Our Growth

SAPPORO HOLDINGS LIMITED

Annual Report 2010

SAPPORO

Gains Traction

Contents

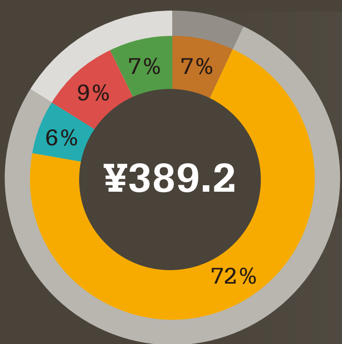
*All figures in this annual report are rounded to the nearest applicable unit.

Sapporo Group Management Plan 2011–2012

GROUP PORTFOLIO AT A GLANCE

International Alcoholic Beverages | POKKA | Japanese Alcoholic Beverages | Real Estate | Soft Drinks | Restaurants

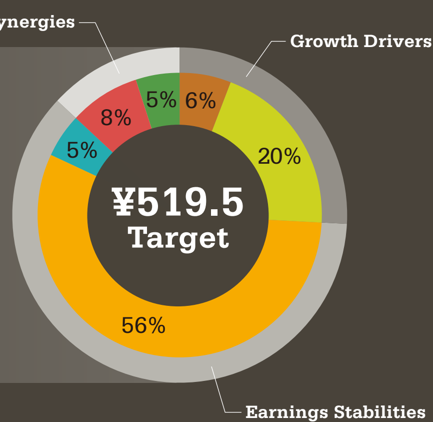
2010 → **2012 Target**

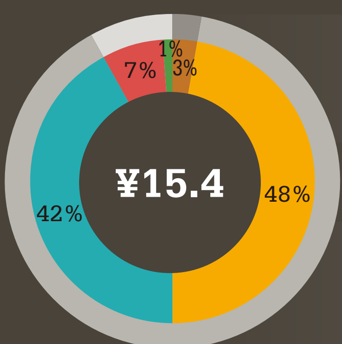


Net Sales (¥ billion)

- ¥25.4 → ¥32.2
- – → ¥103.9
- ¥279.3 → ¥290.6
- ¥23.5 → ¥24.7
- ¥33.9 → ¥39.8
- ¥26.4 → ¥26.3

*The result of ¥0.6 billion → ¥2.0 billion for Other has been omitted from the pie charts.

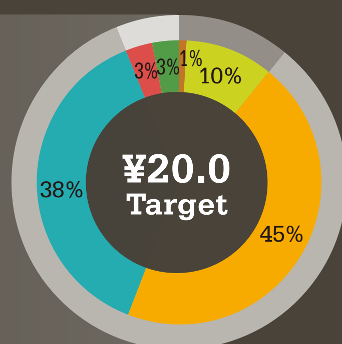




Operating Income (¥ billion)

- ¥0.5 → ¥0.3
- – → ¥2.4
- ¥9.2 → ¥10.6
- ¥8.0 → ¥9.0
- ¥1.3 → ¥0.7
- ¥0.2 → ¥0.6

*Results of –¥0.7 billion → –¥0.3 billion for Other and –¥3.0 billion → –¥3.3 billion for general corporate and intercompany eliminations have been omitted from the pie charts.



Note: All figures in this annual report are rounded to the nearest applicable unit.
All Management Plan figures are derived from a simplified segment classification method based on the management approach.

	Business Segments from 2011	Net Sales (Incl. alcohol taxes) (¥ Million)	Operating Income (Loss) (¥ Million)	Key Themes
Growth Drivers	**International Alcoholic Beverages** • SAPPORO INTERNATIONAL INC. • SAPPORO U.S.A., INC. • SAPPORO CANADA INC. • SLEEMAN BREWERIES LTD. • SAPPORO ASIA PRIVATE LIMITED • SAPPORO VIETNAM LIMITED	10: 25,386 11: 29,200 12 (Target): 32,200	10: 502 11: 100 12 (Target): 300	We will strengthen and expand our brand in North America and Asia as our top priorities while also expanding beyond our traditional alcoholic beverages operations to transform the International Alcoholic Beverages business into broader International Operations. ➔ P. 12 ➔ P. 18–19
Growth Drivers	**POKKA GROUP** • POKKA CORPORATION • SUN POKKA CO., LTD. • POKKA CREATE CO., LTD. And another 22 companies	10: — 11: 78,900 12 (Target): 103,900	10: — 11: 2,300 12 (Target): 2,400	Drive growth by harnessing Group synergies with each segment. ➔ P. 14–15
Earnings Stabilities	**Japanese Alcoholic Beverages** • SAPPORO BREWERIES LTD. • SAPPORO WINES LIMITED • YEBISU WINEMART CO., LTD. • SAPPORO LOGISTICS SYSTEMS CO., LTD. • TANOSHIMARU SHUZO CO., LTD. • SAPPORO ENGINEERING LIMITED • STARNET CO.,LTD. • NEW SANKO INC.	10: 279,312 11: 286,700 12 (Target): 290,600	10: 9,234 11: 9,800 12 (Target): 10,600	To achieve sustained growth, we will aim to provide the greatest excitement and joy to customers in the beer, *shochu*, wine, and RTD (ready-to-drink) sectors while implementing structural reforms and working vigorously to achieve our sales and profit targets. ➔ P. 16–17
Earnings Stabilities	**Real Estate** • YEBISU GARDEN PLACE CO., LTD. • YGP REAL ESTATE CO., LTD. • SAPPORO URBAN DEVELOPMENT CO., LTD. • TOKYO ENERGY SERVICE CO., LTD. • SAPPORO SPORTS PLAZA CO., LTD. • YOKOHAMA KEIWA BUILDING CO., LTD.	10: 23,537 11: 23,000 12 (Target): 24,700	10: 8,003 11: 8,300 12 (Target): 9,000	We will work to maintain and reinforce our stable profit structure and enhance the value of the SAPPORO Group's properties. We will carefully screen new prospects and acquire only prime properties. ➔ P. 22
Group Synergies	**Soft Drinks** • SAPPORO BEVERAGE CO., LTD. • STELLA BEVERAGE SERVICE CO., LTD. • STAR BEVERAGE SERVICE CO., LTD.	10: 33,946 11: 37,400 12 (Target): 39,800	10: 1,287 11: 700 12 (Target): 700	The Soft Drinks business will pursue a growth strategy based on brand-building and undertake measures designed to boost its operating margin. ➔ P. 20
Group Synergies	**Restaurants** • SAPPORO LION LIMITED	10: 26,429 11: 25,500 12 (Target): 26,300	10: 150 11: 400 12 (Target): 600	We will work to invigorate existing restaurants and develop formats differentiated from the competition. We will also undertake cost structure reforms from a medium-term perspective to enable the business to weather economic change. ➔ P. 21
Group Synergies	**Other Businesses (Foods)** • SAPPORO FOODS NET CO., LTD. • SAPPORO FINE FOODS CO., LTD. • SAPPORO GROUP MANAGEMENT CO., LTD.	**Key Theme** We will seek to offer a line of distinctive products and expand profits in the Foods business through maximization of intra-group synergies, streamlining, and greater efficiency. ➔ P. 20		

OVERSEAS DEPLOYMENT

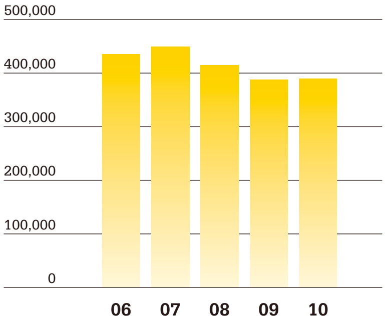
Financial Highlights (Years ended December 31)

	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2010
For the Year						
Net sales						
Including tax	¥389,245	¥387,534	¥414,558	¥449,011	¥435,090	$4,779,528
Excluding tax	269,874	264,604	284,412	309,794	294,066	3,313,778
Operating income	15,403	12,896	14,685	12,363	8,613	189,134
EBITDA	39,080	36,475	37,158	37,759	30,543	479,865
Net income	10,773	4,535	7,640	5,509	2,338	132,277
Capital expenditures	22,571	23,485	29,378	19,548	30,790	277,155
Depreciation and amortization	22,504	22,547	21,605	24,527	21,930	276,328
Cash flows from operating activities	27,431	12,454	22,292	30,691	28,589	336,825
Cash flows from investing activities	(2,595)	(32,227)	16,856	(13,495)	(54,415)	(31,863)
Free cash flows	24,836	(19,773)	39,148	17,196	(25,826)	304,962
Cash flows from financing activities	(18,120)	3,746	(22,207)	(19,569)	9,352	(222,489)
At Year End						
Net assets	126,645	118,591	116,862	125,189	113,496	1,555,077
Total assets	494,798	506,875	527,287	561,859	589,597	6,075,619
Financial liabilities	181,335	196,794	189,252	212,464	236,033	2,226,609
Other Indicators						
Overseas sales ratio	9.4%	8.5%	8.8%	9.0%	1.8%	
Operating income to net sales (Incl. tax)	4.0%	3.3%	3.5%	2.8%	2.0%	
(Excl. tax)	5.7%	4.9%	5.2%	4.0%	2.9%	
Debt-to-equity ratio (times)	1.4	1.7	1.6	1.7	2.1	
Equity ratio	25.3%	23.4%	22.1%	22.3%	19.2%	
ROE	8.9%	3.9%	6.3%	4.6%	2.1%	

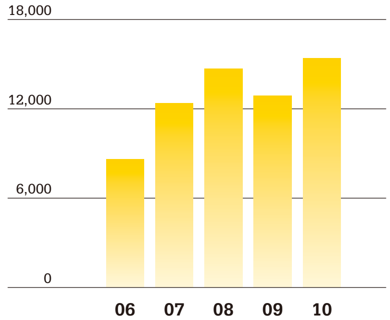
	Yen					U.S. dollars
Per share						
Net income						
Primary	¥27.50	¥11.57	¥19.49	¥14.10	¥6.38	$0.34
Diluted	26.44	11.05	18.89	13.76	5.88	0.32
Cash dividends	7.00	7.00	7.00	5.00	5.00	0.09

Note: U.S. dollar amounts translated from Japanese yen, for convenience only, at the rate of ¥81.44=US$1, the exchange rate prevailing on December 31, 2010.
Free cash flows are Cash flows from operating activities and Cash flows from investing activities.
EBITDA = Operating income + Depreciation and amortization + Amortization of goodwill
Financial liabilities include commercial paper but excludes the balance of lease obligations.

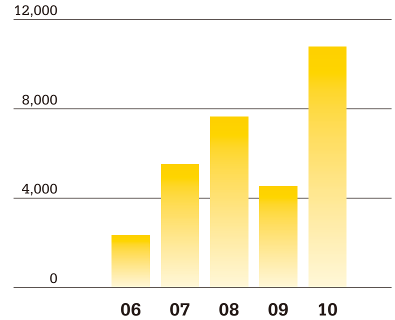
Net Sales
(¥ Million)



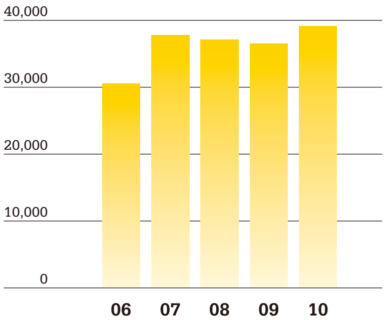
Operating Income
(¥ Million)



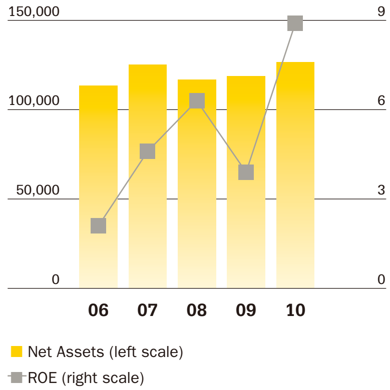
Net Income
(¥ Million)



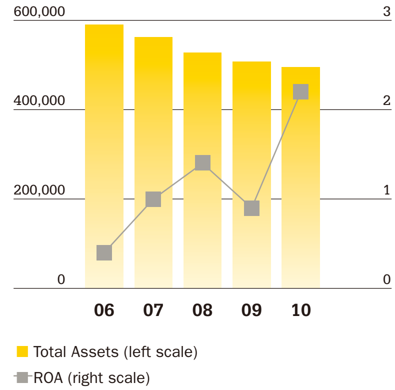
EBITDA
(¥ Million)



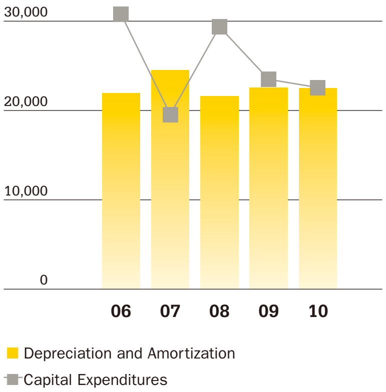
Net Assets and ROE
(¥ Million, %)



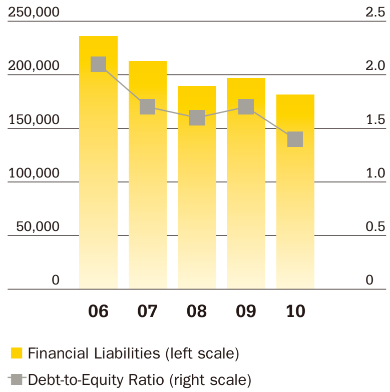
Total Assets and ROA
(¥ Million, %)



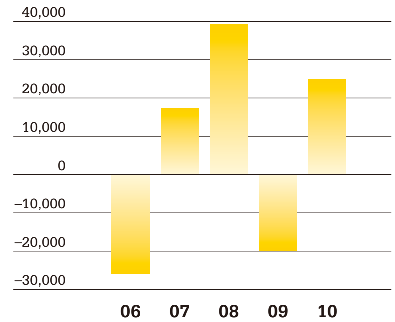
Depreciation and Amortization and Capital Expenditures
(¥ Million)



Financial Liabilities and Debt Equity Ratio
(¥ Million, Times)



Free Cash Flows
(¥ Million)



To Our Stakeholders

On March 11, 2011, the Tohoku Pacific Earthquake and the ensuing tsunami wrought a disaster of unprecedented scale centered on the Tohoku region, and affecting the Kanto region as well. We offer our condolences to all those affected, and we report on the status of the Sapporo Group.

The Sendai Brewery and Chiba Brewery of Sapporo Breweries Ltd. suffered partial damage to buildings and equipment. At other plants also, operation of some equipment was put on hold and even now that they have restarted, operations continue to be affected by rolling power cuts in Tokyo and other factors. Sapporo Lion Ltd. had to stop operations at some restaurants, particularly in disaster-hit areas, while damage to infrastructure in various areas forced other restaurants to operate on shorter hours, or take other measures. Yebisu Garden Place Co., Ltd. was obliged to limit usage of some of its properties and facilities, but the buildings did not suffer any major damage, and continued to operate.

At this time it is difficult to estimate the impact of the earthquake on our forecast for the year ending December 2011. We will disclose the information as soon as it can be estimated.

Moreover, the Sapporo Group immediately contributed donations of money, drinking water, and other gifts to areas stricken by the disaster, and employees at our group companies followed up with further fundraising activities.

I'd like to take this opportunity to report this year's increase in sales and income, and to report that we have shifted to a new management framework to ensure the progress of our management plan.

Business Climate and Strategies in Fiscal 2010

During 2010 the soft drinks market saw a surge in demand spurred by one of the hottest summers on record. Alcohol and restaurant markets, however, were heavily affected by a slump in consumer spending and demand growth in these sectors was below expectations. In the real estate industry, the occupancy rates in the Tokyo office rental market bottomed out in the latter half of the year, but rents continued to fall throughout the year.

Under these conditions the Sapporo Group tackled the key themes of its Sapporo Group Management Plan 2010–2011: We launched growth strategies to pave the way to future growth, and we strengthened our existing businesses by concentrating management resources on our core brands in each business. Specifically, we started construction work on a new plant in Vietnam, where we have entered the beer business, formed a capital and business alliance with Kyodo Milk Industry Co., Ltd., and made a business alliance with South Korean Maeil Dairies Co., Ltd. for a beer business in the South Korea. These steps will be followed by a management integration with POKKA CORPORATION scheduled for April 2011.

Increased Sales and Income from All Revenue Sources

The Alcoholic Beverages (Japan) business saw year-on-year sales volumes increase for the first time in six years. The Alcoholic Beverages (International) business and the Soft Drinks business both recorded significant year-on-year increases in sales, with the Alcoholic Beverages (International) business supported by continued brisk sales in North America. There was good news from the Real Estate business too, where sales were also up. As a result, consolidated net sales were ¥389.2 billion, up ¥1.7 billion, or 0% from the previous year. Operating income was ¥15.4 billion, an increase of ¥2.5 billion, or 19% from the previous year. Operating income increased in all business segments when investment costs of expanding into Vietnam were excluded from Alcoholic Beverages (International). Moreover, with the contribution from gain on the sale of our Osaka Plant site, net income was ¥10.8 billion, up by a hefty ¥6.2 billion, or 138% from the previous year, boosting ROE considerably to 8.9% from 3.9% in the previous year.

Policy on Dividends

Returning an appropriate level of earnings to our shareholders in view of our operating results and financial position is an important management policy for Sapporo Holdings, and our basic policy is to maintain a stable dividend. We plan to use retained earnings to maximize our corporate value by strategically investing it in growth areas and using it to strengthen our financial base, in line with our management plan.

Enhancing Corporate Governance

Strengthening and enhancing corporate governance is a key management priority for the Sapporo Group. To improve transparency and strengthen oversight functions for management, we have three outside directors. Outside board members serve as chairpersons for various committees. For more information about these committees, please see the Corporate Governance section of this report starting on page 23.

