit	–	273	(22)	–
Purchases of investment securities	(1,469)	(1,167)	(251)	(15,951)
Proceeds from redemption and sales of investment securities	57	152	2,805	615
Purchases of affiliates' securities	(8,043)	(52)	(87)	(87,352)
Purchases of property, plant and equipment	(18,399)	(22,791)	(17,816)	(199,834)
Proceeds from sales of property, plant and equipment	1,439	49,083	7,206	15,631
Purchases of intangibles	(3,429)	(4,551)	(2,068)	(37,247)
Increase in long-term loans receivable	(755)	(525)	(75)	(8,202)
Collection of long-term loans receivable	208	252	415	2,254
Other	(1,836)	(3,816)	(3,602)	(19,941)
Net cash used in (provided by) investing activities	(32,227)	16,856	(13,495)	(350,028)
Cash flows from financing activities:				
Net decrease in short-term bank loans	(6,399)	(4,816)	(5,000)	(69,501)
Proceeds from long-term debt	50,000	20,358	24,002	543,065
Repayment of long-term debt	(17,254)	(35,685)	(50,335)	(187,404)
Proceeds from issuance of bonds	–	3,843	19,925	–
Redemption of bonds	(19,710)	–	(10,000)	(214,076)
Net increase (decrease) in commercial paper	–	(4,000)	4,000	–
Cash dividends paid	(2,739)	(1,964)	(1,889)	(29,749)
Purchase of treasury stock	(120)	(262)	(284)	(1,302)
Proceeds from sales of treasury stock	39	68	13	425
Proceeds from minority shareholders	–	251	–	–
Other	(71)	–	–	(774)
Net cash provided by (used in) financing activities	3,746	(22,207)	(19,569)	40,685
Effect of exchange rate changes on cash and cash equivalents	77	(605)	(44)	837
Net decrease (increase) in cash and cash equivalents	(15,950)	16,336	(2,417)	(173,236)
Cash and cash equivalents at beginning of year	22,218	5,882	8,282	241,313
Cash and cash equivalents of additional consolidated subsidiaries	–	–	16	–
Cash and cash equivalents at end of year	¥ 6,268	¥ 22,218	¥ 5,882	$ 68,077

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

Notes to Consolidated Financial Statements

1. Basis of Presentation

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

The relevant notes have been prepared as additional information. In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the years ended December 31, 2007 and 2008 to the 2009 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2009 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥92.07=U.S.$1.00, the exchange rate prevailing on December 31, 2009.

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 inter-company balances, transactions and profits have been eliminated in consolidation.

During the year ended December 31, 2009, there were no changes in the number of consolidated subsidiaries. Accordingly the number of consolidated subsidiaries was 35 as of December 31, 2009.

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

During the year ended December 31, 2009, the Company made investments in 2 additional unconsolidated subsidiaries and affiliates accounted for by the equity method, through an acquisition of shares. As a result, the Company had made investments in 7 affiliates accounted for by the equity method as of December 31, 2009.

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.

The Company and its consolidated subsidiaries in Japan have reviewed the useful lives of property, plant and equipment following the amendment of Japan's Corporation Tax Act in the fiscal year ended March 31, 2008, and effective from the year ended December 31, 2009, have revised the useful lives for depreciation of machinery assets. As a result of this revision, operating income and income before income taxes and minority interests were each ¥1,569 million ($17,038 thousand) lower than would have been reported previously. Please see "16. Segment Information (10)" for details on the impact of this revision on each segment.

(h) Intangibles

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

Software used internally is amortized by the straight-line method over its estimated useful life (5 years) within the Company.

(i) Lease assets

Lease assets are amortized by the straight-line method with the lease period considered to be the useful life and the guaranteed residual value considered to be the residual value.

Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, are treated in the same way as ordinary operating leases for accounting purposes.

(j) 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.

(k) Accrued bonuses

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

(l) 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 9 years through 14 years by the straight-line method. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (9 years through 15 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (15 years).

