GAINING MOMENTUM

SAPPORO HOLDINGS LIMITED

Annual Report 2011

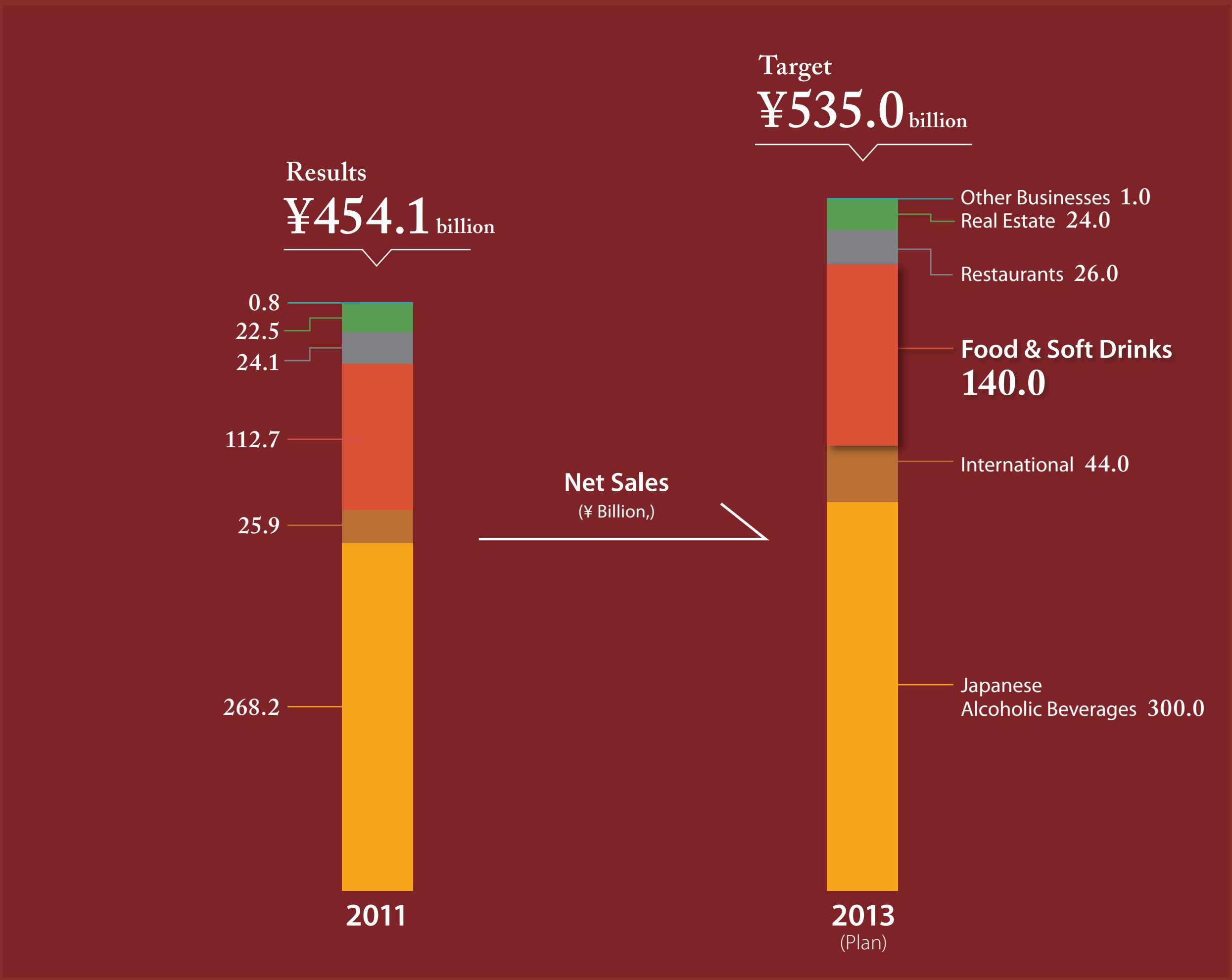
SAPPORO

Profile

PRESERVATION THROUGH PROGRESS

CONTENTS

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



The Sapporo Group's Portfolio Management

In 2007, the Sapporo Group formulated the New Management Framework to be realized by 2016, the Group's 140th founding anniversary. Guided by this framework, we are boldly executing the Sapporo Group Management Plan 2012-2013, a growth strategy designed to put the Sapporo Group on a path to dynamic growth.