T. Murakami

TAKAO MURAKAMI
Chairman and Representative Director

Solidifying Our Growth Trajectory and Aiming for Dramatic Growth

Business performance in 2010 ended with top- and bottom-line growth for the Sapporo Group. Building on these results, the Group formulated Management Plan 2011–2012 as a new two-year rolling plan. With sights on realizing its New Management Framework aimed at dramatic growth, the Sapporo Group is determined to firmly establish its growth trajectory.

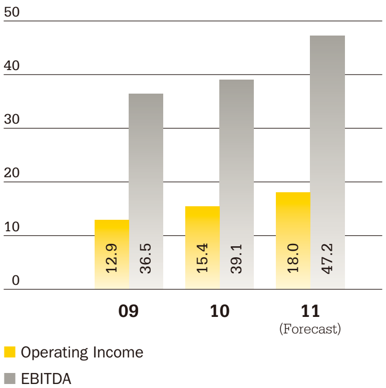
TSUTOMU KAMIJO
President and Representative Director, Group CEO

SUMMARY OF MANAGEMENT PLAN 2010–2011

Question 1

In 2010, the aim of the Management Plan was to help the Sapporo Group to transition from a phase for strengthening the earnings base to one of growth. Initiating growth strategies and strengthening existing businesses were two core strategies of this plan, were your measures for these strategies this year ultimately successful?

Operating Income and EBITDA
(¥ Billion)



Answer 1

Strengthening Existing Businesses

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

In our core businesses, Alcoholic Beverages (Japan), we conducted marketing activities focused on our main beer products. As a result, sales volume outstripped that of the previous year despite a contraction in the domestic market, meaning that we boosted our market share. In Alcoholic Beverages (International), we reported earnings growth across all operations, with the exception of losses in Vietnam due to upfront investment to support expansion in this market. SLEEMAN BREWERIES LTD., for example, posted year-on-year growth in sales volume for a fourth consecutive year, while Sapporo U.S.A., Inc. recorded double-digit growth. Our D/E ratio also improved through efforts to minimize financial liabilities; in addition, our capital strength was bolstered by earnings growth. All told, these outcomes have given the Sapporo Group greater earnings power and a more robust financial base for promoting future growth strategies.

Initiating Growth Strategies

To make the prospects of medium- and long-term improvement in value for the Group more certain, we enacted initiatives to pave the way for future growth.

Turning to business in Vietnam, where we announced our plans for expanding in December 2009, we began construction of a brewery in July and conducted test-marketing ahead of our full-scale market entry. Along with these steps, we are developing strategies and building a distribution network in the country. In South Korea, we made a business alliance with Maeil Dairies Co., Ltd. in November and began beer sales there. Also in November, we entered a capital and business alliance with Kyodo Milk Industry Co., Ltd. for a project that will see both companies cooperate around production technology, R&D, raw material procurement and logistics. These measures will support both sales expansion and cost reductions going forward.

Another accomplishment this term was the sale of Sapporo Breweries' former Osaka Plant site and the Keiyo Physical Distribution Center, which generated ¥23.4 billion in new investment resources. In parallel, we invested ¥10.0 billion in the acquisition and development of new properties in the Real Estate segment to secure future resources to support growth.

SAPPORO GROUP MANAGEMENT PLAN 2011–2012

Question 2

How does the 2011–2012 Management Plan position this time period, and what target figures does it set out?

Management Targets
(¥ Billion)

	2010 Results	2011 Plan	2012 Plan	2016 Target
Net Sales (incl. alcohol taxes)	389.2	482.0	519.5	600.0
Net Sales (excl. alcohol taxes)	269.9	363.0	400.5	450.0
Operating Income	15.4	18.0	20.0	40.0
Net Income	10.8	6.0	8.0	–

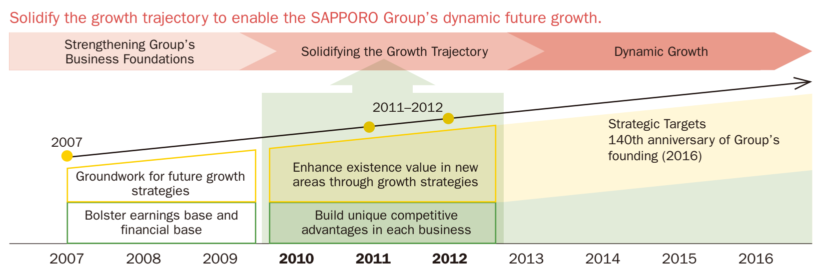
Answer 2

Position of 2011–2012 Management Plans

Guided by our management philosophy "To make people's lives richer and more enjoyable," we formulated the Sapporo Group New Management Framework (the New Management Framework) in October 2007. Under this long-term management policy, we have set ¥600.0 billion (including alcohol taxes) in net sales and ¥40.0 billion in operating income as management targets to reach by our 140th anniversary in 2016.

In 2010, we achieved a level of success in new measures for growth through Management Plan 2010–2011, which was designed to help the Group transition to a growth phase. Building on this, in 2011 we drafted Management Plan 2011–2012 as a rolling plan that positions the two-year period as a time for solidifying our growth trajectory. By steadily implementing the plan, we will strive for further improvement in corporate value as we seek to achieve the goals of our New Management Framework.

Position of SAPPORO Group Management Plan 2011–2012



Question 3

What is your approach to this plan to solidify the Group's growth trajectory, and what are some of the specific measures the Group will take?

Answer 3

Solidify the Group's Growth Trajectory

There are two essentials to solidifying the Group's growth trajectory. The first is to support top-line expansion through measures targeting growth drivers. The second is to ensure we secure the stable earnings we need for making ongoing strategic investment. Management Plan 2011–2012 sets the following three basic strategies for the Group:

- **Growth in new areas**
- **Growth in all businesses**
- **Bolster management capabilities that underpin growth**

Business Expansion in Soft Drinks and Food

For the first strategy, "growth in new areas," we will strive to achieve definitive results that increase our presence and value in new areas identified in our growth strategy. This means ensuring we get definitive results from the strategic alliances and investment projects we have conducted in paving the way for growth over the years. A specific example is our business expansion in soft drinks and food. In Japan, our decisive steps to attain sustainable growth have included forming an alliance with Marudai Food Co., Ltd. to invest in Azumino Food Co., Ltd. for the launch of a joint venture in yogurt, desserts and chilled soft drinks, and our entry into Japan's potato chip market. We also announced a capital and business alliance with Kyodo Milk Industry Co., Ltd. in November 2010.

With Kyodo Milk Industry, we are exploring future partnership opportunities in production technology, R&D, procurement and logistics, and in the soft drinks business. Examples here include the use of our Ribbon Brand for Kyodo Milk Industry products, and leveraging Kyodo Milk Industry's milk delivery routes to expand sales channels for Sapporo soft drinks. Going forward, we will continue to use acquisitions and alliances to advance into new product areas in soft drinks and food as a way to enter markets where we can leverage Sapporo Group capabilities and expertise.

Aggressive Development in Asia

Outside of Japan, we are paving the way for sustainable growth by entering the South Korean beer market through a capital alliance with local company Maeil Dairies Co., Ltd. We also entered the Vietnamese beer market and plan to advance into other Asian countries with the construction of a new brewery and other efforts.

In South Korea, while the domestic beer market is maturing, the imported beer category has grown rapidly, expanding about two-fold since 2005. Another key feature is that the commercial-use sector is large relative to that of Japan, accounting for roughly 50% of the South Korean beer market. To commence with full-scale beer sales in South Korea, we entered an alliance with Maeil Dairies, a major dairy industry manufacturer boasting top shares for cheese and chilled cup coffee in South Korea. Utilizing the company's robust sales network will raise the profile of the Sapporo brand as we move to consolidate our Asia strategy. Exports of Sapporo brand products to South Korea have been underway since December 2010, and sales to convenience stores, supermarkets and restaurant chains through Maeil Dairies' sales network have been expanding ever since. Sales of Sapporo products have also begun at restaurants directly operated by Maeil Dairies.

In 2011, which marks the full-scale start of sales in South Korea, we are projecting sales of 300,000 cases*, with growth to 1.5 million cases by 2015, as we strive to become South Korea's No. 1 imported beer brand.

*One case is equivalent to 24 bottles (350ml each).

Question 4

Can you elaborate on the second point, concerning growth in all businesses?

Answer 4

Growth in All Businesses

We want to realize additional growth in all businesses to create a more robust Group base. Specifically, we intend to further promote previous strategies, for example, strengthening our brands by channeling management resources into core products in the Alcoholic Beverages (Japan) business. In this business, we will find sustainable growth by looking beyond customer satisfaction to evoke an active emotional response in customers. In the Restaurants business, we will move more aggressively to develop *Yebisu Bar*, a strong-performing new restaurant format that draws on synergies with Sapporo Breweries Ltd. In the Real Estate business, our task is to maintain and enhance our stable earnings structure by improving the value of prime properties in our portfolio. Please see page 16, Review of Operations for a more in-depth look at measures in each business.

Question 5

Please talk a bit more about your third basic strategy, bolstering management capabilities that underpin growth.

Answer 5

Bolster Management Capabilities that Underpin Growth

As we promote growth strategies, the Group's business domains are expanding. Given this trend, we decided that our management structure must have the functions and organizations in place to respond to the Group's growth. Against this backdrop, we are reviewing our group headquarters organization. Our purpose here is to develop a functional structure capable of enhancing our capabilities for planning, proposing and promoting growth strategies.

One specific measure we will take is to divide up the group headquarters functions of the holding company Sapporo Holdings Ltd. We will transfer highly specialized functions and professional operations common to all operating companies to Sapporo Group Management Co., Ltd. (formerly Sapporo Pro Assist Co., Ltd.). After the transfer, the new Sapporo Holdings will specialize in the planning and promotion of Group growth strategies, as well as financing and auditing functions. This change will enhance organizational flexibility and strengthen our ability to promote growth strategies across the entire Sapporo Group. Sapporo Group Management will serve together with Sapporo Holdings as an organization responsible for group headquarters functions. It will chart the best course from the perspective of the entire group with respect to proper business execution, specialized human capital development, operating company support, and improvements in cost efficiency that leverage economies of scale.

Question 6

Please describe some of the investments the Group has made to support these growth strategies you have mentioned.

Answer 6

Basic Approach to Strategic Investment

In addition to contributions from increased earnings from all business segments, in 2010, we generated ¥23.4 billion for new investment resources from the sale of Sapporo Breweries' former Osaka Plant site and the Keiyo Physical Distribution Center. Going forward, our policy is to encourage effective asset utilization and earnings expansion from existing businesses. For 2011, we envisage making strategic investments totaling ¥63.5 billion, including ordinary capital investment, mainly from the acquisition of shares in POKKA CORPORATION and plant construction in Vietnam. Moreover, our aggressive investment in growth strategies will continue beyond 2012. Between 2012 and 2016 we are estimating strategic investment of around ¥150 billion to ¥200 billion, including ordinary capital investment.

Question 7

How did the Group's management integration with former capital and business alliance partner POKKA Corporation unfold and what is the post-integration outlook?

2011–2012 Management Targets
(¥ Billion)

	2010 Results	2011 Plan	2012 Plan
Net Sales (incl. alcohol taxes)	389.2	482.0	519.5
Alcoholic Beverages (Japan)	279.3	286.7	290.6
Alcoholic Beverages (International)	25.4	29.2	32.2
Soft Drinks	33.9	37.4	39.8
POKKA Group	–	78.9	103.9
Restaurants	26.4	25.5	26.3
Real Estate	23.5	23.0	24.7
Other	0.6	1.3	2.0
Operating Income (Loss)	15.4	18.0	20.0
Alcoholic Beverages (Japan)	9.2	9.8	10.6
Alcoholic Beverages (International)	0.5	0.1	0.3
Soft Drinks	1.3	0.7	0.7
POKKA Group	–	2.3	2.4
Restaurants	0.2	0.4	0.6
Real Estate	8.0	8.3	9.0
Other	(0.7)	(0.4)	(0.3)
Corporate	(3.0)	(3.2)	(3.3)
Net Income	10.8	6.0	8.0

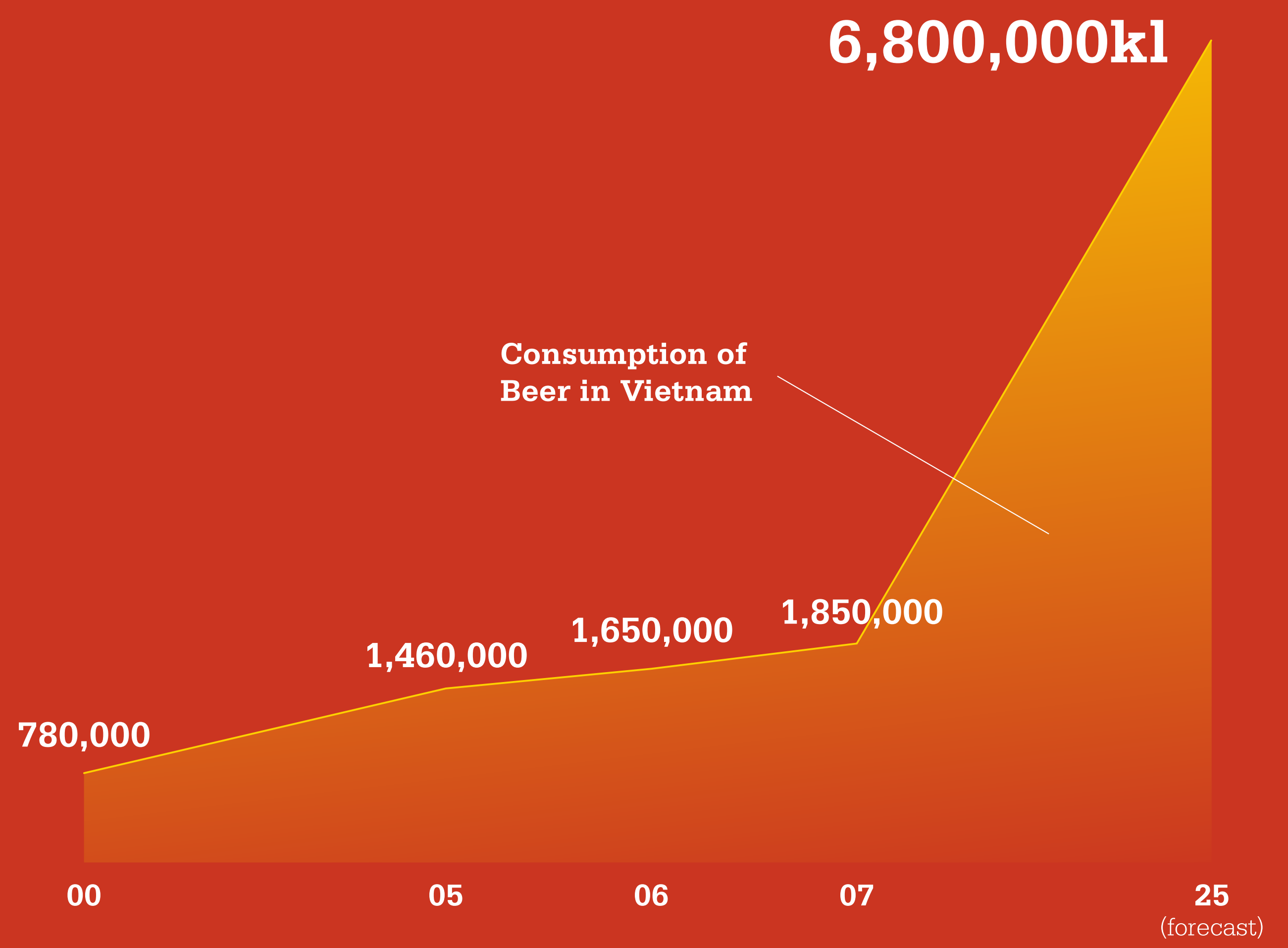
Answer 7

Management Integration with POKKA CORPORATION

We concluded a capital and business alliance with POKKA CORPORATION in September 2009. This move proved successful in numerous ways. Among other benefits, it strengthened our hand in the vending machine business, reduced costs through joint procurement, spurred production system optimization, and enabled joint business development in overseas markets. At the same time, this cooperation fostered mutual bonds of trust. Eventually, we determined that developing a corporate group that merges both companies would be the best option for taking this capital and business alliance relationship to its next logical stage and ramping up the pace of cooperation. After integrating their management the two companies will work together to promote business. I believe this unified stance will allow the new group to overcome the recent severity of the market environment and establish a more powerful presence. We are currently discussing options for making this the start of a new structure for building a food value creation group with rich competitive strengths across the alcoholic beverages, soft drinks, food, and restaurant fields here in Japan and overseas.

Poised for Growth in Vietnam...Asia

Vietnam Plant Comes Onstream



2025 forecast by the Ministry of Industry and Trade of Vietnum.

With growth continuing at around 10% per year, the Vietnam beer market is full of promise. The Sapporo Group is the first Japanese beer maker to start construction of a brewery in Vietnam, and is currently test marketing in preparation for a full scale entry into the market in 2012. Through this early-bird approach, we plan to establish the Sapporo brand in Vietnam and quickly capture market share, before expanding our business further afield in the wider Asian markets.

Image of the completed brewery

Background to the Joint Venture

The Vietnamese beer market is currently Asia's third largest, after China and Japan. Annual beer consumption is about one third of Japan's, standing at around 2 million kiloliters, but demand is growing each year. The Ministry of Industry and Trade of Vietnam forecasts that by 2025 beer consumption will reach 6.8 million kiloliters per year, making Vietnam one of the chief beer consuming nations in the world.

The Sapporo Group had been pursuing the beer business in Vietnam in a strategic alliance with the Vietnamese state-owned tobacco company, Vietnam National Tobacco Corporation (VINATABA), since 2009. To this end, we acquired an interest in a joint venture to establish it as a consolidated subsidiary, SAPPORO VIETNAM LIMITED. The company has been importing and selling beer under its new management framework in the Vietnamese market since 2010. VINATABA is a large state-run enterprise under direct supervision of the office of the prime minister with operations including production and sale of tobacco, food, and beverages. It has a solid track record in Vietnam and enjoys a high level of public trust.