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

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

Effective from the year ended December 31, 2009, consolidated subsidiary SAPPORO LOGISTICS SYSTEMS CO., LTD. has changed the average remaining years of service of eligible employees in line with a reduction in the average remaining period of service of employees. Consequently, SAPPORO LOGISTICS SYSTEMS has reduced the amortization periods for both past service cost and actuarial differences from 11 years to 9 years. As a result of this change, operating income and income before income taxes and minority interests were each ¥28 million ($306 thousand) lower than would have been reported previously.

(m) 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.

(n) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The resulting exchange gain or loss is credited or charged to income.

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

(o) 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.

(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) Amortization of goodwill and negative goodwill

Goodwill is amortized in equal amounts over an appropriate period not to exceed 20 years.

3. Change in Method of Accounting

(Accounting Standard for Measurement of Inventories)

Effective from the year ended December 31, 2009, the Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued July 5, 2006). Accordingly, the Company has switched its standard for measuring inventories from the acquisition cost method to measurement at cost (as calculated by writing down the carrying value on balance sheets to reflect a decline in profitability). As a result of this change, in the year ended December 31, 2009, operating income was ¥829 million ($9,009 thousand) lower, and income before income taxes and minority interests were ¥48 million ($525 thousand) lower than would have been reported previously. Please see "16. Segment Information (7)" for details on the impact of this change on each segment.

(Application of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

Effective from the year ended December 31, 2009, the Company has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, issued May 17, 2006), and has made all necessary adjustments to its consolidated financial statements. In accordance with this change, the Company amortized goodwill recorded at foreign subsidiaries. Consequently, in the year ended December 31, 2009, both operating income and income before income taxes and minority interests were ¥376 million ($4,088 thousand) lower than would have been reported previously. Please see "16. Segment Information (8)" for details on the impact of this change on each segment. Additionally, amortization of goodwill for prior years has been deducted from retained earnings. Consequently, retained earnings at the fiscal year-end were ¥1,477 million ($16,044 thousand) lower than would have been reported previously.

(Accounting Standard for Leasing Transactions)

Effective from the year ended December 31, 2009, the Company has applied the "Accounting Standard for Leasing Transactions" (ASBJ Statement No. 13, issued June 17, 1993; 1st Committee, Business Accounting Council; Revised March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Statement Guidance No. 16, issued January 18, 1994; Accounting System Committee, Japanese Institute of Certified Public Accountants; revised March 30, 2007). Consequently, lease transactions have been accounted for in the same way as ordinary purchase and sales transactions. Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, continue to be treated in the same way as ordinary operating leases for accounting purposes. This change had a negligible impact on earnings.

(Recognition of net sales)

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

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

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

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

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

(Liabilities arising from gift vouchers, etc.)

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

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

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

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

As a result of this change, net sales and operating income were ¥5,207 million and ¥199 million higher, respectively, than would have been recorded previously. Income before income taxes and minority interests and net income were ¥324 million and ¥392 million lower, respectively, on the same basis.

4. Marketable Securities and Investment Securities

(a) Held-to-maturity debt securities with determinable fair value
No such securities existed at December 31, 2009 and 2008.

(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, 2009 and 2008 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2009	Acquisition value	Carrying value	Unrealized gain (loss)	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 8,312	¥14,627	¥ 6,314	$ 90,283	$158,865	$ 68,582
Debt securities	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	¥ 8,312	¥14,627	¥ 6,314	$ 90,283	$158,865	$ 68,582
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 7,424	¥ 5,586	¥(1,838)	$ 80,632	$ 60,670	$(19,962)
Debt securities	–	–	–	–	–	–
Other	120	97	(22)	1,299	1,055	(244)
Subtotal	¥ 7,543	¥ 5,683	¥(1,860)	$ 81,931	$ 61,726	$(20,205)
Total	¥15,856	¥20,310	¥ 4,454	$172,214	$220,591	$ 48,377

	Millions of yen		
December 31, 2008	Acquisition value	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 7,858	¥14,234	¥ 6,376
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥ 7,858	¥14,234	¥ 6,376
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 6,534	¥ 5,239	¥(1,295)
Debt securities	–	–	–
Other	120	101	(19)
Subtotal	¥ 6,654	¥ 5,340	¥(1,314)
Total	¥14,512	¥19,574	¥ 5,062