In the year ended December 31, 2011, we made powerful strides towards shifting from a phase of creating an earnings base to a period for solidifying our growth trajectory. We revitalized the Japanese Alcoholic Beverages business and the Real Estate business, both of which are steady sources of earnings for the Group, while executing a steady series of strategic investments in the International Alcoholic Beverages business and the Food & Soft Drinks business, which are positioned as future growth drivers.

For example, the integration of the POKKA Group into the Sapporo Group alone had a considerable positive impact on the Sapporo Group's business performance. However, Sapporo Beverage Co., Ltd. and the POKKA Group will be combined into a single company, POKKA SAPPORO FOOD & BEVERAGE LTD., which will become the driving engine behind the Food & Soft Drinks business. We are confident that the Food & Soft Drinks business is well positioned to grow into the Sapporo Group's third core business alongside the Alcoholic Beverages business and the Real Estate business.

Our Business Portfolio

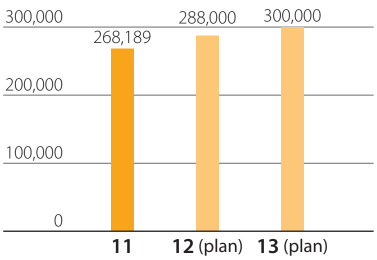
Japanese Alcoholic Beverages

Products and Services
- Beer
- Happo-shu (low-malt beer)
- New product genres
- Non-alcoholic beer
- Wine and spirits
- Shochu (Japanese distilled spirits)
- Ready to drink beverages

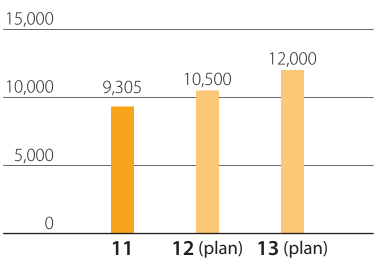
- Core business accounting for majority of net sales and earnings
- Working to create new growth brands, in addition to enhancing brand power through the concentrated investment of business resources in core products

  Recent example: Premium Alcohol Free, a strong-selling, non-alcoholic beer brand
- Also pursuing efficiency through cost cutting

Net Sales
(¥ Million)



Operating Income
(¥ Million)

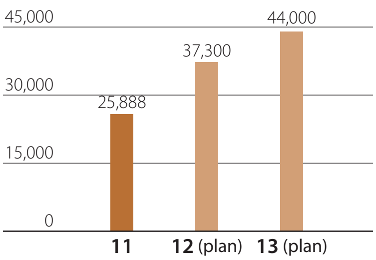


International

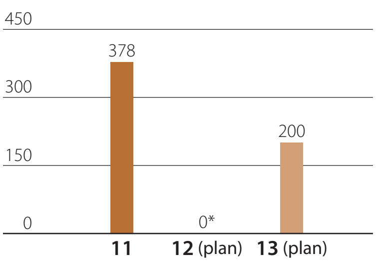
Products and Services
- Beer
- Soft drinks

- Expected to become a Group growth driver, although current business scale and earnings contribution are small relative to the Group as a whole
- North American business has continued to perform well
- Developing business in Southeast Asia following the start of operation of the Vietnam Plant in November 2011

Net Sales
(¥ Million)



Operating Income
(¥ Million)



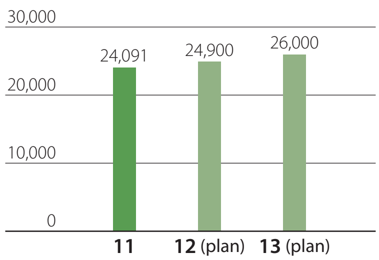
* ¥1.8 billion impact of upfront investment costs in Vietnam

Restaurants

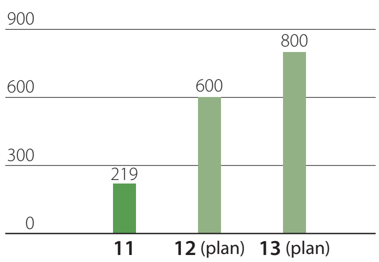
Products and Services
- Ginza Lion and other general restaurant chains

- Basic plan is to improve earnings mainly through cost cutting
- Opening restaurants under new formats, such as Yebisu Bar, this business will harness synergies with the Japanese Alcoholic Beverages business as it offer customers comfortable surroundings.