Future Plans

The brewery we are building is located in the province of Long An, a suburb of Ho Chi Minh City. Operations are scheduled to commence in fall of 2011, along with the first shipments to the Vietnamese market. The Sapporo Group views this full scale entry into the Vietnamese market as a launching pad for further expansion into other Asian markets in the future. The Group is targeting annual sales volume of 150,000 kiloliters and sales of US$128 million by 2019.

Outline of SAPPORO VIETNAM LIMITED

Location:
Viet Hoa—Duc Hoa III Industrial Zone, Duc Lap Ha Ward, Duc Hoa District, Long An Province, Vietnam

Representative:
President Hirofumi Kishi

Business activities:
Manufacture of beer, wholesaling of alcoholic beverages

Capital:
708,595 million Vietnamese dong

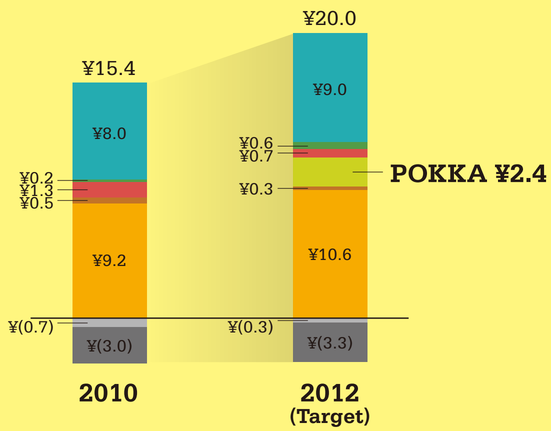
Establishment:
February 1, 2007

Shareholder ratios:
Sapporo Holdings 71%, VINATABA 29%

POKKA Joins the SAPPORO Group

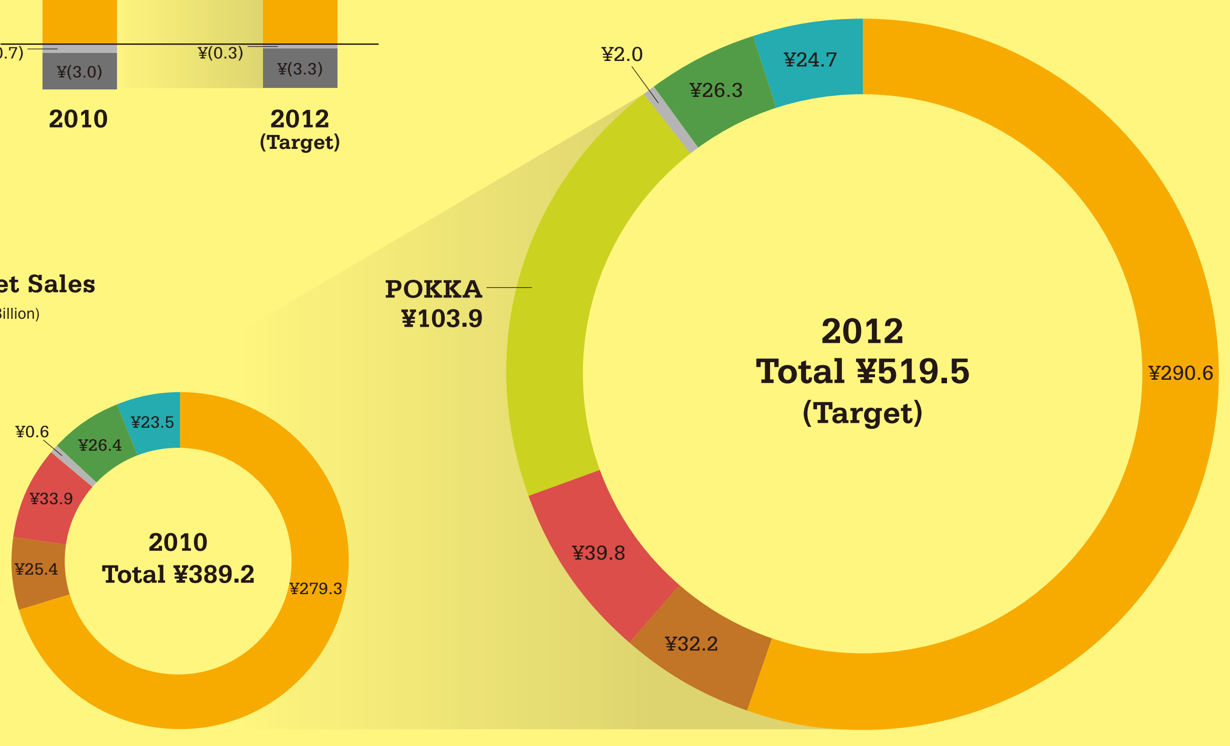
Operating Income

(¥ Billion)



Net Sales

(¥ Billion)



■ Japanese Alcoholic Beverages ■ International Alcoholic Beverages ■ Soft Drinks ■ POKKA ■ Restaurants ■ Real Estate ■ Other Business ■ Corporate

Information in the graph for 2010 has been restated here following a change in the structure of segments. (See page 57).

In March 2011 Sapporo Holdings acquired 85% of the shares of POKKA CORPORATION, making it a member of the Sapporo Group. This move has allowed the Sapporo Group to reinforce its Soft Drinks and Food business to balance its earnings sources from its Alcoholic Beverages and Real Estate businesses. At the same time, consolidated net sales rose in excess of ¥500 billion. A capital and operational alliance made with POKKA CORPORATION in 2009 produced synergies worth ¥500 million through optimized production systems, joint purchasing operations, shared use of vending machines and other strategies in Japan, as well as international expansion for the Sapporo Group using POKKA CORPORATION (Singapore) Pte Ltd.'s sales channels. We expect the recent management integration to produce even greater synergy benefits. (The targets in the graph do not include our forecast figures for synergy benefits).

POKKA CORPORATION Strengths

1. Strengths in the Beverages and Food businesses

- Strong market share in beverages containing lemon juice and soups
  Lemon-based products: No. 1 in home-use market
  Soup: No. 2 market share in Japan

2. Expansion Capability in Asia

- Among POKKA CORPORATION's flagship tea-based beverages, its green tea products have around 70% of the market in Singapore, demonstrating the company's unrivaled brand recognition in Asia.
- POKKA CORPORATION operates various restaurants in Hong Kong and Singapore.

3. Number of Vending Machines

- Vending machines are a key sales channel covering about 30% of the soft drinks market in Japan
- POKKA CORPORATION has about 90,000 vending machines, which added to those of Sapporo make a total of about 120,000 available vending machines

Focus Themes

1. Accelerate International Expansion

- Accelerate expansion in Asia where both companies are strong
- Boost the proportion of overseas sales to total revenue

2. Strengthening Complementary Businesses Domestically

- Enhance complementary aspects of soft drink operations
- Expand the food business
- Expand the restaurants business

3. Combine R&D and Technological Innovations to Create New Value

Outline of POKKA CORPORATION

Head office:
4-2-29 Sakae, Naka-ku, Nagoya, Aichi, Japan

Representative:
President & CEO Masatoshi Hori

Established:
April 11, 1968
(Founded: February 22, 1957)

Main businesses:
Manufacture and sale of foods and beverages

Number of employees (consolidated, as of March 31, 2010):
2,473

Capital:
¥2,376 million

Number of issued shares (as of March 31, 2010):
9,487,000

Net sales
¥97,121 million (FY 2010/3)

Total assets
¥58,527 million (FY 2010/3)

From left: Lemon-based product, Coffee, Soup

CAFÉ de CRIÉ

Alcoholic Beverages (Japan)

SAPPORO BREWERIES LTD.

The Japanese beer and beer-type beverages market saw total demand decrease by an estimated 2% year on year. By genre, while demand for beer and *happo-shu* (low-malt beer) declined, demand for new product genres grew by 10% as the shift in consumption to lower-priced products continues. Against this backdrop, net sales in our Alcoholic Beverages (Japan) business declined by ¥4.1 billion, or 1.4%, to ¥278.8 billion. In contrast, operating income rose ¥1.8 billion, or 24.3%, to ¥9.3 billion. Income growth reflected increased earnings atop higher sales volume in beer, coupled with reductions in manufacturing costs. These factors outweighed increased depreciation expenses from the transition to a new sales and logistics system.

From left: *Sapporo Draft Beer Black Label, Yebisu, Mugi to Hop*

Beer Business

In the beer business, we conducted marketing activities centered around our core brands *Yebisu Beer, Sapporo Draft Beer Black Label,* and *Mugi to Hop*. Our overall sales volume for beer rose 0.8% over the previous fiscal year.

In beer, *Sapporo Draft Beer Black Label* made particularly firm gains in the home-use market. The *Yebisu* brand, which recently celebrated its 120th anniversary, saw overall sales volume rise 3.0% year on year, as *Yebisu Silk* attracted women and other new customers during its first full-year of sales. As a result, our beer sales volume declined just 2.8%, compared to a contraction of around 4% in overall beer demand.

In new product genres, a jump of 11.5% in sales volume outpaced growth in overall new product genre demand. Notably, *Mugi to Hop*, now in its third year of sales, grew by 23.5% year on year, for a second consecutive year of growth above 20%. Contributions also came from *Sapporo Creamy White*, which was launched in September.

In ready-to-drink (RTD) beverages, *Nectar Sour Sparkling Peach* won strong support particularly from young women for its originality and flavor, resulting in higher-than-expected sales volume.

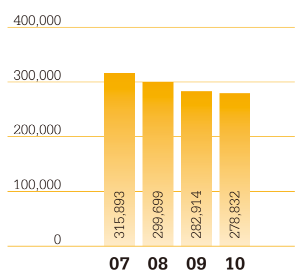
Wine Business

In imported wine, sales were firm for the *Yellow Tail* series of wines, which introduced *Moscato* as a new product. Turning to domestic wines, while a strong reputation for quality translated into growth for our *Grande Polaire* series of premium wines made from 100% domestic grapes, contraction in the domestic wine market and other factors led overall sales in wine business to decline. Wine business earnings, however, grew for a fourth consecutive year.

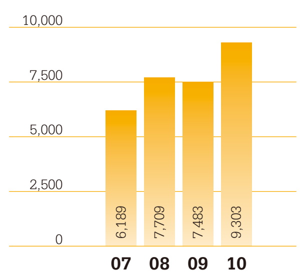
Shochu Business

Shochu (Japanese distilled spirits) sales volume grew despite a struggling market for wheat-based *shochu*. The growth reflected the strong reputation of our singly distilled *shochu* offerings. Among them *Waramugi* was declared a grand prize winner in the "Singly Distilled *Shochu*" category by the Alcohol Appreciation and Evaluation Committee of the Fukuoka Regional Taxation Bureau. As price competition heats up in the multiply distilled, large-volume product market, we have been able to maintain operating income despite lower sales overall in *shochu* year on year. This is largely thanks to our efforts launched two years ago to reform the earnings structure in this business, mainly by eliminating unprofitable products.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



MANAGEMENT PLAN 2011–2012

Management Targets

(¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	279.3	286.7	290.6
Operating Income	9.2	9.8	10.6

To achieve sustained growth, we will aim to provide the greatest excitement and joy to customers in the beer, wine, *shochu*, and RTD (ready-to-drink) sectors while implementing structural reforms and working vigorously to achieve our sales and profit targets.

Key Points

1. Bolster alcoholic-beverage marketing

We will endeavor to maintain the previous year's momentum and increase sales by winning additional customer support using a select-and-focus approach (selectively focusing resources on key areas).

(1) Enhancing brand power by focusing resources on core products

- We will enhance our presence in the beer and new product genre markets by strategically focusing resources on *Yebisu, Sapporo Draft Beer Black Label*, and *Mugi to Hop*, which account for three-quarters of case sales.

(2) Laying the groundwork for growth in expanding areas

- To lay the groundwork for growth we will offer products that embody Sapporo's strengths in the non-alcoholic beer market, which we expect to expand in line with market changes, and in the market for RTD beverages, which are highly substitutable for home-use beers.

(3) Expansion of the wine and *shochu* sectors

- Over the medium term, we intend to expand our non-beer alcoholic beverages operations, which include RTD beverages, to a scale capable of generating annual operating income of ¥2.0 billion. We will do this by boosting brand power and offering innovative value propositions.

2. Strengthening the operating base

- To achieve our financial targets, we will implement management-driven projects to resolve issues, especially with respect to critically important cross-organizational priorities such as cost structure reforms and organizational strengthening.
- In cost structure reforms in particular, our activities will be directed at achieving ¥3.0 billion in cost reductions from 2011 to 2013.

Note: All Management Plan figures are derived from a simplified segment classification method based on the management approach.

Alcoholic Beverages (International)

SAPPORO INTERNATIONAL INC.

In the North American beer market, total demand was estimated to have contracted by some 1–2% as consumer spending remained weak despite emerging signs of recovery. Meanwhile, the beer market in rapidly growing Asia continued to expand steadily. Given this context, in the Alcoholic Beverages (International) business we focused on sales activities targeting the premium-price range market, where Sapporo has a strong presence. Consequently, net sales rose ¥2.8 billion, or 12.4%, year on year to ¥25.4 billion. However, due to upfront investment in Vietnam, among other factors, operating income declined ¥0.2 billion, or 27.7%, to ¥0.5 billion.

Sapporo brand and SLEEMAN brand

North American Market

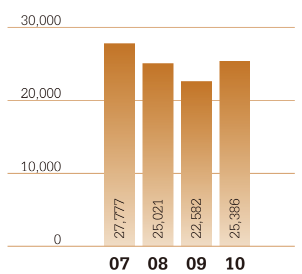
Sales volume at Canadian subsidiary SLEEMAN BREWERIES LTD. (excluding outsourced production of Sapporo brand products) rose by 5%—a fourth consecutive term of year-on-year sales volume growth. Similarly, growth in Sapporo brand sales volume was up 13% year on year at Sapporo U.S.A., Inc.

Asian Market

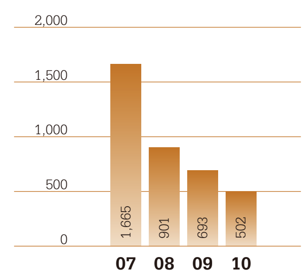
Sales volume outside of North America, most notably in Asia, rose 24% over the previous year.

In Vietnam, where we commenced full-scale business development in December 2009, we began construction on a brewery in July ahead of our joint venture in local beer production and sales with state-owned company VINATABA. In conjunction, we made progress with establishing a marketing strategy, building a distribution network, and other preparations. In the Singapore market, we sought to expand our sales channels in the home-use market this term through cooperation with POKKA CORPORATION. We also announced our full-scale reentry into beer sales directed at the home and commercial-use sectors in the South Korean market.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



MANAGEMENT PLAN 2011–2012

Management Targets

(¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	25.4	29.2	32.2
Operating Income	0.5	0.1	0.3

To build our corporate brand and expand the scope of our business activities overseas, we will step up activities and expand into business categories other than alcoholic beverages, making North America and Asia our top-priority areas. Thus, we aim to shift from the Alcoholic Beverages (International) business to a broader international business.

Key Points

1. Growing our North American business

(1) Marketing strategies

- SLEEMAN BREWERIES LTD. will continue to strive for growth above the market average through further investment in marketing of premium brands.
- Sapporo U.S.A. will continue to position itself for additional growth by expanding its focus beyond the Japanese-American community to encompass the wider American and Asian-American markets.
- We will also consider mergers, acquisitions, and alliances for further business expansion in the U.S.

(2) Bolstering production capabilities

- To accommodate future sales growth, we intend to establish an optimal production structure across North America by conducting a review of production systems at SLEEMAN BREWERIES LTD. and considering production facilities expansion, consignment production, and M&A activities.

(3) Cost structure reforms

- At SLEEMAN BREWERIES LTD., we will strive for further improvements in product quality and cost efficiency by implementing quality control, process stabilization, and SKU (stock-keeping unit) reduction.

2. Expanding into the Asian market

(1) Operations in Vietnam

- In 2011, we will continue brewery construction with completion scheduled for fall while also strengthening our marketing operations through ongoing test-marketing and development of a distribution network.
- In 2012, we will launch a marketing program that includes media advertising and go into full-swing with sales as we attempt to quickly capture market share and establish the Sapporo brand in Vietnam.
- We will also endeavor to expand Sapporo brand sales in countries surrounding Vietnam.

(2) Other business development in Asia

- In Singapore, we will continue to expand our sales channels and enter the home-use market in cooperation with POKKA CORPORATION.
- In South Korea, a market that we reentered late last year, we will begin full-scale beer sales through the sales network of alliance partner Maeil Dairies Co., Ltd., a major South Korean dairy goods manufacturer.

3. Activities to expand the scope of business

- While making the alcoholic beverage business our core business, we will continue to pursue activities in new businesses in which we can demonstrate group synergies, including mergers, acquisitions, and alliances.

Note: All Management Plan figures are derived from a simplified segment classification method based on the management approach.

Soft Drinks

SAPPORO BEVERAGE CO., LTD.

Overall demand in the Japanese soft drinks market was estimated to have grown by around 3% year on year, despite the impact of the economic downturn in the first half. Growth is thought to have come primarily from increased demand stemming from record-high summer temperatures in Japan from July to September. In our Soft Drinks business, we embarked on a brand building growth strategy and took action to improve the operating margin. These efforts lifted both sales and income, with net sales climbing ¥3.7 billion, or 12.0%, year on year to ¥34.4 billion, while operating income increased ¥0.2 billion, or 74.8%, to ¥0.5 billion.