(c) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2009 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	**2009**
Sales	**¥38**	¥52	¥2,043	**$416**
Gain on sales of securities	**20**	21	767	**213**

(d) The carrying value of securities whose fair value was not determinable at December 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 13**	¥ 20	**$ 141**
(2) Investments in subsidiaries and affiliates	**10,003**	1,281	**108,641**
(3) Other securities:			
Equity investments in unlisted companies	**4,783**	4,912	**51,953**
Domestic debt securities offered privately	**36**	69	**392**
Other	**292**	643	**3,176**

(e) The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31,2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
December 31, 2009	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	**¥34**	**¥2**	**$369**	**$23**
Corporate debt securities	**13**	**–**	**141**	**–**
Other	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Subtotal	**¥47**	**¥2**	**$511**	**$23**

5. Inventories

Inventories at December 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Finished goods and merchandise	**¥ 8,213**	¥ 8,163	**$ 89,204**
Real estate for sale	**594**	47	**6,447**
Work in process	**4,452**	4,350	**48,358**
Raw materials	**9,094**	8,223	**98,769**
Supplies	**596**	626	**6,476**
	¥22,949	¥21,409	**$249,255**

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, 2009, 2008 and 2007:

Year ended December 31, 2009

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd. (Urayasu-shi, Chiba and other)	Real estate for lease	Buildings	¥399	$ 4,329
			¥399	$ 4,329
Sapporo Lion Ltd. Restaurants for business (Minato-ku, Tokyo and other)	Restaurants for operations	Buildings	¥527	$ 5,726
			¥527	$ 5,726
			¥926	$10,056

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

Real estate for leasing has been written down to the recoverable amount as it is expected to be difficult to recover the investment due to declining profitability. An impairment loss has been booked for the amount of 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.

The recoverable amount is measured by the value in use. The value in use is based on future cash flows discounted by 8.2%.

Year ended December 31, 2008

Location	Use	Classification	Millions of yen
Sapporo Beverage Co., Ltd. (Shibuya-ku, Tokyo)	Property for Soft Drinks business	Lease	¥1,250
			¥1,250
Sapporo Lion Ltd. Restaurants for business (Chitose-shi, Hokkaido and other)	Restaurants for operations	Buildings	¥ 320
			¥ 320
Yebisu Garden Place Co., Ltd. Sapporo Factory (Sapporo-shi, Hokkaido)	Real estate for lease	Buildings	¥ 17
			¥ 17
SLEEMAN BREWERIES LTD. (Ontario, Canada)	Other	Goodwill	¥6,620
			¥6,620
			¥8,207

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

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

A recoverable amount has been calculated for Sapporo Factory due to the planned transfer of this asset to a subsidiary. An impairment loss has been booked for the amount expected to be difficult to recover. The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flows discounted by 5.7%.

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

Year ended December 31, 2007

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

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%.

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, 2009 and 2008 were 1.24% and 1.25%, respectively.

Long-term debt at December 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
1.2% convertible bonds due 2009	**–**	¥ 19,710	**–**
1.85% bonds due 2011	**¥ 10,000**	10,000	**$ 108,613**
1.56% bonds due 2010	**10,000**	10,000	**108,613**
1.90% bonds due 2012	**10,000**	10,000	**108,613**
1.87% bonds due 2011	**10,000**	10,000	**108,613**
2.26% bonds due 2013	**10,000**	10,000	**108,613**
(Sapporo Beverage Co., Ltd.) Zero coupon convertible bonds with stock acquisition rights due 2015	**3,843**	3,843	**41,741**
Loans from banks and insurance companies maturing from 2008 to 2018 with weighted-average annual interest rates: 2009—1.70% 2008—1.75%			
Secured	**19,796**	22,324	**215,010**
Unsecured	**102,562**	66,441	**1,113,955**
	176,201	162,318	**1,913,772**
Less current portion	**(26,142)**	(36,582)	**(283,932)**
	¥150,059	¥125,736	**$1,629,840**

The outstanding balance of convertible bonds with stock acquisition rights at December 31, 2009 was as follows:

Sapporo Beverage Co., Ltd. First Series of Unsecured Convertible Bonds With Stock Acquisition Rights