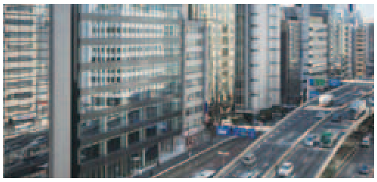
Net Sales
(¥ Million)



Operating Income
(¥ Million)



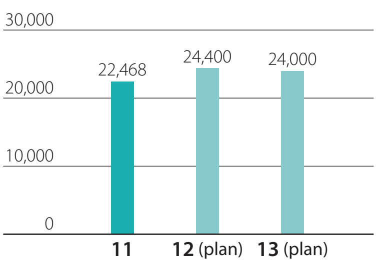
Real Estate



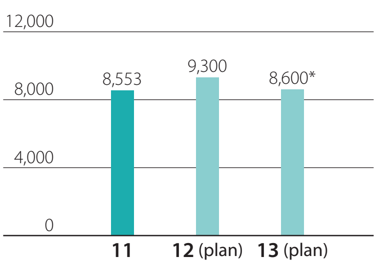
Products and Services
- Yebisu Garden Place
- Sapporo Factory
- Sapporo Ginza Building
- Seiwa Yebisu Building, etc.

- Strong earnings contributor, supporting the Sapporo Group's business results
- Majority of operating income is generated from real estate rental business
- Basic plan is to enhance the value of existing properties
- Also acquiring new assets focusing on prime properties only
- Large unrealized gains due to holding premium property in an area with high market prices for real estate (See page 60 Note 19 Real Estate for Lease)

Net Sales
(¥ Million)



Operating Income
(¥ Million)



* Impact of redeveloping the Seiwa Yebisu Building

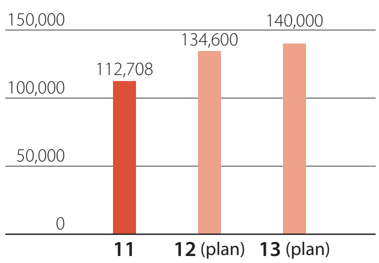
Food & Soft Drinks

Soft Drinks

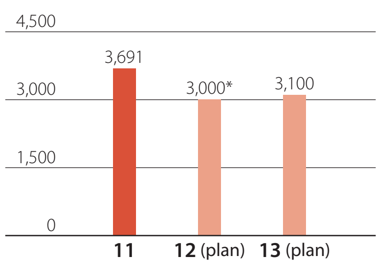
Products and Services
- Soft drinks
- Mineral water products

- The Food & Soft Drinks business is the third source of stable profits after Alcoholic Beverages and Real Estate
- Utilize Group synergies and strategic alliances, focusing on investing business resources in core brands
- Capture synergies through management integration with the POKKA Group (expand sales of Sapporo products through increase in the number of vending machines owned, etc.) going forward

Net Sales
(¥ Million)



Operating Income
(¥ Million)



* Impact of increased amortization of goodwill

POKKA Group

Products and Services
- Soft drinks (Domestic and International)
- Lemon-based products
- Soup
- Restaurants (Domestic and International)

- A beverage and food product group with strengths in beverages containing lemon juice and soups
- Possesses high brand recognition and business development capabilities in Asia, including the restaurants business

- From the first quarter of 2012, the former Soft Drinks and POKKA Group segments were integrated to work towards targets as the Food & Soft Drinks business.

- From the first quarter of 2012, , the former Soft Drinks and POKKA Group segments were integrated to work towards targets as the Food & Soft Drinks business.