Soft Drinks

In terms of sales and marketing, we focused mainly on cultivating and strengthening our brands by concentrating our sales capabilities on core brand products and investing in marketing. For *Ribbon* and *Gabunomi* series products, we worked to develop consumer campaigns and in-store sales promotion measures. For *Gerolsteiner* naturally carbonated water from Germany, our initiatives included large-scale test sampling, TV commercials and consumer campaigns in major cities. Contributions to sales also came from new products, including *So No Mama Zukuri* fruit juices, which capture real fruit flavor 'just as it is' for consumers to enjoy. Together, these factors lifted sales volume 2% higher than the previous year.

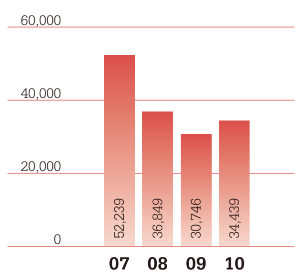
Turning to costs, in addition to creating synergies with alliance partner POKKA CORPORATION, we promoted cost-structure reforms across the entire value chain and sought to maximize profits in a bid to build a stable earnings base. Specific efforts included production system optimization, procurement cost reductions, and fewer inventory disposal losses.

From left: *Ribbon Citron*, *Gerolsteiner*

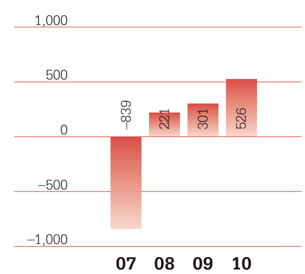
Foods Business

In the Foods business, we extended the sales area for our *Sapporo Potekaru* non-oil-fried potato chips nationwide (excluding Okinawa), and increased our product lineup to seven varieties as part of sales expansion efforts.

Net Sales
(¥ Million)



Operating Income (Loss)
(¥ Million)



MANAGEMENT PLAN 2011–2012

Management Targets

Soft Drinks Business (¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	33.9	37.4	39.8
Operating Income	1.3	0.7	0.7

Other Businesses (Foods) (¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	0.6	1.3	2.0
Operating Income (Loss)	(0.7)	(0.4)	(0.3)

Key Points

Soft Drinks

1. Marketing strategies

Enhancing our brand power

- We intend to strengthen our brand power by concentrating marketing investment and sales efforts on core brand products.
- We will also work to improve our product development infrastructure with an eye to the creation of new high-value-added products.

2. Cost structure reforms

Implementing our cost structure reform program

- We will implement cost structure reforms throughout the entire value chain using a select-and-focus approach (selectively focusing resources on key areas).

Other Businesses

1. Expanding our confectionery business (Sapporo Fine Foods Co., Ltd.)

- With regard to the *Potekaru* range, we intend to expand sales by such means as developing and introducing new products based on new ingredients and new concepts. As we develop the product line, we will control costs by using an efficient production system.

2. Developing our yogurt, dessert, and chilled beverages business (Azumino Food Co., Ltd, *Equity-method affiliate)

- In addition to increasing sales of existing products, we will aim to develop and launch functional yogurt made using Sapporo Breweries' lactobacillus, establish the product in the market, and increase sales.

Note: All Management Plan figures are derived from a simplified segment classification method based on the management approach.

Restaurants

From left: Sapporo Lion Beer Hall in Ginza 7-chome, Tokyo; Yebisu Bar in Umeda, Osaka

SAPPORO LION LTD.

In the Japanese restaurant industry, the operating environment remained as severe as ever. Cut-price competition intensified amid a drop in restaurant dining frequency, triggered mainly by growing consumer frugality. In our Restaurants business, we closed unprofitable restaurant locations as part of earnings structure reforms and opened new locations in new formats, to end the year with 202 locations. As a result, net sales declined by ¥1.0 billion, or 3.5%, year on year to ¥27.1 billion, while operating income rose ¥0.3 billion from the previous year to ¥0.1 billion.

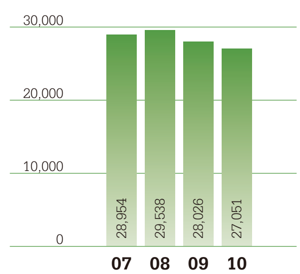
Existing Restaurants

In an attempt to restore customer traffic at existing restaurants, we took several measures to set our locations apart from competitors, including campaigns around draft beer varieties, a campaign commemorating the 111th anniversary of the *Sapporo Lion Beer Hall* chain's inception, and menus featuring seasonal fare. We also stepped up sales activities directed at corporate customers in order to stimulate demand for banquet reservations. In parallel, we made progress in earnings structure reform, worked to bring costs down, including by petitioning for lower leasing fees for our restaurants, and closed 14 unprofitable locations.

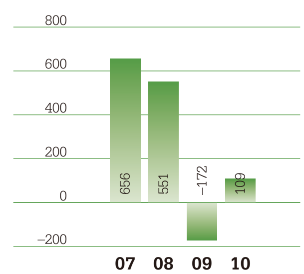
New Restaurants

In new openings, in January we opened a second location in our *Yebisu Bar* chain and a *Brasserie Ginza Lion* location at Kasumigaseki Common Gate. *Yebisu Bar* is a new format we developed by tapping into Group synergies. This was followed in July with another *Brasserie Ginza Lion* opening in Yaesu Chikagai, Tokyo Station, and the opening of a *Beer Restaurant Ginza Lion* location inside the New Chitose Airport Terminal, Hokkaido.

Net Sales
(¥ Million)



Operating Income (Loss)
(¥ Million)



MANAGEMENT PLAN 2011–2012

Management Targets

(¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	26.4	25.5	26.3
Operating Income	0.2	0.4	0.6

We will work to invigorate existing restaurants and develop formats differentiated from the competition. We will also undertake cost structure reforms from a medium-term perspective to enable the business to weather economic change.

Key Points

1. Positioning for growth

(1) Measures for existing restaurants

- To increase customer traffic, we will continue to conduct promotional campaigns and boost sales activities directed at corporate customers.

(2) New restaurant opening strategy

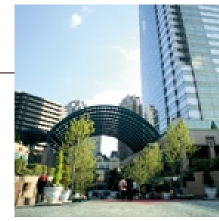
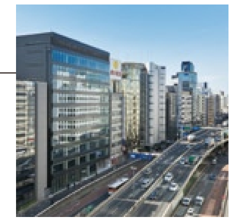
- In 2011, we plan to open new restaurants totaling around 1,653 square meters in size.
- We will roll out the new *Yebisu Bar* format that takes advantage of synergies with Sapporo Breweries Ltd.

2. Cost structure reforms

- We will implement cost structure reforms by closing unprofitable restaurants (six closures are planned in 2011) and reducing rent and other fixed costs while at the same time controlling personnel expenses through tighter work-shift management.

Note: All Management Plan figures are derived from a simplified segment classification method based on the management approach.

Real Estate

From left: Yebisu Garden Place, Shibuya Sakuragaoka Square

YEBISU GARDEN PLACE CO., LTD.

In Japan's real estate sector, although the decline in occupancy rates in the Tokyo-area office building rent market appeared to level off in the second half of the year, rent levels in general continued to decline throughout the year. In our Real Estate business, we sought to maintain occupancy rates and rent levels at existing properties, and pursued additional cost reduction measures. As a result, net sales increased ¥0.3 billion, or 1.2%, year on year to ¥23.5 billion, with operating income up ¥0.5 billion, or 6.4%, to ¥8.0 billion.

Existing Properties

At existing properties, we strove to maintain occupancy rates and rents, and to further reduce costs. These efforts, however, were unable to reverse the impact of a declining rent market for Tokyo-area office buildings.

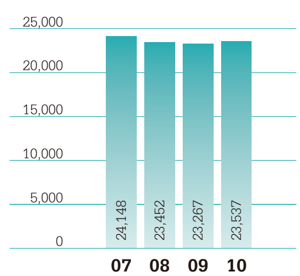
Real Estate Development

In June, we completed construction on Shinjuku Square, an office building in Tokyo's Shinjuku Ward. We also moved ahead with the development of a new wing at the PAL Urayasu fitness facility in the city of Urayasu, Chiba Prefecture.

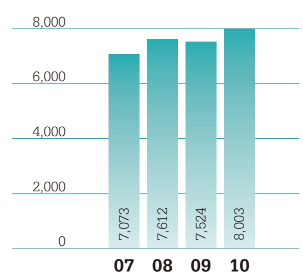
New Income-Generating Property Acquisitions

In April, we acquired Shibuya Sakuragaoka Square, a newly built office building in Tokyo's Shibuya Ward. We succeeded in maintaining high occupancy rates for this property. Three properties acquired and opened last fiscal year also contributed to full-year earnings—Rose City Higashi Sapporo, a rental condominium building in Sapporo (Hokkaido); Ebisu Square, an office building in Ebisu, Tokyo; and commercial property MLB café TOKYO.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



MANAGEMENT PLAN 2011–2012

Management Targets

(¥ Billion)

	2010 RESULTS	2011 TARGETS	2012 TARGETS
Net Sales	23.5	23.0	24.7
Operating Income	8.0	8.3	9.0

We will work to maintain and reinforce our stable profit structure and enhance the value of the Sapporo Group's properties. We will carefully screen new prospects and acquire only prime properties.

Key Points

1. Enhancing the value of our properties

(1) Value enhancement of Yebisu Garden Place
- We will seek to maintain rents at appropriate levels and to maintain and increase the occupancy rate through an increased focus on value and tenant satisfaction.
- We will endeavor to enhance the appeal of the area and increase the number of visitors through shop and restaurant renovation.

(2) Embarking on redevelopment of properties in the Ginza and Ebisu areas
- We will embark on measures to boost future earnings. Specifically, we will begin necessary studies to reconstruct the Sapporo Ginza Building and the Seiwa Ebisu Building to enhance the value of our prime properties.

2. Acquiring new assets
- We will continue to carefully screen properties, taking into consideration Group investment priorities and return on investment.

Note: All Management Plan figures are derived from a simplified segment classification method based on the management approach.

Corporate Governance

Basic Governance Approach

The Sapporo Group regards strengthening and enhancing corporate governance as one of its top management priorities. The Group is working to clarify supervisory, business execution and auditing functions throughout the Group under the holding company framework. The Group is also working to strengthen management supervisory functions to increase management transparency and achieve management goals. To this end, the Group employs the following governance system.

Board of Directors

The Board of Directors performs a supervisory role and makes decisions on statutory matters and important matters relating to business execution stipulated by the Board's regulations. The Board of Directors also elects and supervises the business execution of the President and Representative Director, who serves concurrently as Group CEO, as well as the group operating officers, and other key personnel.

About Outside Directors

Three of the 10 members of the Board of Directors are outside directors. All three have submitted notification to the Tokyo Stock Exchange of their independent director status as stipulated by the exchange regulations, and are expected to objectively advise and supervise the management team from a neutral standpoint. The outside directors offered advice and suggestions regarding the screening and selection of agenda items from their independent and objective standpoint at 13 meetings of the Board of Directors held in 2010.

President and Representative Director and Group CEO, Group Operating Officers

The President and Representative Director, Group CEO controls business execution across the entire group based on the resolutions of the Board of Directors. The group operating officers, under the direct authority of the President and Representative Director, Group CEO, control business execution in the main business segments.

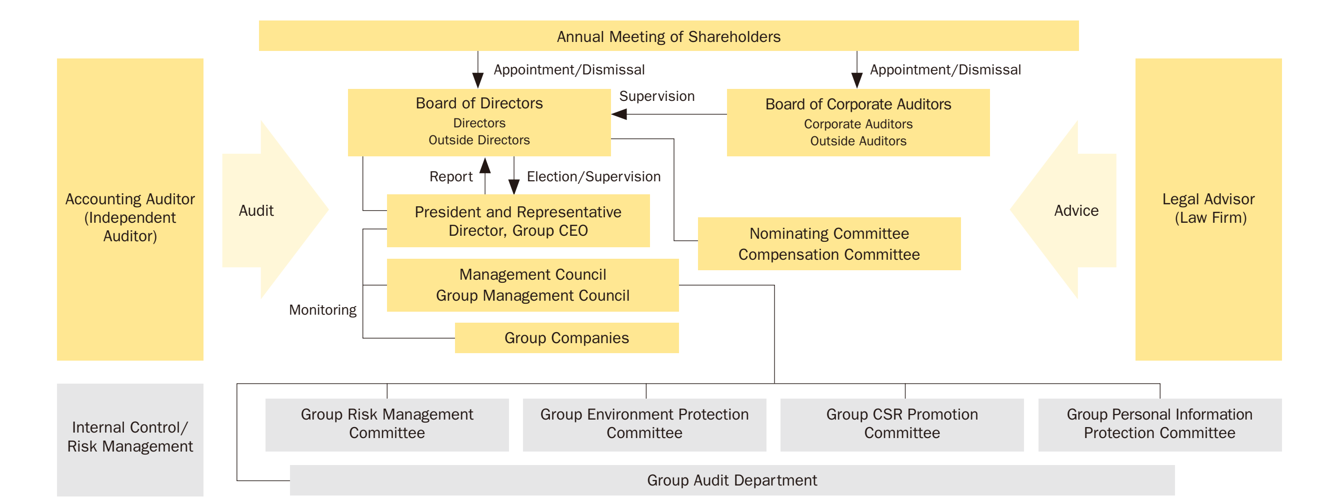
Audits by the Corporate Auditors

Sapporo Holdings Ltd. uses the corporate auditor system, in which corporate auditors, who are completely independent from the Board of Directors, audit the job performance of directors from an independent standpoint. The company has therefore established a Board of Corporate Auditors. In accordance with audit policy and allocated auditing duties decided by the Board of Corporate Auditors, each corporate auditor attends important meetings such as the Board of Directors meeting and the Management Council, reads over requests for approval, audits subsidiaries, and performs other related duties. The corporate auditors also receive an explanation of the audit plan from the independent auditors and the independent auditors' report. This system allows proper auditing of the execution of duties by directors.

About Outside Auditors

Sapporo Holdings has four corporate auditors, two of whom are outside auditors. Both outside auditors have submitted notification to the Tokyo Stock Exchange of their independent auditor status as stipulated by the exchange regulations, and are

Corporate Functions and Internal Control Relationships



expected to audit the duties executed by the directors from an objective and neutral standpoint. At the 13 meetings of the Board of Directors held in 2010, the outside auditors offered input where fitting to preserve the propriety and appropriateness of decisions by the directors. Similarly, the outside auditors provided input where needed on the screening and selection of agenda items and other matters at the seven meetings of the Board of Corporate Auditors held during the year.

Nominating and Compensation Committees

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 with respect to the nomination and remuneration of directors and preserving a sound management structure. The three outside directors and the President and Representative Director form the core membership of both committees (the full-time corporate auditors are added as members when deciding compensation for corporate auditors, and when recommending candidates for corporate auditor). The committee chair is selected by the outside directors.

Compensation for Directors and Corporate Auditors

Compensation for directors is decided within remuneration limits set by the Annual Meeting of Shareholders. Compensation consists of a base salary for each director, determined by the duties performed, and that may, based on predetermined criteria, be adjusted in line with job performance in the previous fiscal year. Compensation for corporate auditors is also decided within remuneration limits set by the Annual Meeting of Shareholders, and consists of a base salary for each corporate auditor calculated in accordance with standards decided by the Board of Corporate Auditors.

No bonuses for directors or corporate auditors were paid in 2010, nor were any retirement benefits, stock options or other non-cash remuneration.

Compensations amounts in 2010 were as follows.

		Base salary	Bonuses	Retirement benefits	Stock options	Eligible directors and corporate auditors
Directors	(Company)	115	–	–	–	8
	(Outside)	20	–	–	–	3
Corporate auditors	(Company)	39	–	–	–	2
	(Outside)	9	–	–	–	2
Total		184	–	–	–	15

(Notes)
1. The number of Company directors (7) as of December 31, 2010, includes 1 director who retired in March 2010 counted in figures for base salary and eligible directors and corporate auditors.
2. Base salary for Company directors does not include director compensation for four individuals paid by consolidated subsidiaries, nor the portion of salary paid as key personnel to one individual serving concurrently as key personnel and director.
3. Base salary for Company corporate auditors includes the portion of remuneration paid by consolidated subsidiaries.

Internal Audits

Under instructions from the President and Representative Director, Group CEO, Sapporo Holdings has established a Group Audit Department as an internal auditing organization independent of the executive chain of command. The Group Audit Department performs internal audits 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.

Upgrading the Internal Control System

The Group has appointed leaders responsible 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 secretariats of these initiatives 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.

Risk Management

The Group manages risks relating to Sapporo Holdings and its subsidiaries and prepares crisis management measures. To achieve a more robust risk management structure for the entire Group the Company has formulated basic policies and management systems for Group risk management, as well as crisis management regulations. Specifically, Sapporo Holdings and its subsidiaries upgrade and develop systems for managing risks associated with important decisions made during business execution or risks inherent to it, and systems for managing crisis situations that may arise. These efforts are governed by the basic policies for the development of internal control systems.

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. 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.

Policy Toward the Large-Scale Purchase of Share Certificates, etc., of the Company

The Board of Directors considers that decisions regarding the sale of the Company's shares in response to the attempt by a Company shareholder to pursue a large-scale purchase of shares should ultimately rest with the shareholders themselves. However, should an attempt at the large-scale purchase of shares suddenly materialize, the Board of Directors recognizes the provision of ample and appropriate information from both the intended buyer and the Company's Board of Directors as essential to making an optimal decision. The Board of Directors has therefore formulated a policy governing large-scale share purchases* that was approved by the ordinary general meeting of shareholders.

The policy stipulates that the intended purchaser provide ample and necessary information to the Company's Board of Directors prior to initiating any attempt at a large-scale share purchase. The Board of Directors then reserves a specified period of time to review the proposed purchase, allowing it to provide shareholders with opinions and information that contribute to their final decision. In the event that the proposed purchase is unequivocally deemed to drastically harm the mutual interests of the Company's shareholders, the Board of Directors will, as stipulated by the policy, enact measures deemed appropriate to protect such interests.