Shares to be issued: Sapporo Beverage common stock

Issue price for stock acquisition rights: Gratis

Number of stock acquisition rights: 49

Value of shares to be issued: ¥3,843 million

Total value of shares to be issued upon exercise of stock acquisition rights: Not applicable

Percentage of stock acquisition rights granted: 100%

Exercise period of stock acquisition rights: From February 27, 2009 to February 26, 2015

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

The aggregate annual maturities of long-term debt subsequent to December 31, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2010	¥ 26,142	$ 283,932
2011	43,860	476,376
2012	39,010	423,703
2013	27,161	295,001
2014	29,525	320,682
2015 and thereafter	10,503	114,078
	¥176,201	$1,913,772

The assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2009 and 2008 are summarized as follows:

(a) Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Investment securities	¥3,868	¥4,292	$42,010
Other investment	80	80	869

(b) Debts relating to the above pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Short-term bank loans	¥ 3,000	¥ 5,000	$ 32,584
Long-term bank debt	19,796	22,324	215,010

In addition, total assets of Sapporo Canada Inc. in the amount of ¥37,261 million ($404,705 thousand) are pledged as collateral for short-term bank loans of ¥264 million ($2,869 thousand) and long-term debt of ¥4,931 million ($53,561 thousand).

8. Shareholders' Equity

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, 2009 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Gain on gift voucher redemptions	¥ 532	–	–	$ 5,780
Equity in income of affiliates	276	–	–	2,996
Loss on disposal of inventories	–	(1,103)	(858)	–
Equity in loss of affiliates	–	(1)	(132)	–
Gain on sales of property, plant and equipment	948	25,893	6,770	10,298
Gain on sales of investment securities	20	21	767	213
Subsidy for installation of vending machines	–	–	33	–
Reversal of provision for doubtful receivables	–	11	27	–
Compensation income from store closures	–	111	–	–
Loss on sales and disposal of property, plant and equipment	(1,524)	(5,836)	(1,301)	(16,547)
Loss on impairment of property, plant and equipment	(926)	(8,207)	(6,939)	(10,056)
Depreciation expenses resulting from revision of residual value	–	–	(6,583)	–
Amortization of goodwill	–	–	(276)	–
Devaluation of marketable securities and investments	(244)	(747)	(394)	(2,651)
Provision for gift voucher redemptions	–	(747)	–	–
Loss on revision of retirement benefit plan	–	(1,307)	–	–
Early retirement benefits	–	(305)	–	–
Business reorganization costs	–	(1,444)	–	–
Loss on devaluation of inventories	(125)	–	–	(1,362)
Other	(291)	(306)	26	(3,159)
	¥(1,334)	¥ 6,033	¥(8,862)	$(14,489)

10. Retirement Benefit Plans

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

As of May 1, 2008, the Company and consolidated subsidiary Sapporo Breweries Ltd. adopted a defined contribution pension plan and abolished their lump-sum payment plans.

As of December 31, 2009, a total of 10 consolidated subsidiaries had lump-sum payment plans. The Company and consolidated subsidiary Sapporo Breweries Ltd. are joint participants in the Sapporo Breweries Pension Fund.

Employees' retirement benefits as of December 31, 2009 and 2008 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Retirement benefit obligation	¥(43,688)	¥(45,468)	$(474,508)
Fair value of pension plan assets	27,530	24,412	299,009
	(16,158)	(21,056)	(175,499)
Unrecognized net retirement benefit obligation at transition	9,035	10,610	98,136
Unrecognized actuarial gain or loss	6,508	10,479	70,684
Unrecognized past service cost	(6,873)	(7,482)	(74,646)
Prepaid pension cost	–	83	–
Employees' retirement benefits	¥ (7,488)	¥ (7,531)	$ (81,326)

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, 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Service cost	¥1,141	¥1,307	¥1,598	$12,387
Interest cost	887	977	1,133	9,636
Expected return on plan assets	(613)	(774)	(757)	(6,657)
Amortization of net retirement benefit obligation at transition	1,575	1,528	1,550	17,105
Amortization of actuarial gain or loss	1,036	475	414	11,249
Amortization of past service cost	(609)	(570)	(401)	(6,614)
Loss on revision of retirement benefit plan	–	1,307	–	–
Other	492	709	513	5,348
	¥3,909	¥4,960	¥4,050	$42,454