To prevent an arbitrary decision to apply this policy by the Board of Directors, an independent committee staffed by three or more individuals selected from among outside directors, auditors and experts has been established to provide an institutional check. The independent committee will receive advice regarding the purchase from the Board of Directors, and offer various counsel pertaining to the matter.

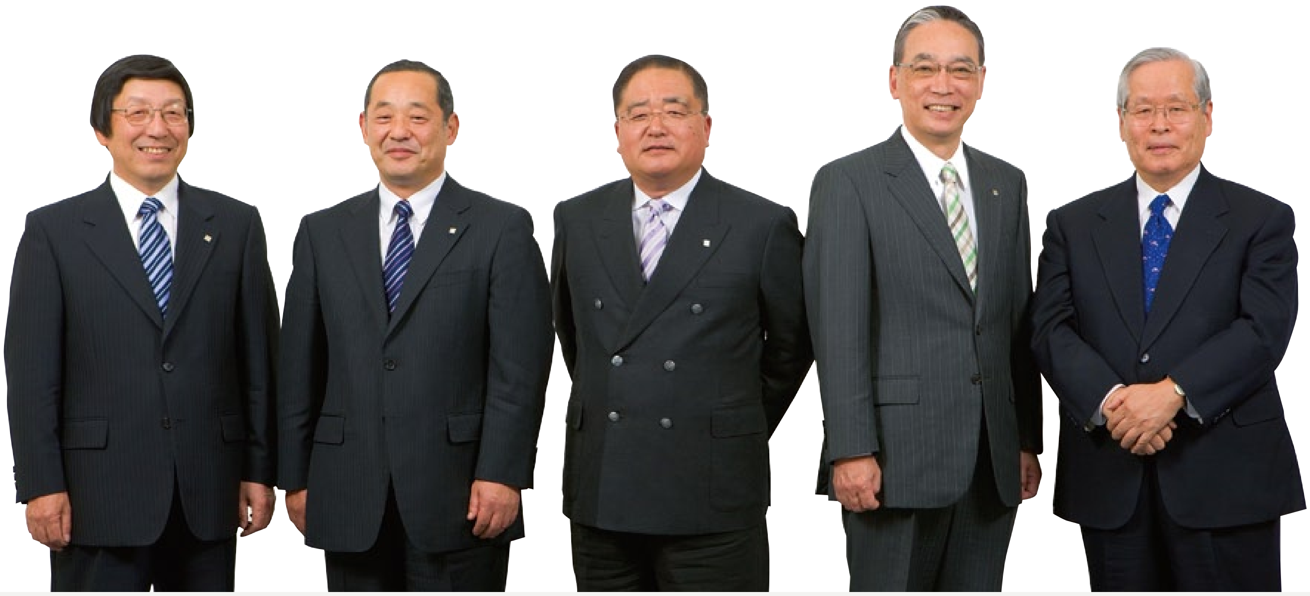
*Policy Toward the Large-Scale Purchase of Share Certificates, etc. of the Company
http://www.sapporoholdings.jp/english/ir/report/nr/pdf/110210_06.pdf

INTERVIEW WITH OUTSIDE DIRECTOR, HIROSHI TANAKA

I was appointed as an outside director of Sapporo Holdings Ltd. in March 2008. Since then, the Company has maintained its current system of having three outside directors. The current group of outside directors each have CEO experience in a financial institution, a manufacturing company, and a general trading company, respectively. At the Board of Directors meetings my fellow outside directors and I all draw on our experience and knowledge to comment actively and objectively on the matters under consideration. I believe our role is especially effective for strengthening compliance as we can see issues from the outside that may not be noticeable from within the company and give opinions on them. I am certain that Sapporo Holdings is taking positive steps to raise its enterprise value while pursuing a balance of efficiency and transparency, and that the outside directors are functioning effectively to this end.

HIROSHI TANAKA
Outside Director

Board of Directors and Auditors (As of March, 2011)



1 2 3 4 5

Board of Directors

1 TAKAO MURAKAMI (August 14, 1945)
Chairman and Representative Director

April 1969	Joined the Company
September 1996	Director of Osaka Brewery
September 1998	Director of Production & Technology Department, Production & Technology Division
March 1999	Operating Officer, Director of Production & Technology Department, Production & Technology Division
March 2001	Senior Officer, Director of Merchandising Department, Marketing Division
March 2003	Senior Officer, Deputy Director of Beer Marketing & Production Division
July 2003	Director and Executive Managing Officer of Sapporo Breweries Ltd., Director of Production & Technology Division
March 2004	Member of the Board Managing Director of the Company
March 2005	President and CEO of the Group
March 2011	Chairman and Representative Director (up to the present)

2 TSUTOMU KAMIJO (January 6, 1954)
President, Representative Director
Group CEO

April 1976	Joined the Company
November 1992	General Manager of Corporate Planning Department
September 1996	General Manager of Sales Planning Department of Sapporo Beverages Co., Ltd.
November 1997	Director of Sales Planning Department of Sapporo Beverage Co., Ltd.
March 2001	Member of the Board of Sapporo Beverage Co., Ltd. Director of Sales Planning Department
September 2003	Director and Managing Executive Officer, Director of Marketing Department of Sapporo Beverage Co., Ltd.
September 2005	Director and Managing Executive Officer, Director of Management Strategy Headquarters of Sapporo Beverage Co., Ltd.
March 2007	Member of the Board of the Company Director of Corporate Planning Department
March 2009	Member of the Board Managing Director of the Company
March 2011	President and CEO of the Group (up to the present) President and Representative Director of Sapporo Beverage Co., Ltd. (up to the present)

3 YOSHIYUKI MOCHIDA (January 17, 1951)
Managing Director

April 1973	Joined the Company
March 1991	President of SAPPORO U.S.A., INC.
January 1996	General Manager of Tokyo Chuo Branch of the Company
March 2001	Director of International Division
July 2003	Director of International Division of Sapporo Breweries Ltd.
March 2004	Director of Corporate Planning Department of the Company
September 2004	Director of Corporate Planning Department
March 2005	Member of the Board Director of Corporate Planning Department
March 2007	Member of the Board Managing Director
March 2009	President of Sapporo International Inc. (up to the present) Member of the Board Managing Director of the Company and Group Operating Officer (up to the present)

4 FUMIAKI TERASAKA (April 12, 1949)
Managing Director

April 1972	Joined the Company
September 1998	Director of Advertising Department, Marketing Division
September 2000	Director of Marketing Department, Marketing Division
October 2002	Director of Kyushu Sales & Marketing Division
July 2003	Director of Kyushu Sales & Marketing Division of Sapporo Breweries Ltd.
March 2004	Operating Officer and Director of Kyushu Sales & Marketing Division of Sapporo Breweries Ltd.
September 2004	Director and Senior Officer, Director of Marketing Division of Sapporo Breweries Ltd.
March 2005	Director and Executive Managing Officer, Director of Marketing Division of Sapporo Breweries Ltd.
March 2009	Executive Managing Officer of Sapporo Breweries Ltd.
March 2010	President and Representative Director of Sapporo Breweries Ltd. (up to the present) Member of the Board Managing Director of the Company and Group Operating Officer (up to the present)

5 HIROAKI ETO (January 14, 1941)
Director

April 1964	Joined The Fuji Bank Ltd. (currently Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd.)
June 1990	Director of The Fuji bank, Ltd.
May 1993	Managing Director of The Fuji Bank, Ltd.
June 1996	Senior Managing Director of The Fuji Bank, Ltd.
April 1998	Deputy President of The Fuji Bank, Ltd.
June 1999	Deputy President of The Yasuda Trust & Banking Co., Ltd. (currently Mizuho Trust & Banking Co., Ltd.)
April 2000	President of The Yasuda Trust & Banking Co., Ltd.
March 2003	Member of the Board Director of the Company (up to the present)
June 2004	Advisor of Mizuho Trust & Banking Co., Ltd. (up to the present)

6 7 8 9 10

Board of Corporate Auditors

6 HIROSHI TANAKA (September 23, 1941)
Director

April 1964	Joined Kureha Chemical Industry Co., Ltd. (currently Kureha Corporation)
July 1988	Director of Legal & Licensing Department of Kureha Corporation
June 1997	Director of Corporate Strategic Division of Kureha Corporation Member of the Board
June 1999	Senior Vice President of Kureha Corporation (in charge of marketing)
June 2000	Executive Vice President of Kureha Corporation (in charge of marketing)
June 2001	Senior Executive Vice President of Kureha Corporation (in charge of corporate strategy & marketing)
June 2003	President & Chief Executive Officer of Kureha Corporation
April 2007	Chairman of the Board of Directors of Kureha Corporation
March 2008	Member of the Board Director of the Company (up to the present)
June 2010	Advisor of Kureha Corporation (up to the present)

7 NOBUO KATSUMATA (December 5, 1942)
Director

April 1966	Joined Marubeni-Iida Co., Ltd. (currently Marubeni Corporation)
June 1996	Director of Marubeni Corporation
April 1999	Corporate Vice President, Director and Chief Operating Officer of Marubeni Corporation
April 2001	Senior Vice President, Director and Executive Corporate Officer of Marubeni Corporation
April 2003	President and CEO, Member of the Board of Marubeni Corporation
April 2008	Chairman, Member of the Board of Marubeni Corporation (up to the present)
March 2009	Member of the Board Director of the Company (up to the present)

8 KAZUO USHIO (September 8, 1950)
Director

April 1973	Joined the Company
September 2000	Managing Director of Sapporo Hotel Enterprises Ltd.
March 2002	President of Sapporo Hotel Enterprises Ltd.
March 2003	President of Chateau Restaurant Co., Ltd. (concurrent)
December 2004	Assistant to the Director, in charge of Group Strategy of the Company
March 2005	Senior Officer of the Company Corporate Auditor of Sapporo Lion Limited
March 2006	Member of the Board Director of the Company
March 2007	President and Representative Director of Yebisu Garden Place Co., Ltd. (up to the present) Member of the Board Director of the Company and Group Operating Officer (up to the present)

9 HIDENORI TANAKA (April 16, 1955)
Director

April 1978	Joined the Company
July 2003	Director of Accounting & Finance Department
March 2005	Director of Accounting & Finance Department of Sapporo Breweries Ltd.
March 2007	Member of the Board of Sapporo Breweries Ltd. Director of Accounting & Finance Department
March 2008	Member of the Board Director of the Company
April 2010	Member of the Board Director of Accounting & Finance Department of the Company
September 2010	Member of the Board Director of the Company (up to the present)

10 YOICHI KATO (July 21, 1954)
Director

April 1978	Joined the Company
September 2003	Member of the Board, Senior Officer, Director of Sales Administration Division of Yebisu Garden Place Co., Ltd.
November 2003	Senior Officer, Director of Corporate Planning Department of Yebisu Garden Place Co., Ltd.
March 2007	Director and Executive Managing Officer of Yebisu Garden Place Co., Ltd.
March 2009	Member of the Board Director of Corporate Planning Department of the Company
March 2011	Member of the Board Director of the Company (up to the present)

RYOICHI YAMADA (January 28, 1953)
Standing Corporate Auditor

April 1975	Joined the Company
March 2002	Director of Alcoholic Beverages Department
July 2003	Director of Corporate Planning Department of Sapporo Breweries Ltd.
September 2004	Director of Business Support Department of the Company
October 2007	Director of Group Audit Department
March 2010	President and Representative Director of Sapporo Foods Net Co., Ltd.
March 2011	Standing Corporate Auditor of the Company (up to the present)

ISAO TAKEHARA (June 28, 1947)
Corporate Auditor

March 1971	Joined Nippon Life Insurance Company
July 1997	Director of Nippon Life Insurance Company
March 2002	Managing Director of Nippon Life Insurance Company
March 2005	Director of Nippon Life Insurance Company
June 2005	President of NLI Research Institute (up to the present)
March 2007	Corporate Auditor of the Company (up to the present)

NORIO HENMI (June 13, 1957)
Corporate Auditor

April 1989	Registration as lawyer (Daiichi Tokyo Bar Association)
June 1993	Partner of Seiwa Kyodo Law Office (currently Seiwa Meitetsu Law Office) (up to the present)
March 2004	Corporate Auditor of the Company (up to the present)

KEIZO AE (December 22, 1950)
Corporate Auditor

April 1973	Joined the Company
March 2005	Director of Accounting & Finance Department
March 2008	Corporate Auditor of the Company (up to the present)

Notes:
1. Mr. Hiroaki Eto, Mr. Hiroshi Tanaka and Mr. Nobuo Katsumata are outside directors.
2. Mr. Isao Takehara and Mr. Norio Henmi are outside corporate auditors.

Five-Year Summary (Years ended December 31)

	Millions of yen				
	2010	2009	2008	2007	2006
Net sales	¥389,245	¥387,534	¥414,558	¥449,011	¥435,090
Alcoholic Beverages	304,218	305,496	324,720	343,670	326,420
Soft Drinks	34,439	30,746	36,849	52,239	58,731
Restaurants	27,051	28,026	29,538	28,954	26,995
Real Estate	23,537	23,267	23,452	24,148	22,828
Other	–	–	–	–	116
Operating cost and expenses	373,842	374,638	399,873	436,649	426,477
Operating income	15,403	12,896	14,685	12,363	8,613
Income before income taxes and minority interests	17,762	8,874	17,970	221	3,978
Net income	10,773	4,535	7,640	5,509	2,338
	Yen				
Per share:					
Net income:					
Primary	¥ 27.50	¥ 11.57	¥ 19.49	¥ 14.10	¥ 6.38
Diluted	26.44	11.05	18.89	13.76	5.88
Net assets	319.32	302.16	297.60	319.07	300.13
Cash dividends	7.00	7.00	7.00	5.00	5.00
	Millions of yen				
Year-end data:					
Net assets	¥126,645	¥118,591	¥116,862	¥125,189	¥113,496
Total assets	494,798	506,875	527,287	561,859	589,597
Financial liabilities	181,335	196,794	189,252	212,464	236,033
ROE (%)	8.9	3.9	6.3	4.6	2.1
Capital expenditures	22,571	23,485	29,378	19,548	30,790
Depreciation and amortization	22,504	22,547	21,605	24,527	21,930

Management's Discussion and Analysis

Sapporo Holdings Limited and the Sapporo Group

The Group endeavored to initiate growth strategies and strengthen its existing businesses in accord with the key priorities of its rolling two-year plan, Sapporo Group Medium-term Management Plan 2010–2011. This plan is based on the Sapporo Group's New Management Framework unveiled in 2007.

Our growth strategy involved various initiatives aimed at laying the groundwork for the future, including the following: We began constructing a brewery in Vietnam as part of our bid to enter the Vietnamese beer market; we entered into a business and capital alliance with Kyodo Milk Industry Co., Ltd.; and we entered into a beer industry business alliance with the South Korean Maeil Dairies Co., Ltd. Meanwhile, to strengthen existing businesses, we pursued strategies that concentrated resources on certain brands and other areas of strength for our businesses.

In terms of the scope of consolidation, the Company had 33 consolidated subsidiaries and 6 equity-method affiliates in the year ended December 31, 2010.

Operational Overview

In 2010, the Japanese economy experienced a mild recovery from the outset of the year. But uncertainty over economic downturn amid a subsequent easing of the pace of global economic recovery and exports declining due to the yen appreciating resulted in ongoing weakness in consumer spending and downward pressure on prices.

The industries in which the Sapporo Group operates were variously affected. The soft drinks industry saw demand increase in response to record summer heat. In contrast, affected heavily by listless consumer spending, demand rose less than expected in the alcoholic beverage and restaurant industries. In the real estate industry, Greater Tokyo office vacancy rates appeared to bottom out during the latter half of the year, but office rent levels were in continual decline throughout the year.

Consolidated Operating Results

Net Sales

Net sales increased ¥1,710 million, or 0.4%, year on year, to ¥389,245 million.

By business segment, Alcoholic Beverages saw a 0.4% year-on-year decline in net sales to ¥304,218 million. The Alcoholic Beverages (Japan) business saw an increase in unit sales of beer-type beverages. Yet, monetarily, net sales decreased as a consequence of business growth in low-priced products. The Alcoholic Beverages (International) business, on the other hand, saw net sales increase as a result of continued strong sales performance in North America.

The Soft Drinks segment saw a 12.0% year-on-year increase in net sales to ¥34,439 million, on solid sales performance spurred by an unusually hot summer, with sales remaining strong afterwards.

The Restaurants segment recorded a 3.5% year-on-year decrease in net sales to ¥27,051 million. This was due to closing unprofitable restaurants as part of earnings structure improvements.

The Real Estate segment recorded a 1.2% year-on-year increase in net sales to ¥23,537 million. This reflected sales stabilizing and increasing as a result of efforts to maintain occupancy rates and rent levels on existing properties.

Cost of Sales

Cost of sales decreased ¥6,479 million, or 2.4%, year on year to ¥261,212 million. The cost of sales ratio decreased 2.0 percentage points to 67.1%.

This was mainly because sales increased while raw ingredient and materials costs and fixed manufacturing costs decreased.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥5,682 million, or 5.3%, year on year to ¥112,630 million.

The main reasons were an increase in depreciation charges due to the launch of a new sales and logistics system in the Alcoholic Beverages (Japan) business and a combined increase in sales incentives and commissions accompanying sales increases in the Soft Drinks business.

Operating Income

Operating income increased ¥2,507 million, or 19.4%, year on year to ¥15,403 million.

The Alcoholic Beverages (Japan) business achieved operating income growth on the back of higher beer unit sales and production cost reductions. The Alcoholic Beverages (International) business achieved operating income growth thanks to increased unit sales in existing businesses, but upfront investment associated with its entry into Vietnam resulted in an overall profit decline.

The Soft Drinks business posted sales growth and also achieved operating income growth as it continued to strengthen profitability. This enabled the business to fully absorb its upfront investment in food operations.

Sales for the Restaurants business decreased from a slump in demand, as well as the closure of unprofitable restaurants. Nevertheless, the business saw operating income grow from measures to rein in costs, such as negotiations to reduce rents and the closure of unprofitable restaurants.

The Real Estate business endeavored to cut costs, and to maintain occupancy rates and rent levels, and thus achieved operating income growth.

Other Income (Expenses)

Other income was ¥2,359 million, compared with other expenses of ¥4,022 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 ¥2,589 million in fiscal 2010. This was a slight improvement on the previous year and in line with a decrease in financial liabilities.

In equity in income of affiliates the Company recorded a 121.4% year-on-year increase to ¥611 million, with affiliates POKKA CORPORATION and Azumino Food Co., Ltd. contributing to this change.

The Company also recorded a gain on the sales of property, plant and equipment of ¥16,576 million, mainly due to selling the former Osaka Plant site to generate part of the cash flow for strategic investments going forward.

The Company recorded loss on disposal of property, plant and equipment of ¥1,724 million, mainly due to concentrating production facilities to further improve manufacturing efficiency.

Loss on the sales of property, plant and equipment was ¥8,410 million. This was due to the Company selling its Keiyo Physical Distribution Center as part of a company-wide effort to restructure and optimize the distribution network and improve the efficiency and liquidity of assets.

The Company booked a loss on impairment of property, plant and equipment of ¥2,375 million. The main reason for this was the Company amortized goodwill and other intangibles recorded at SLEEMAN BREWERIES LTD., and approved a resolution to close unprofitable locations in the Restaurants business, following revisions in the business plan.

Income Before Income Taxes and Minority Interests

As a result of the above and other factors, income before income taxes and minority interests increased ¥8,888 million to ¥17,762 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥6,994 million.

Income taxes accounted for 39.4% 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 ¥10,773 million, up 137.5% year on year.

Segment Information

	Millions of yen			
	Operating Revenues	Operating Income	Depreciation and Amortization Expenses	Capital Expenditures
Alcoholic Beverages	¥304,218	¥9,804	¥15,446	¥ 9,159
(Japan)	278,832	9,303		
(International)	25,386	502		
Soft Drinks	34,439	526	677	1,368
Restaurants	27,051	109	681	319
Real Estate	23,537	8,003	5,693	11,719

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, 2010 stood at ¥494,798 million, down ¥12,076 million, or 2.4%, from a year ago.

This was mainly the result of a ¥7,459 million increase in total current assets accompanying an increase in cash and cash equivalents. However, this increase was partially offset by a ¥19,536 million net decrease in the balance of property, plant and equipment, after sales of existing property and other assets outweighed new acquisitions of real estate.

Liabilities

Financial liabilities decreased ¥15,459 million to ¥181,335 million.

Due to a decrease in debt, as well as a decrease in deposits accompanying the termination of gift voucher certificates for beer, total liabilities decreased ¥20,131 million, or 5.2%, to ¥368,153 million.

Net Assets

Retained earnings increased ¥8,030 million to ¥28,317 million at the fiscal year-end.

This was because net income effectively increased retained earnings by a greater amount than dividend payments decreased it.

The balance of foreign currency translation adjustments at fiscal year-end decreased ¥1,631 million, to a deficit of ¥5,259 million. This mainly reflected stronger exchange rates for the yen at foreign subsidiaries on December 31, 2010, compared with the previous fiscal year-end.

As a result, net assets increased ¥8,055 million from a year earlier to ¥126,645 million.

Cash Flows

Consolidated cash and cash equivalents as of December 31, 2010 were ¥13,270 million, an increase of ¥7,002 million, or 111.7%, 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 ¥27,431 million, ¥14,977 million, or 120.3%, higher than in the previous fiscal year.

The main contributors were income before income taxes and minority interests of ¥17,762 million and depreciation and amortization of ¥22,504 million. These were partially offset by a ¥7,866 million decrease in deposits received following the termination of gift voucher certificates for beer, and other factors.

Cash Flows From Investing Activities

Investing activities used net cash of ¥2,595 million, a decrease of ¥29,632 million from the net cash used in the previous fiscal year.

This change mainly reflected proceeds from the sale of Sapporo Breweries' former Osaka Plant site and the Keiyo Physical Distribution Center, on one hand, and payments including the new acquisition of real estate, on the other.

Cash Flows From Financing Activities

Financing activities used net cash of ¥18,120 million, a change of ¥21,865 million from the net cash provided by in the previous fiscal year.

This was primarily the result of some proceeds from operating activities being used to reduce financial liabilities.

Management Indicators

The current ratio rose 5.3 of a percentage point from 60.4% to 65.7%.

This was the combined result of a ¥7,459 million increase in total current assets, which reflected increases in cash and cash equivalents, and a ¥2,209 million decrease in current liabilities, which reflected a decrease in deposits received.

The equity ratio rose from 23.4% a year earlier to 25.3%, reflecting higher equity capital due to an increases in retained earnings, as well as a decrease in total assets.

Return on equity (ROE) increased from 3.9% to 8.9%, due to the 137.5% year-on-year increase in net income.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, decreased from 1.7 to 1.4 in line with the decrease in financial liabilities.

Outlook For 2011

The Company is forecasting consolidated net sales of ¥482,000 million, an increase of ¥92,755 million, or 23.8%, year on year.

Operating income is projected to increase ¥2,597 million, or 16.9%, year on year to ¥18,000 million.

In the Alcoholic Beverages business, we hope to secure stable operating income in the domestic market as a result of increased net sales as well as ongoing cost control. Overseas, we will incur upfront investment costs as we continue to put our Vietnam brewery into operation, which we expect to result in lower operating income year over year, despite earnings growth from existing overseas business on the back of expanding unit sales.

In the Soft Drinks and Restaurants segments, we expect to increase operating income by continuing to implement measures to strengthen profitability.

In the Real Estate segment, we project operating income growth on the back of full-year contributions from properties acquired last year as well as cost reductions.

Other businesses: We expect our food operations to post operating income growth due to net sales expansion.

However, net income is forecast to decrease ¥4,773 million, or 44.3%, year on year to ¥6,000 million.

The main factor behind the variance is the non-recurrence of a gain on the sale of property, plant and equipment booked in 2010.

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, 2010.

High Dependency on Specific Business Areas

In 2010, 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 in the U.S. and Canada.

In Asia, which is regarded as a strategic business development region, the Sapporo Group has begun construction of a brewery in Vietnam and plans to carry out full-scale business development 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.

* As recorded with regard to these convertible bonds with stock acquisition rights under Note 19. Subsequent Events, the Company plans to buy back all shares following the conversion to stock of convertible bonds with stock acquisition rights.

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, 2010 and 2009)

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2010	2009	2010
Current assets:			
Cash and cash equivalents	¥ 13,270	¥ 6,268	$ 162,946
Time deposits	120	120	1,473
Notes and accounts receivable—trade	61,353	60,121	753,352
Marketable securities (Note 11)	2	47	25
Inventories (Note 4)	22,169	22,949	272,213
Refundable income taxes	–	1,237	–
Allowance for doubtful receivables	(161)	(193)	(1,978)
Deferred tax assets (Note 15)	2,811	2,788	34,511
Other current assets	10,173	8,942	124,920
Total current assets	109,737	102,278	1,347,461
Investments and long-term loans:			
Investment securities (Notes 11 and 13):			
Unconsolidated subsidiaries and affiliates	10,437	10,003	128,151
Other	27,591	25,388	338,789
Long-term loans receivable	10,396	11,073	127,655
Allowance for doubtful receivables	(1,595)	(1,764)	(19,581)
Deferred tax assets (Note 15)	2,649	4,825	32,532
Other investments	14,494	15,340	177,968
	63,972	64,864	785,515
Property, plant and equipment (Notes 5 and 13):			
Land	77,584	84,384	952,646
Buildings and structures	357,770	361,277	4,393,045
Accumulated depreciation	(185,485)	(184,898)	(2,277,567)
Machinery and vehicles	180,519	182,374	2,216,592
Accumulated depreciation	(142,521)	(138,387)	(1,750,016)
Construction in progress	3,564	8,487	43,760
Other	20,400	19,784	250,496
Accumulated depreciation	(15,201)	(15,182)	(186,653)
Property, plant and equipment, net	296,629	317,839	3,642,304
Intangibles			
Goodwill	14,128	14,927	173,478
Other	10,332	6,968	126,860
	24,460	21,894	300,339
	¥ 494,798	¥ 506,875	$ 6,075,619

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

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Short-term bank loans (Note 13)	¥ 4,177	¥ 20,593	$ 51,293
Current portion of long-term debt (Note 13)	43,912	26,142	539,199
Notes and accounts payable—trade	24,348	20,185	298,973
Liquor taxes payable	34,253	35,242	420,594
Income taxes payable (Note 15)	1,819	843	22,331
Accrued bonuses (Note 2 (k))	2,056	1,639	25,240
Deposits received	19,218	27,084	235,978
Other current liabilities	37,260	37,523	457,515
Total current liabilities	167,043	169,252	2,051,123
Long-term debt (Note 13)	133,245	150,059	1,636,117
Dealers' deposits for guarantees	31,936	32,011	392,141
Employees' retirement benefits (Note 14)	7,191	7,488	88,296
Directors' and corporate auditors' severance benefits	42	46	519
Deferred tax liabilities (Note 15)	13,455	12,098	165,216
Other long-term liabilities	15,240	17,331	187,129
Contingent liabilities (Note 8)			
Total liabilities	368,153	388,284	4,520,542
Net assets			
Shareholders' equity:			
Common stock (Note 18)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2010 393,971,493 shares	53,887	–	661,673
— at December 31, 2009 393,971,493 shares	–	53,887	–
Capital surplus	46,316	46,318	568,707
Retained earnings (Note 6)	28,317	20,287	347,708
Treasury stock, at cost	(1,190)	(1,132)	(14,617)
Total shareholders' equity	127,329	119,360	1,563,471
Valuation and translation adjustments			
Unrealized holding gain on securities	2,985	2,638	36,659
Deferred hedge gains	(8)	1	(98)
Foreign currency translation adjustments	(5,259)	(3,627)	(64,571)
Total valuation and translation adjustments	(2,281)	(989)	(28,010)
Minority Interests	1,598	219	19,616
Total net assets	126,645	118,591	1,555,077
	¥494,798	¥506,875	$6,075,619

Consolidated Statements of Income (Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Net sales	¥389,245	¥387,534	¥414,558	$4,779,528
Operating cost and expenses:				
Cost of sales	261,212	267,690	288,146	3,207,415
Selling, general and administrative expenses	112,630	106,948	111,726	1,382,978
Operating income	15,403	12,896	14,685	189,134
Other income (expenses):				
Interest and dividend income	1,058	936	969	12,992
Interest expense	(3,647)	(3,623)	(3,717)	(44,779)
Other, net (Notes 5 and 7)	4,948	(1,334)	6,033	60,755
	2,359	(4,022)	3,285	28,968
Income before income taxes and minority interests	17,762	8,874	17,970	218,102
Income taxes (Note 15):				
Current	3,171	913	519	38,935
Deferred	3,823	3,437	9,835	46,938
	6,994	4,350	10,354	85,873
Minority interests	4	11	25	48
Net income (Note 18)	¥ 10,773	¥ 4,535	¥ 7,640	$ 132,277

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)
	2010	2009	2008	2010
Common stock:				
Balance at beginning of year	¥53,887	¥53,887	¥53,887	$661,673
Net change during the year	–	–	–	–
Balance at end of year	¥53,887	¥53,887	¥53,887	$661,673
Capital surplus:				
Balance at beginning of year	¥46,318	¥46,326	¥46,310	$568,742
Net change during the year	–	–	–	–
Disposition of treasury stock	(3)	(7)	15	(35)
Balance at end of year	¥46,316	¥46,318	¥46,326	$568,707
Retained earnings (Note 6):				
Balance at beginning of year	¥20,287	¥19,972	¥14,293	$249,103
Net income	10,773	4,535	7,640	132,277
Cash dividends	(2,742)	(2,743)	(1,961)	(33,672)
Changes due to change in accounting policies applied to foreign subsidiaries	–	(1,477)	–	–
Balance at end of year	¥28,317	¥20,287	¥19,972	$347,708
Treasury stock, at cost:				
Balance at beginning of year	¥ (1,132)	¥ (1,058)	¥ (849)	$ (13,895)
Net increase	(59)	(73)	(209)	(722)
Balance at end of year	¥ (1,190)	¥ (1,132)	¥ (1,058)	$ (14,617)
Unrealized holding gain on securities:				
Balance at beginning of year	¥ 2,638	¥ 3,046	¥ 9,641	$ 32,390
Net change during the year	348	(408)	(6,595)	4,269
Balance at end of year	¥ 2,985	¥ 2,638	¥ 3,046	$ 36,659
Deferred hedge gains:				
Balance at beginning of year	¥ 1	–	–	$ 12
Net change during the year	(9)	1	–	(110)
Balance at end of year	¥ (8)	¥ 1	–	$ (98)
Foreign currency translation adjustments (Note 2 (n)):				
Balance at beginning of year	¥ (3,627)	¥ (5,536)	¥ 1,853	$ (44,541)
Net change during the year	(1,631)	1,909	(7,390)	(20,030)
Balance at end of year	¥ (5,259)	¥ (3,627)	¥ (5,536)	$ (64,571)
Minority Interests:				
Balance at beginning of year	¥ 219	¥ 226	¥ 54	$ 2,687
Net change during the year	1,379	(7)	172	16,929
Balance at end of year	¥ 1,598	¥ 219	¥ 226	$ 19,616

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)
	2010	2009	2008	2010
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 17,762	¥ 8,874	¥ 17,970	$ 218,102
Depreciation and amortization	22,504	22,547	21,605	276,328
Loss on impairment of property, plant and equipment and leased assets	2,375	926	8,207	29,157
Goodwill amortization expense	1,173	1,032	867	14,402
Decrease in employees' retirement benefits	(297)	(43)	(7,604)	(3,645)
Decrease in allowance for doubtful receivables	(198)	(23)	(523)	(2,428)
Interest and dividend income	(1,058)	(936)	(969)	(12,992)
Interest expense	3,647	3,623	3,715	44,779
Gain on sales of property, plant and equipment	(16,576)	(948)	(25,893)	(203,532)
Loss on sales and disposal of property, plant and equipment	10,133	1,524	5,836	124,424
Gain on sales of investment securities	(645)	(20)	(21)	(7,917)
Loss on devaluation of investment securities	1,246	244	747	15,294
(Increase) decrease in notes and accounts receivable	(1,598)	2,668	5,761	(19,621)
(Increase) decrease in inventories	571	(981)	1,057	7,016
Decrease in other current assets	–	5,976	–	–
Increase (decrease) in notes and accounts payable	4,276	(3,884)	(1,447)	52,504
Decrease in liquor taxes payable	(943)	(433)	(2,287)	(11,575)
Decrease in deposits received	(7,866)	(19,751)	(1,854)	(96,590)
Increase (decrease) in other current liabilities	611	(4,402)	4,806	7,498
Other	(4,127)	(1,836)	254	(50,677)
Subtotal	30,990	14,156	30,226	380,530
Interest and dividends received	1,134	932	974	13,929
Interest paid	(3,616)	(3,545)	(3,743)	(44,406)
Income taxes paid	(2,289)	(1,952)	(5,165)	(28,108)
Income taxes refundable	1,212	2,862	–	14,880
Net cash provided by operating activities	27,431	12,454	22,292	336,825
Cash flows from investing activities:				
Net increase in time deposit	–	–	273	–
Purchases of investment securities	(2,812)	(1,469)	(1,167)	(34,531)
Proceeds from redemption and sales of investment securities	791	57	152	9,710
Purchases of affiliates securities	(760)	(8,043)	(52)	(9,337)
Purchases of newly consolidated subsidiaries	(1,609)	–	–	(19,755)
Purchases of property, plant and equipment	(17,528)	(18,399)	(22,791)	(215,221)
Proceeds from sales of property, plant and equipment	23,746	1,439	49,083	291,578
Purchases of intangibles	(2,048)	(3,429)	(4,551)	(25,146)
Increase in long-term loans receivable	(22)	(755)	(525)	(264)
Collection of long-term loans receivable	665	208	252	8,169
Other	(3,019)	(1,836)	(3,816)	(37,066)
Net cash used in (provided by) investing activities	(2,595)	(32,227)	16,856	(31,863)
Cash flows from financing activities:				
Net decrease in short-term bank loans	(16,366)	(6,399)	(4,816)	(200,956)
Proceeds from long-term debt	15,600	50,000	20,358	191,552
Repayment of long-term debt	(16,287)	(17,254)	(35,685)	(199,993)
Proceeds from issuance of bonds	11,952	–	3,843	146,758
Redemption of bonds	(10,000)	(19,710)	–	(122,790)
Net decrease in commercial paper	–	–	(4,000)	–
Cash dividends paid	(2,741)	(2,739)	(1,964)	(33,661)
Purchase of treasury stock	(75)	(120)	(262)	(921)
Proceeds from sales of treasury stock	13	39	68	164
Proceeds from minority shareholders	–	–	251	–
Other	(215)	(71)	–	(2,643)
Net cash (used in) provided by financing activities	(18,120)	3,746	(22,207)	(222,489)
Effect of exchange rate changes on cash and cash equivalents	286	77	(605)	3,509
Net decrease (increase) in cash and cash equivalents	7,002	(15,950)	16,336	85,983
Cash and cash equivalents at beginning of year	6,268	22,218	5,882	76,963
Cash and cash equivalents at end of year	¥ 13,270	¥ 6,268	¥ 22,218	$ 162,946

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, 2008 and 2009 to the 2010 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2010 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥81.44=U.S.$1.00, the exchange rate prevailing on December 31, 2010.