"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, 2009 were as follows:

	2009	2008	2007
Discount rate	2.0 – 2.1%	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	9 – 14 years	11 – 14 years	11 – 15 years
Method of amortization	Straight-line method	Straight-line method	Straight-line method
Period of recognition of actuarial gain or loss (amortized by the straight-line method over the average number of remaining years of service of the eligible employees commencing in the following year)	9 – 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, 2009. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2009 differ from the corresponding statutory tax rates for the following reasons:

	2009	2008	2007
Statutory tax rates	**40.7%**	40.7%	40.7%
Effect of:			
Disallowed expenses, including entertainment expenses	**2.9**	1.4	42.5
Dividends and other income deductible for income tax purposes	**(0.6)**	(0.4)	(23.1)
Inhabitants' per capita taxes	**2.3**	1.1	95.5
Unschedulable temporary differences	**19.7**	18.0	1,076.2
Changes in valuation allowance	**(13.9)**	(7.4)	(3,492.1)
Adjustment income taxes for prior years	**–**	–	139.8
The tax rate difference of overseas subsidiary company	**(2.3)**	4.9	(279.2)
Other, net	**0.3**	(0.6)	13.4
Effective tax rates	**49.0%**	57.6%	(2,386.3)%

The significant components of deferred tax assets and liabilities at December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Deferred tax assets:			
Tax loss carryforwards	**¥ 5,594**	¥ 9,662	**$ 60,757**
Property, plant and equipment	**7,915**	8,155	**85,963**
Employees' retirement benefits	**4,247**	4,917	**46,125**
Investment securities	**1,353**	1,278	**14,692**
Allowance for doubtful receivables	**759**	776	**8,243**
Accrued expenses	**2,541**	2,206	**27,600**
Gift coupon income	**1,285**	1,196	**13,953**
Accrued bonuses	**662**	546	**7,187**
Enterprise tax payable	**–**	–	**–**
Other	**2,135**	2,101	**23,191**
Gross deferred tax assets	**26,490**	30,837	**287,712**
Valuation allowance	**(9,733)**	(10,532)	**(105,712)**
Total deferred tax assets	**16,757**	20,305	**182,000**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**13,297**	13,316	**144,417**
Unrealized holding gain on securities	**1,808**	2,017	**19,636**
Property, plant and equipment	**6,103**	5,946	**66,287**
Other	**34**	24	**371**
Total deferred tax liabilities	**21,242**	21,303	**230,712**
Net deferred tax liabilities, net	**¥ (4,485)**	¥ (998)	**$ (48,712)**

12. Leases

(a) Finance leases

i) Lessee

Finance leases other than those that transfer ownership of the leased assets to the lessees

Description of lease assets

1 Property, plant and equipment

Fixtures (other) for sales purposes and vending machines (other)

2 Intangible fixed assets

Software

As stated in"3. Change in Method of Accounting,"lease transactions have been accounted for in the same way as ordinary purchase and sales transactions. As of December 31, 2009, lease obligations due within one year were ¥110 million ($1,195 thousand), while those due after more than one year were ¥613 million ($6,654 thousand).

Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, continue to be treated in the same way as ordinary operating leases for accounting purposes. Details are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Acquisition costs:			
Machinery and vehicles	**¥ 828**	¥ 895	**$ 8,995**
Other	**10,703**	14,181	**116,251**
	¥11,531	¥15,076	**$125,246**
Accumulated depreciation:			
Machinery and vehicles	**¥ 511**	¥ 469	**$ 5,552**
Other	**7,259**	8,133	**78,837**
	¥ 7,770	¥ 8,602	**$ 84,389**
Accumulated loss on impairment :			
Machinery and vehicles	**–**	–	**–**
Other	**608**	1,068	**6,601**
	¥ 608	¥ 1,068	**$ 6,601**
Net book value:			
Machinery and vehicles	**¥ 317**	¥ 426	**$ 3,443**
Other	**2,837**	4,979	**30,813**
	¥ 3,154	¥ 5,406	**$ 34,256**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,076 million ($22,550 thousand) and ¥2,755 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, 2009 and 2008, respectively.