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, 2010, the Company newly established 1 subsidiary, gained 2 subsidiaries via share acquisitions, lost 1 subsidiary due to corporate liquidation, and lost 4 subsidiaries due to a merger among consolidated subsidiaries overseas. Accordingly, the number of consolidated subsidiaries was 33 as of December 31, 2010.

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, 2010, the Company lost 1 subsidiary due to corporate liquidation. As a result, the Company had made investments in 6 affiliates accounted for by the equity method as of December 31, 2010.

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, 1988. 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 lower than would have been reported previously. Please see "17. 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 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
(Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3))

Effective from the year ended December 31, 2010, the Company has applied the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008).

The application of this accounting standard had no effect on operating income, or income before income taxes and minority interests for the fiscal year under review.

(Change in standard for posting balance and cost of completed construction work)

Regarding the standard for posting profit related to contracted construction work, effective from the year ended December 31, 2010, the Company has applied "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Statement No. 18, December 27, 2007). For all construction work contracts, including those present at the beginning of the fiscal year, the Company has applied the percentage-of-completion method (cost-to-cost method used to estimate progress rate for construction work) with respect to the portion of ascertainable progress made on such construction work by the end of the fiscal year. For other construction work, the Company has applied the completed-contract method.

This change had a negligible effect on income for the fiscal year under review.

Refer to 17. Segment (11) for specific information on the impact of this change on segment information.

(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 lower, and income before income taxes and minority interests were ¥48 million lower than would have been reported previously. Please see "17. 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 lower than would have been reported previously. Please see "17. 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 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 was ¥324 million and ¥392 million lower, respectively, on the same basis.

4. Inventories

Inventories at December 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Finished goods and merchandise	¥ 8,132	¥ 8,213	$ 99,855
Real estate for sale	205	594	2,512
Work in process	4,076	4,452	50,049
Raw materials	9,107	9,094	111,820
Supplies	650	596	7,976
	¥22,169	¥22,949	$272,213

5. 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, 2010, 2009 and 2008:

Year ended December 31, 2010

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd.	Real estate for lease	Buildings	¥ 409	$ 5,027
(Nasu-gun, Tochigi and other)		and other		
			¥ 409	$ 5,027
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 542	$ 6,656
Restaurants for business (Minato-ku, Tokyo and other)	for operations	Machinery	50	616
		Other	33	403
			¥ 625	$ 7,675
Yebisu Garden Place Co., Ltd.	Real estate for lease	Buildings	¥ 156	$ 1,914
(Sapporo-shi, Hokkaido)		and other		
			¥ 156	$ 1,914
SLEEMAN BREWERIES LTD.	Other	Goodwill	¥1,123	$13,795
(Ontario, Canada)		Other	61	746
			¥1,184	$14,541
			¥2,375	$29,157

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 7.6%.

Year ended December 31, 2009

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd.	Real estate for lease	Land	¥117
(Urayasu-shi, Chiba and other)		Buildings	278
		Other	4
			¥399
Sapporo Lion Ltd.	Restaurants	Buildings	¥461
Restaurants for business (Minato-ku, Tokyo and other)	for operations	Machinery	41
		Other	25
			¥527
			¥926

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.	Property for Soft Drink	Buildings	¥ 23
(Shibuya-ku, Tokyo)	business		
		Lease	968
		Other	259
			¥1,250
Sapporo Lion Ltd.	Restaurants	Buildings	¥ 283
Restaurants for business (Chitose-shi, Hokkaido and other)	for operations	Machinery	19
		Other	17
			¥ 320
Yebisu Garden Place Co., Ltd.	Real estate for lease	Buildings	¥ 17
Sapporo Factory (Sapporo-shi, Hokkaido)			
			¥ 17
SLEEMAN BREWERIES LTD.	Other	Goodwill	¥6,620
(Ontario, Canada)		and other	
			¥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.

6. 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.

7. Other Income (Expenses)

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2010 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Gain on gift voucher redemptions	¥ 677	¥ 532	¥ –	$ 8,316
Equity in income of affiliates	611	276	–	7,501
Loss on disposal of inventories	–	–	(1,103)	–
Equity in loss of affiliates	–	–	(1)	–
Gain on sales of property, plant and equipment	16,576	948	25,893	203,532
Gain on sales of investment securities	645	20	21	7,917
Reversal of provision for doubtful receivables	62	–	11	758
Reversal of removal costs	569	–	–	6,987
Compensation income from store closures	–	–	111	–
Loss on disposal of property, plant and equipment	(1,724)	(1,524)	(5,836)	(21,163)
Loss on sales of property, plant and equipment	(8,410)	–	–	(103,261)
Loss on impairment of property, plant and equipment	(2,375)	(926)	(8,207)	(29,157)
Devaluation of marketable securities and investments	(1,246)	(244)	(747)	(15,294)
Provision for gift voucher redemptions	–	–	(747)	–
Loss on revision of retirement benefit plan	–	–	(1,307)	–
Early retirement benefits	–	–	(305)	–
Business reorganization costs	(664)	–	(1,444)	(8,157)
Loss on devaluation of inventories	–	(125)	–	–
Other	226	(291)	(306)	2,777
	¥ 4,948	¥(1,334)	¥ 6,033	$ 60,755

8. Contingent Liabilities

Contingent liabilities at December 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Guarantee of loans, principally loans for employees' housing	¥1,069	¥1,164	$13,130

9. 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

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)
	2010	2009	2010
Acquisition costs:			
Machinery and vehicles	¥ 704	¥ 828	$ 8,644
Other	6,695	10,703	82,212
	¥7,399	¥11,531	$90,856
Accumulated depreciation:			
Machinery and vehicles	¥ 531	¥ 511	$ 6,526
Other	5,061	7,259	62,148
	¥5,593	¥ 7,770	$68,674
Accumulated loss on impairment:			
Machinery and vehicles	–	–	–
Other	265	608	3,254
	¥ 265	¥ 608	$ 3,254
Net book value:			
Machinery and vehicles	¥ 172	¥ 317	$ 2,118
Other	1,369	2,837	16,810
	¥1,541	¥ 3,154	$18,928

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,577 million ($19,369 thousand) and ¥2,076 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, 2010 and 2009, respectively.

There was no recorded loss on impairment of leased assets for the years ended December 31, 2010 and 2009.

The amount of depreciation was ¥343 million ($4,208 thousand) and ¥461 million for the years ended December 31, 2010 and 2009.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2010 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)
2011	¥ 962	$11,809
2012 and thereafter	845	10,372
Total	¥1,806	$22,182

(b) Operating leases

Future minimum lease payments subsequent to December 31, 2010 for operating leases are summarized as follows:

i) Lessee

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2011	¥2,484	$30,501
2012 and thereafter	5,565	68,338
Total	¥8,049	$98,839

ii) Lessor

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2011	¥ 3,165	$ 38,860
2012 and thereafter	17,621	216,369
Total	¥20,786	$255,229

10. Financial Instruments

Effective from the year ended December 31, 2010, the Company has applied the "revised Accounting Standard for Financial Instruments and its Implementation Guidance" (ASBJ Statement No. 10, March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008).

1. Matters Related to Financial Instruments

(1) Group policy regarding financial instruments

The Sapporo Group procures the funds it requires mainly through borrowings from banks and the issue of corporate bonds. Any temporary surpluses are then invested in highly secure, highly liquid financial assets. Short-term operating capital is procured through bank loans and commercial paper. Derivatives are not used for speculative purposes, but rather are used mainly to mitigate exposure to risks stemming from exchange rate and interest rate volatility.

(2) Breakdown of financial instruments and related risks

Operating receivables, such as notes and accounts receivable, are exposed to customer credit risks. To cope with these risks, the Sapporo Group, in line with internal regulations, engages in due date control and balance management for each respective business partner.

Marketable securities and investment securities mainly consist of stocks of companies with which the Group has business relations and the investment of temporary surpluses in bonds. These securities are exposed to risks stemming from market price volatility. The Sapporo Group periodically evaluates the market value of these stocks and bonds. The Group also makes long-term loans to business partners and other entities.

Payables, such as notes and accounts payable, are operating liabilities and due for payment within one year.

Short-term borrowings consist mainly of operating funds procured for business transactions. Long-term debt and corporate bonds are funds procured mainly for capital investment purposes. Long-term debt is exposed to risks stemming from interest-rate volatility. For certain long-term debt, the Sapporo Group uses derivative transactions (interest rate swaps) as a hedge against risks stemming from interest-rate volatility.

Derivative transactions consist of forward foreign exchange contracts used to hedge against risks stemming from exchange-rate volatility related to operating receivables and payables denominated in foreign currencies, and interest rate swaps, which are used to hedge against risks stemming from interest-rate volatility associated with borrowings.

(3) Risk management system for financial instruments

① Management of credit risks (risks associated with default, etc., by business partners)

Regarding operating receivables and long-term loans, the Company and its major consolidated subsidiaries, in line with internal rules of conduct at each company, periodically monitor the status of main business partners via the executive department of each business division. Along with managing due dates and balances for each partner, the Company and its major subsidiaries take steps to preventatively assess and minimize losses from instances in which the recovery of receivables or loans may become doubtful due to deterioration, etc., in financial condition.

In derivative transactions, the Company and its major subsidiaries, based on standards of internal control, only enter contracts with financial institutions possessing high credit ratings. These controls are followed as a rule to prevent the emergence of possible credit risks.

② Management of market risks (risks from exchange-rate and interest-rate volatility)
With regard to operating receivables and payables denominated in foreign currencies, the Company and certain of its subsidiaries use forward foreign exchange contracts to limit to within a certain scope risks stemming from exchange-rate volatility. Interest rate swaps are also used to control volatility risks involved in the interest rates on borrowings.

For marketable and investment securities, the Company and its major subsidiaries periodically assess the market value of the securities and the financial condition, etc. of the issuer (business partners), and, as necessary, review the holding status of such securities, taking into account their relationship with the business partner in question.

Derivative transactions are executed and managed pursuant to standards of internal control. These controls clearly stipulate matters pertaining to derivatives, including their purpose, product range, transaction counterparties, settlement approval procedures, the segregation of duties within executive departments, and the system for reporting such transactions. The balance and status of income (loss) for derivative transactions is reported periodically to the Board of Directors.

③ Management of liquidity risk associated with fund procurement (risk of failing to meet payment due dates)
To minimize financial liabilities, the Sapporo Group has a cash management system (CMS) to centrally manage fund allocation to the Company and its significant subsidiaries. Financial divisions within the Group formulate plans for fund procurement and fund management in an effort to manage liquidity risk.

(4) Supplementary Explanation of Matters Concerning Fair Value, Etc., of Financial Instruments
Market value of financial instruments contains fair values that are rationally calculated in cases for which no market price is available. Because variable factors are incorporated into the calculation of this value, the adoption of different terms and assumptions can cause fair value to vary. Furthermore, notional amounts contracted in derivative transactions, as described in the notes pertaining to derivative transactions, are not a full expression of the market risk associated with derivative transactions.

2. Matters Concerning Fair Value, Etc., of Financial Instruments
Amounts, market value and their variances reported in the consolidated balance sheets for the fiscal year ended December 31, 2010 are as follows. Items for which the assessment of market value is not feasible were omitted.

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and cash equivalents	¥ 12,957	¥ 12,957	–	$ 159,103	$ 159,103	–
(2) Notes and accounts receivable—trade	61,353			753,352		
Allowance for doubtful receivables	(81)			(997)		
Sub total	61,272	61,272	–	752,355	752,355	–
(3) Marketable securities and Investment securities						
① Held-to-maturity debt securities	202	204	(2)	2,482	2,503	(22)
② Other securities	23,368	23,368	–	286,932	286,932	–
(4) Long-term loans receivable	10,745			131,933		
Allowance for doubtful receivables	(195)			(2,395)		
Sub total	10,550	10,550	(0)	129,538	129,540	(2)
Total assets	¥108,349	¥108,351	¥ (2)	$1,330,410	$1,330,433	$ (24)
(1) Notes and accounts payable—trade	24,348	24,348	–	$ 298,973	$ 298,973	–
(2) Short-term bank loans	4,177	4,177	–	51,293	51,293	–
(3) Liquor taxes payable	34,253	34,253	–	420,594	420,594	–
(4) Income taxes payable	1,819	1,819	–	22,331	22,331	–
(5) Bonds	52,000	52,920	(920)	638,507	649,804	(11,297)
(6) Long-term bank debt	121,315	122,400	(1,086)	1,489,619	1,502,952	(13,333)
Total liabilities	¥237,912	¥239,918	¥ (2,006)	$2,921,318	$2,945,947	$(24,630)
(7) Derivative transactions	¥ (11)	¥ (11)	–	$ (136)	$ (136)	–

a) Methods for Determining Market Value of Financial Instruments and Matters Concerning Marketable Securities and Derivative Transactions

<Assets>

(1) Cash and cash equivalents, (2) Notes and accounts receivable

Book value is used since the variance between market value and book value is small due to the settlement of these accounts in the near future.

(3) Marketable and investment securities

In determining market value, the stock market price is used for stocks. In the absence of a market price quotation, fair value on public and corporate bonds is determined as follows. Such bonds are first sorted in sets according to maturity and credit rating. Yield on a government bond with a similar maturity or another appropriate indicator is then applied as a benchmark, and a spread taking into account credit rating and maturity of a set of bonds is added on top of the benchmark rate. This rate approximating future cash flow of that set of bonds is then applied as the discount rate in calculating the set's present value. For matters pertaining to respective marketable securities to be held to maturity, refer to "11. Marketable Securities and Investment Securities" in the Notes to Consolidated Financial Statements.

(4) Long-term loans receivable

Within the Sapporo Group, the fair value of long-term loans receivable is calculated as follows. Loans are first sorted in sets according to maturity and credit risk. Yield on a government bond with a similar maturity or another appropriate indicator is then applied as a benchmark, and a spread taking into account credit risk and maturity of a set of loans is added on top the benchmark rate. This rate approximating future cash flow of that set of loans is then applied as the discount rate in calculating the set's present value. The fair value of potentially doubtful receivables is calculated either at present value using the same discount rate formula, or based on the projected amount of collateral or guarantees deemed recoverable.

<Liabilities>

(1) Accounts payable, (2) Short-term bank loans, (3) Liquor taxes payable, and (4) Income taxes payable

Book value is used since the variance between market value and book value is small due to the short-term settlement of these accounts.

(5) Corporate bonds

The market value of bonds issued by the Company is calculated based on market price for bonds that have market prices.

(6) Long-term debt

For long-term debt, the method for determining fair value is to discount the sum total of the outstanding principal and interest by the estimated interest-rate cost of refinancing it. Some long-term debt with variable interest rates backed by interest rate swaps is subject to special treatment. The method for determining the fair value of variable-rate debt backed by interest rate swaps is to discount the sum total of the outstanding principal and net flow on interest rates by the estimated interest-rate cost of refinancing it.

b) Financial Instruments for Which the Assessment of Market Value Is not Feasible

	Millions of yen	Thousands of U.S. dollars (Note 1)
	Carrying value	Carrying value
Unlisted stocks, etc.	¥14,460	$177,550
Bonds with stock acquisition rights	3,843	47,190
Dealers' deposits for guarantees	31,936	392,141

c) Estimate of Monetary Claims and Maturing Marketable Securities Due for Redemption After the Consolidated Account Settlement

	Millions of yen				Thousands of U.S. dollars (Note 1)			
	Inside one year	After one year and inside five years	After five years and inside ten years	After ten years	Inside one year	After one year and inside five years	After five years and inside ten years	After ten years
Cash and cash equivalents	¥12,957	–	–	–	$159,103	–	–	–
Notes and accounts receivable—trade	61,353	–	–	–	753,352	–	–	–
Marketable securities and Investment securities								
Held-to-maturity debt securities	2	200	–	–	26	2,456	–	–
Long-term loans receivable	348	9,472	925	–	4,278	116,301	11,354	–
	¥74,661	¥9,672	¥925	–	$916,759	$118,757	$11,354	–

11. Marketable Securities and Investment Securities

(a) Trading securities

No relevant items as of December 31, 2010.

(b) Held-to-maturity debt securities

The aggregate carrying value, fair value, gross unrealized gain and loss on held-to-maturity debt securities whose fair value was determinable at December 31, 2010 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2010	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government and municipal bonds	–	–	–	–	–	–
Corporate bonds	200	202	2	2,456	2,477	22
Other	–	–	–	–	–	–
Subtotal	¥200	¥202	¥2	$2,456	$2,477	$22
Securities whose carrying value exceeds their fair value:						
Government and municipal bonds	¥ 2	¥ 2	–	$ 26	$ 26	–
Corporate bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	¥ 2	¥ 2	–	$ 26	$ 26	–
Total	¥202	¥204	¥2	$2,482	$2,503	$22

(c) Other securities

The aggregate acquisition cost, carrying value, gross unrealized gain and loss on other securities whose fair value was determinable at December 31, 2010 are summarized as follows:

Unlisted stocks have no discernable market price, making any assessment of market value unfeasible. Such stocks have subsequently been omitted from the chart of Other Securities below.

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2010	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥14,648	¥ 7,683	¥ 6,965	$179,860	$ 94,334	$ 85,525
Debt securities	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	¥14,648	¥ 7,683	¥ 6,965	$179,860	$ 94,334	$ 85,525
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 8,624	¥10,403	¥(1,779)	$105,898	$127,740	$(21,843)
Debt securities	–	–	–	–	–	–
Other	96	120	(24)	1,175	1,468	(294)
Subtotal	¥ 8,720	¥10,523	¥(1,803)	$107,073	$129,209	$(22,136)
Total	¥23,368	¥18,205	¥ 5,162	$286,932	$223,543	$ 63,389

(d) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Sales	¥786	$9,654
Gain on sales of securities	658	8,077
Loss on sales of securities	(12)	(153)

(e) Marketable securities that have been written down

During the fiscal year ended December 31, 2010 the Company wrote down ¥104 million ($1,280 thousand) in shares classified as "Other securities."