Loss on impairment of leased assets amounted to ¥967 million for the years ended December 31, 2008 .There was no recorded loss on impairment of leased assets for the year ended December 31, 2009.

The amount of depreciation was ¥461 million ($5,005 thousand) and ¥382 million for the years ended December 31, 2009 and 2008.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2009 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)
2010	¥1,894	$20,567
2011 and thereafter	1,869	20,303
Total	¥3,763	$40,870

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, 2009 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)
2010	¥1	$13
2011 and thereafter	–	–
Total	¥1	$13

(b) Operating leases

Future minimum lease payments subsequent to December 31, 2009 for operating leases are summarized as follows:

i) Lessee

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2010	¥2,215	$24,054
2011 and thereafter	6,989	75,913
Total	¥9,204	$99,967

ii) Lessor

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2010	¥ 3,374	$ 36,646
2011 and thereafter	17,521	190,304
Total	¥20,895	$226,951

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 have a reporting system for derivative transactions reflecting proper internal control functions.

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

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

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2009			2008			2009		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward contracts:									
To purchase									
Canadian Dollars	–	–	–	¥90	¥105	¥14	–	–	–
	–	–	–	¥90	¥105	¥14	–	–	–

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2009			2008			2009		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swap:									
Floating rate receive									
Fixed rate pay	–	–	–	¥1,122	¥(25)	¥(25)	–	–	–
	–	–	–	¥1,122	¥(25)	¥(25)	–	–	–

14. Contingent Liabilities

Contingent liabilities at December 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Guarantee of loans, principally loans for employees' housing	¥1,164	¥1,359	$12,639

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	2009	2008	2007	2009
Net income	¥11.57	¥19.49	¥14.10	$0.13
Diluted net income	11.05	18.89	13.76	0.12

	Yen		U.S. dollars (Note 1)
As of December 31	2009	2008	2009
Net assets	¥302.16	¥297.60	$3.28

16. Segment Information

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2009

	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥305,496	¥30,746	¥28,026	¥ 23,267	–	¥387,534	–	¥387,534
Intra-group sales and transfers	5,740	304	–	2,289	–	8,334	(8,334)	–
Total	311,236	31,050	28,026	25,556	–	395,869	(8,334)	387,534
Operating expenses	303,060	30,749	28,198	18,032	–	380,039	(5,400)	374,638
Operating income (loss)	¥ 8,176	¥ 301	¥ (172)	¥ 7,524	–	¥ 15,830	¥(2,934)	¥ 12,896
Identifiable assets	¥290,324	¥19,337	¥13,670	¥175,905	–	¥499,236	¥ 7,639	¥506,875
Depreciation and amortization	¥ 15,220	¥ 385	¥ 776	¥ 6,161	–	¥ 22,542	¥ 5	¥ 22,547
Loss on impairment	¥ 399	–	¥ 527	–	–	¥ 926	–	¥ 926
Capital expenditures	¥ 10,054	¥ 1,466	¥ 875	¥ 11,073	–	¥ 23,468	¥ 17	¥ 23,485

Year ended or as of December 31, 2009

	Thousands of U.S. dollars (Note 1)							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	$3,318,080	$333,938	$304,404	$ 252,706	–	$4,209,127	–	$4,209,127
Intra-group sales and transfers	62,347	3,306	–	24,866	–	90,520	(90,520)	–
Total	3,380,427	337,244	304,404	277,572	–	4,299,647	(90,520)	4,209,127
Operating expenses	3,291,621	333,974	306,268	195,851	–	4,127,714	(58,653)	4,069,061
Operating income (loss)	$ 88,807	$ 3,270	$ (1,864)	$ 81,721	–	$ 171,933	$(31,867)	$ 140,067
Identifiable assets	$3,153,292	$210,029	$148,471	$1,910,557	–	$5,422,349	$ 82,971	$5,505,319
Depreciation and amortization	$ 165,308	$ 4,178	$ 8,432	$ 66,914	–	$ 244,832	$ 56	$ 244,889
Loss on impairment	$ 4,329	–	$ 5,726	–	–	$ 10,056	–	$ 10,056
Capital expenditures	$ 109,196	$ 15,925	$ 9,505	$ 120,270	–	$ 254,895	$ 179	$ 255,075