In conducting this impairment measure, securities that had declined more than 50% in value, as of December 31, 2010, of their acquisition cost were written down entirely. For securities that had declined between 30% and 50% in value of their acquisition cost, the Company investigated the stock's recovery potential on a case-by-case basis, booking impairment losses as necessary.

12. Derivatives

Derivative transactions to which hedge accounting is applied

(1) Currency-related

December 31, 2010

			Millions of yen			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contracted amount payable after one year	Fair value	Contract amount	Contracted amount payable after one year	Fair value
Principle method	Forward foreign exchange contract	Accounts payable						
	Purchase denomination: euro		¥249	–	¥238	$3,058	–	$2,923
Total			¥249	–	¥238	$3,058	–	$2,923

(2) Interest rate-related

December 31, 2010

			Millions of yen			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contracted amount payable after one year	Fair value	Contract amount	Contracted amount payable after one year	Fair value
Special treatment for interest rate swaps	Interest rate swap	Long-term debt						
	Receive variable rate, pay fixed rate		¥51,357	¥46,357	–	$630,611	$569,217	–
			¥51,357	¥46,357	–	$630,611	$569,217	–

(Note) Interest rate swaps backing long-term debts as hedges are subject to special treatment. Their fair value is recorded in conjunction with the long-term debts they back.

13. 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, 2010 and 2009 were 0.8% and 1.24%, respectively.

Long-term debt at December 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
1.85% bonds due 2011	¥ 10,000	¥ 10,000	$ 122,790
1.56% bonds due 2010	–	10,000	–
1.90% bonds due 2012	10,000	10,000	122,790
1.87% bonds due 2011	10,000	10,000	122,790
2.26% bonds due 2013	10,000	10,000	122,790
0.96% bonds due 2015	12,000	–	147,348
(Sapporo Beverage Co., Ltd.) Zero coupon convertible bonds with stock acquisition rights due 2015	3,843	3,843	47,190
Loans from banks and insurance companies maturing from 2009 to 2018 with weighted-average annual interest rates:			
2010—1.54%			
2009—1.70%			
Secured	17,716	19,796	217,534
Unsecured	103,599	102,562	1,272,085
	177,158	176,201	2,175,316
Less current portion	(43,912)	(26,142)	(539,199)
	¥133,245	¥150,059	$1,636,117

The outstanding balance of convertible bonds with stock acquisition rights at December 31, 2010 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.

As recorded in 19. Subsequent Events on page 56 of this report, the Company plans to buy back all the convertible bonds with stock acquisition rights after their conversion to stock.

The aggregate annual maturities of long-term debt subsequent to December 31, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2011	¥ 43,912	$ 539,199
2012	39,396	483,747
2013	24,559	301,562
2014	35,359	434,169
2015	22,514	276,453
2016 and thereafter	11,417	140,187
	¥177,158	$2,175,316

The assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2010 and 2009 are summarized as follows:

(a) Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Investment securities	¥3,950	¥3,868	$48,497
Other Investment	80	80	982

(b) Debt relating to the above pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Short-term bank loans	–	¥ 3,000	–
Long-term bank debt	¥17,716	19,796	$217,534

In addition, total assets of Sapporo Canada Inc. in the amount of ¥33,058 million ($405,916 thousand) are pledged as collateral for long-term debt of ¥4,072 million ($50,000 thousand).

14. 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 December 31, 2010, a total of 9 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, 2010 and 2009 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Retirement benefit obligation	¥(43,646)	¥(43,688)	$(535,927)
Fair value of pension plan assets	27,441	27,530	336,949
	(16,205)	(16,158)	(198,978)
Unrecognized net retirement benefit obligation at transition	7,529	9,035	92,450
Unrecognized actuarial gain or loss	7,749	6,508	95,144
Unrecognized past service cost	(6,264)	(6,873)	(76,912)
Prepaid pension cost	–	–	–
Employees' retirement benefits	¥ (7,191)	¥ (7,488)	$ (88,296)

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, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Service cost	¥1,064	¥1,141	¥1,307	$13,068
Interest cost	893	887	977	10,968
Expected return on plan assets	(691)	(613)	(774)	(8,480)
Amortization of net retirement benefit obligation at transition	1,506	1,575	1,528	18,495
Amortization of actuarial gain or loss	803	1,036	475	9,856
Amortization of past service cost	(609)	(609)	(570)	(7,477)
Loss on revision of retirement benefit plan	–	–	1,307	–
Other	672	492	709	8,253
	¥3,639	¥3,909	¥4,960	$44,684

"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, 2010 were as follows:

	2010	2009	2008
Discount rate	2.0 – 2.1%	2.0 – 2.1%	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	9 – 14 years	11 – 14 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	9 – 15 years	10 – 15 years
Period of recognition of net retirement benefit obligation	15 years	15 years	15 years

15. 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, 2010. 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.

In 2010, income tax accounted for 39.4% of income before income tax and minority interests. The difference between the statutory tax rate and the effective tax rate after the application of tax-effect accounting was less than 5% of the statutory tax rate. Consequently, any note regarding this difference has been omitted.

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

	2009	2008
Statutory tax rates	40.7%	40.7%
Effect of:		
Disallowed expenses, including entertainment expenses	2.9	1.4
Dividends and other income deductible for income tax purposes	(0.6)	(0.4)
Inhabitants' per capita taxes	2.3	1.1
Unschedulable temporary differences	19.7	18.0
Changes in valuation allowance	(13.9)	(7.4)
The tax rate difference of overseas subsidiary company	(2.3)	4.9
Other, net	0.3	(0.6)
Effective tax rates	49.0%	57.6%

The significant components of deferred tax assets and liabilities at December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Deferred tax assets:			
Property, plant and equipment	¥ 6,540	¥ 7,915	$ 80,302
Employees' retirement benefits	3,472	4,247	42,636
Gift coupon income	2,527	1,285	31,023
Tax loss carryforwards	1,970	5,594	24,195
Investment securities	1,568	1,353	19,255
Accrued expenses	1,338	2,541	16,435
Accrued bonuses	830	662	10,193
Allowance for doubtful receivables	673	759	8,275
Other	2,710	2,135	33,282
Gross deferred tax assets	21,630	26,490	265,597
Valuation allowance	(9,250)	(9,733)	(113,579)
Total deferred tax assets	12,380	16,757	152,018
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	12,356	13,297	151,722
Property, plant and equipment	5,828	6,103	71,559
Unrealized holding gain on securities	2,177	1,808	26,736
Other	14	34	174
Total deferred tax liabilities	20,376	21,242	250,191
Net deferred tax assets (liabilities), net	¥ (7,995)	¥ (4,485)	$ (98,173)

16. Real Estate for Lease

Effective from the year ended December 31, 2010, the Company has applied the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, November 28, 2008).

Fiscal 2010 (Jan. 1, 2010 to Dec. 31, 2010), the Company and certain consolidated subsidiaries own office buildings for rent and commercial facilities for rent (including land) in Tokyo and other areas.

Rental income associated with real estate for rent in the fiscal year ended December 31, 2010, was ¥6,098 million ($74,877 thousand). Significant earnings from rent are included under operating income; rental-related expenses are posted under operating expenses. The balance of real estate for rent recorded in the consolidated balance sheets, as well as variance during the fiscal year under review and fair value, are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)			
	Balance at December 31, 2009	Change during 2010	Balance at December 31, 2010	Fair value at December 31, 2010	Balance at December 31, 2009	Change during 2010	Balance at December 31, 2010	Fair value at December 31, 2010
	¥165,537	¥8,064	¥173,601	¥313,812	$2,032,624	$99,021	$2,131,645	$3,853,296

(Notes)
1. Amounts posted in the consolidated balance sheets represent the acquisition cost after the deduction of cumulative depreciation.
2. Of the differences noted during the fiscal year under review, the main increase was the acquisition of real estate of ¥13,268 million ($162,914 thousand); the main decrease was depreciation of ¥5,107 million ($62,706 thousand).
3. Fair value at the end of the fiscal year under review is based primarily on real estate appraisals carried out by external appraisers.

17. Segment Information

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2010

	Millions of yen						
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥304,218	¥34,439	¥27,051	¥ 23,537	¥389,245	–	¥389,245
Intra-group sales and transfers	5,501	310	–	2,281	8,092	(8,092)	–
Total	309,719	34,749	27,051	25,817	397,337	(8,092)	389,245
Operating expenses	29,915	34,223	26,942	17,814	378,894	(5,053)	373,842
Operating income (loss)	¥ 9,804	¥ 526	¥ 109	¥ 8,003	¥ 18,442	¥ (3,039)	¥ 15,403
Identifiable assets	¥266,355	¥25,173	¥12,525	¥ 179,890	¥483,943	¥10,856	¥494,798
Depreciation and amortization	¥ 15,446	¥ 677	¥ 681	¥ 5,693	¥ 22,497	¥ 8	¥ 22,504
Loss on impairment	¥ 1,594	–	¥ 625	¥ 156	¥ 2,375	–	¥ 2,375
Capital expenditures	¥ 9,159	¥ 1,368	¥ 319	¥ 11,719	¥ 22,565	¥ 7	¥ 22,571

Year ended or as of December 31, 2010

	Thousands of U.S. dollars (Note 1)						
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Total	General corporate and intercompany eliminations	Consolidated
Net sales	$3,735,489	$422,874	$332,157	$ 289,007	$4,779,528	–	$4,779,528
Intra-group sales and transfers	67,549	3,812	–	28,002	99,363	(99,363)	–
Total	3,803,038	426,686	332,157	317,009	4,878,890	(99,363)	4,779,528
Operating expenses	3,682,650	420,224	330,823	218,739	4,652,436	(62,043)	4,590,393
Operating income (loss)	$ 120,388	$ 6,462	$ 1,334	$ 98,270	$ 226,454	$ (37,320)	$ 189,134
Identifiable assets	$3,270,570	$309,095	$153,798	$ 2,208,860	$5,942,322	$133,297	$6,075,619
Depreciation and amortization	$ 189,655	$ 8,314	$ 8,359	$ 69,907	$ 276,235	$ 93	$ 276,328
Loss on impairment	$ 19,568	–	$ 7,675	$ 1,914	$ 29,157	–	$ 29,157
Capital expenditures	$ 112,457	$ 16,801	$ 3,913	$ 143,898	$ 277,069	$ 86	$ 277,155

Year ended or as of December 31, 2009

	Millions of yen						
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	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, 2008

	Millions of yen						
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	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

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 ¥3,045 million ($37,384 thousand), ¥2,979 million and ¥2,344 million for the years ended December 31, 2010, 2009 and 2008, respectively.
   (ii) Unallocated assets, which amounted to ¥25,358 million ($311,366 thousand), ¥21,583 million and ¥29,132 million at December 31, 2010, 2009 and 2008, 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, 2010, 2009 and 2008. 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 lower in the Alcoholic Beverages business, and ¥223 million 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 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 lower in the Alcoholic Beverages business, ¥0 million higher in the Soft Drinks business, and ¥1 million lower in the Real Estate business than would have been reported previously, while the operating loss in the Restaurants business was ¥14 million higher than would have been reported previously.
11. Effective from the year ended December 31, 2010, as detailed in the "Summary of Significant Accounting Policies," the Company has applied "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Statement No. 18, December 27, 2007) as the standard for posting profit related to contracted construction work. For all construction work contracts, including those present at the beginning of the fiscal year, the Company has applied the percentage-of-completion method (cost-to-cost method used to estimate progress rate for construction work) with respect to the portion of ascertainable progress made on such construction work by the end of the fiscal year. For other construction work, the Company has applied the completed-contract method. This accounting change had a negligible effect on business segments.

18. 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	2010	2009	2008	2010
Net income	¥27.50	¥11.57	¥19.49	$0.34
Diluted net income	26.44	11.05	18.89	0.32

	Yen		U.S. dollars (Note 1)
As of December 31	2010	2009	2010
Net assets	¥319.32	¥302.16	$3.92

19. Subsequent Events

(Appropriation of retained earnings)

On March 30, 2011, 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	¥2,741	$33,659

(Acquisition of POKKA CORPORATION)

On February 10, 2011, the Board of Directors authorized the acquisition of additional shares and subsequent consolidation of POKKA CORPORATION, an affiliate of the Company since September 30, 2009. POKKA CORPORATION became a subsidiary of the Company on March 29, 2011.

Purpose of the Share Acquisition

The Company has positioned "the creation of value in food" as one of the business domains of its New Management Framework set for realization by 2016. The additional acquisition of shares in POKKA CORPORATION will give shape to the Company's vision of becoming a "food value creation group" with deep competitiveness in the alcoholic beverages, soft drinks, food and restaurant fields in Japan and overseas.

Share Acquisition Details

1. Acquired company: POKKA CORPORATION
2. Business lines and scale of acquired company
   Name: POKKA CORPORATION
   Business lines: Mineral water and food businesses, restaurant business, snack food business, logistics business, others
   Employees: 2,473 (as of March 31, 2010)
   Consolidated net sales: ¥97,121 million (for the year ended March 31, 2010)
   Consolidated total assets: ¥58,527 million (as of March 31, 2010)
3. Party acquiring shares: Advantage Partners, LLB MBI Fund No. 3, others
4. Acquisition date: March 29, 2011
5. Total number of shares scheduled for acquisition: 6,401,769 shares (65.9% of issued shares)
6. Shareholding after acquisition: 86.8%
7. Acquisition price: ¥22,406 million
8. Fund procurement method: Primarily funds on hand and external borrowings, etc.
9. Future plans:
   The Company will immediately establish a committee ahead of management integration to deliberate business and organizational realignment within the Group, the management structure of the holding company, corporate name, and other matters.

(Convertible bonds with stock acquisition rights issued by a subsidiary)

The former business alliance between the Company, YK, Crescent Partners and CRPBH, a fund managed by Crescent Partners (hereinafter, "the investors"), expired on February 10, 2011.

With the expiration of this agreement, the Company plans to buy back all shares following the conversion to stock of convertible bonds with stock acquisition rights issued by Sapporo Beverage Co., Ltd. and held by the investors.

(Impact of the Tohoku Pacific Earthquake)

As a result of the Tohoku Pacific Earthquake on March 11, 2011, the Sendai Brewery (Natori, Miyagi Prefecture) and Chiba Brewery (Funabashi, Chiba Prefecture) of our consolidated group company Sapporo Breweries Ltd. suffered partial damage to buildings and equipment. The earthquake also affected some other plants of Sapporo Breweries Ltd. and of other group companies also. The amount of damage caused by the disaster is currently being assessed, and is not yet confirmed. At this time it is difficult to estimate the impact of the earthquake on our forecast for the year ending December 2011, for the reasons described below. We will disclose the information as soon as it can be estimated.

– It is not clear to what extent total power consumption regulations will affect our production framework.
– The cost of restoring damaged equipment and buildings to their original state has yet to be rationally estimated.
– Macroeconomic and consumption trends are unclear.

Corporate Data (As of December 31, 2010)

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
3,983
(Consolidated)
66
(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.

Business Segments in 2010

Alcoholic Beverages
SAPPORO BREWERIES LTD.
SAPPORO WINES LIMITED
YEBISU WINEMART CO., LTD.
SAPPORO LOGISTICS SYSTEMS CO., LTD.
TANOSHIMARU SHUZO CO., LTD.
SAPPORO ENGINEERING LIMITED
STARNET CO., LTD.

SAPPORO INTERNATIONAL INC.
SAPPORO U.S.A., INC.
SAPPORO CANADA INC.
SLEEMAN BREWERIES LTD.
SAPPORO ASIA PRIVATE LIMITED
SAPPORO VIETNAM LIMITED

Soft Drinks
SAPPORO BEVERAGE CO., LTD.
STELLA BEVERAGE SERVICE CO., LTD.
STAR BEVERAGE SERVICE CO., LTD.

SAPPORO FOODS NET CO., LTD
SAPPORO FINE FOODS CO., LTD

Restaurants
SAPPORO LION LIMITED

NEW SANKO INC.

Real Estate
YEBISU GARDEN PLACE CO., LTD.
YGP REAL ESTATE CO., LTD.
SAPPORO URBAN DEVELOPMENT CO., LTD.
TOKYO ENERGY SERVICE CO., LTD.
SAPPORO SPORTS PLAZA CO., LTD.
YOKOHAMA KEIWA BUILDING CO., LTD.

2011 Business Segment

Japanese Alcoholic Beverages
SAPPORO BREWERIES LTD.
SAPPORO WINES LIMITED
YEBISU WINEMART CO., LTD.
SAPPORO LOGISTICS SYSTEMS CO., LTD.
TANOSHIMARU SHUZO CO., LTD.
SAPPORO ENGINEERING LIMITED
STARNET CO., LTD.
NEW SANKO INC.

International Alcoholic Beverages
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SAPPORO U.S.A., INC.
SAPPORO CANADA INC.
SLEEMAN BREWERIES LTD.
SAPPORO ASIA PRIVATE LIMITED
SAPPORO VIETNAM LIMITED

Soft Drinks
SAPPORO BEVERAGE CO., LTD.
STELLA BEVERAGE SERVICE CO., LTD.
STAR BEVERAGE SERVICE CO., LTD.

POKKA Group
POKKA CORPORATION
SUN POKKA CO., LTD.
POKKA CREATE CO., LTD. and another 22 subsidiaries

Restaurants
SAPPORO LION LIMITED

Real Estate
YEBISU GARDEN PLACE CO., LTD.
YGP REAL ESTATE CO., LTD.
SAPPORO URBAN DEVELOPMENT CO., LTD.
TOKYO ENERGY SERVICE CO., LTD.
SAPPORO SPORTS PLAZA CO., LTD.
YOKOHAMA KEIWA BUILDING CO., LTD.

Others
SAPPORO FOODS NET CO., LTD
SAPPORO FINE FOODS CO., LTD
SAPPORO GROUP MANAGEMENT LTD.

SAPPORO

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