Year ended or as of December 31, 2008

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

Year ended or as of December 31, 2007

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

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 ¥2,979 million ($32,360 thousand), ¥2,344 million and ¥2,477 million for the years ended December 31, 2009, 2008 and 2007, respectively.
   (ii) Unallocated assets, which amounted to ¥21,583 million ($234,414 thousand), ¥29,132 million and ¥21,013 million at December 31, 2009, 2008 and 2007, 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, 2009, 2008 and 2007. Accordingly, geographical segment information and overseas sales have not been disclosed.
4. Depreciation and amortization, loss on impairment and capital expenditures include long-term prepaid expenses.
5. Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new method for recognizing net sales. Under the new method, sales incentives paid to clients corresponding to retail prices for soft drinks and other non-alcoholic beverages are deducted from net sales. As a result of this change, net sales and operating expenses were both ¥6,629 million lower than would have been recorded previously, but there was no impact on operating income.
6. Effective from the year ended December 31, 2008, the Company and the consolidated subsidiaries have adopted a new method for translating revenues and expenses of foreign subsidiaries and other entities. Under the new method, these revenues and expenses are translated using the average exchange rate for the fiscal year. As a result of this change, net sales and operating income were ¥5,207 million and ¥199 million higher, respectively, than would have been recorded previously.
7. Effective from the year ended December 31, 2009, the Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued July 5, 2006). Accordingly, the Company has switched its standard for measuring inventories from the acquisition cost method to measurement at cost (as calculated by writing down the carrying value on balance sheets to reflect a decline in profitability). As a result of this change, in the year ended December 31, 2009, operating income was ¥607 million ($6,591 thousand) lower in the Alcoholic Beverages business, and ¥223 million ($2,418 thousand) lower in the Soft Drinks business than would have been reported previously.
8. Effective from the year ended December 31, 2009, the Company has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, issued May 17, 2006), and has made all necessary adjustments to its consolidated financial statements. In accordance with this change, the Company amortized goodwill recorded at foreign subsidiaries. Consequently, in the year ended December 31, 2009, operating income in the Alcoholic Beverages business was ¥376 million ($4,088 thousand) lower than would have been reported previously.
9. Effective from the year ended December 31, 2009, the Company has applied the "Accounting Standard for Leasing Transactions" (ASBJ Statement No. 13, issued June 17, 1993; 1st Committee, Business Accounting Council; Revised March 30, 2007) and Guidance on Accounting Standard for Lease Transactions (ASBJ Statement Guidance No. 16, issued January 18, 1994; Accounting System Committee, Japanese Institute of Certified Public Accountants; revised March 30, 2007). Consequently, lease transactions have been accounted for in the same way as ordinary purchase and sales transactions. Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, continue to be treated in the same way as ordinary operating leases for accounting purposes. This change had a negligible impact on each segment.
10. The Company and its consolidated subsidiaries in Japan have reviewed the useful lives of property, plant and equipment following the amendment of Japan's Corporation Tax Act in the fiscal year ended March 31, 2008, and have revised the useful lives for depreciation of machinery assets. As a result of this revision, operating income was ¥1,554 million ($16,875 thousand) lower in the Alcoholic Beverages business, ¥0 million ($1.8 thousand) higher in the Soft Drinks business, and ¥1 million ($13 thousand) lower in the Real Estate business than would have been reported previously, while the operating loss in the Restaurants business was ¥14 million ($152 thousand) higher than would have been reported previously.

17. Subsequent Events

(Appropriation of retained earnings)

On March 30, 2010, 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	**¥2,742**	**$29,785**

Corporate Data (As of December 31, 2009)

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Capital
¥53,887 million

Number of Shares Issued
393,971,493

Fiscal Year-end
December 31

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

Number of Employees
3,895
(Consolidated)

73
(Parent company)

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

Securities Traded: Common Stock
Tokyo Stock Exchange, First Section

Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary.

SAPPORO

SAPPORO HOLDINGS LIMITED

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

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

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