Strategies and Financial Highlights

Sapporo Group New Management Framework

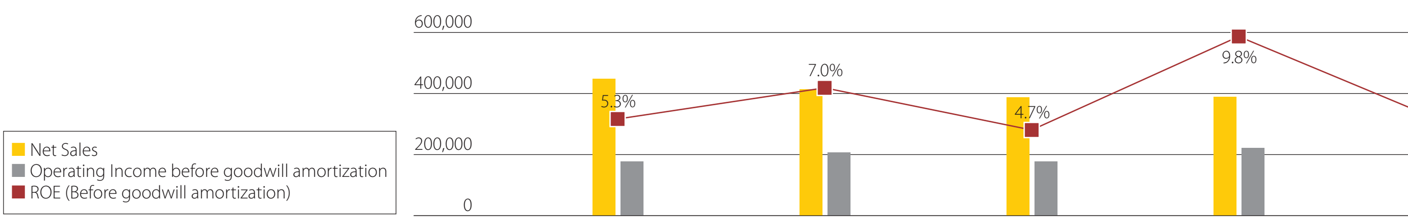
Strengthening the Group's Business Foundations

Groundwork for future growth strategies

Bolster earnings base and financial base

Years ended December 31	2007	2008	2009	2010
For the Year				
Net sales				
Including tax	¥449,011	¥414,558	¥387,534	¥389,245
Excluding tax	309,794	284,412	264,604	269,874
Operating income	12,363	14,685	12,896	15,403
Operating income before goodwill amortization	13,232	15,553	13,923	16,576
EBITDA	37,759	37,158	36,475	39,080
Net income	5,509	7,640	4,535	10,773
Capital expenditures (cash basis)	19,884	27,342	21,910	19,801
Depreciation and amortization	24,527	21,605	22,547	22,504
Goodwill amortization	870	867	1,032	1,173
Cash flows from operating activities	30,691	22,292	12,454	27,431
Free cash flows	17,196	39,148	(19,773)	24,836
At Year End				
Net assets	125,189	116,862	118,591	126,645
Total assets	561,859	527,287	506,875	494,798
Financial liabilities	212,464	189,252	196,794	181,335
Other Indicators				
Overseas sales ratio	9.0%	8.8%	8.5%	9.4%
Operating income to net sales				
Excluding tax	4.0%	5.2%	4.9%	5.7%
Excluding tax; before goodwill amortization	4.3%	5.5%	5.3%	6.1%
Debt-to-equity ratio (times)	1.7	1.6	1.7	1.4
Equity ratio	22.3%	22.1%	23.4%	25.3%
ROE	4.6%	6.3%	3.9%	8.9%
ROE (Before goodwill amortization)	5.3%	7.0%	4.7%	9.8%

Net Sales
(¥ Million)



Solidifying the Growth Trajectory

Dynamic Growth

Enhance existence value in new areas through growth strategies

Build unique competitive advantages in each business

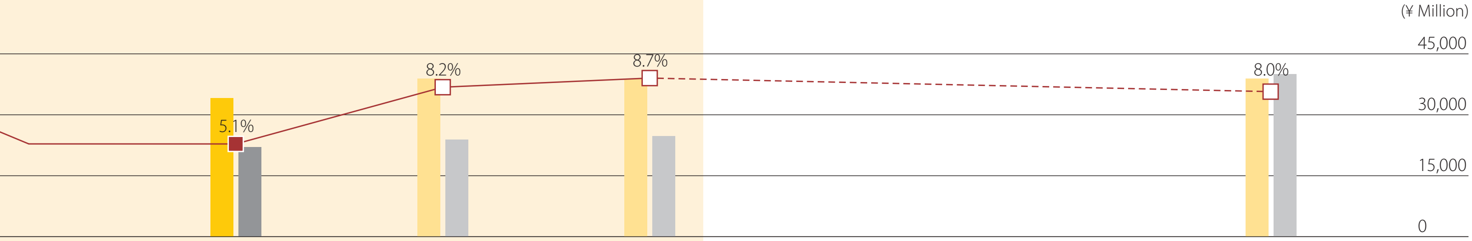
Strategic Targets for 140th anniversary of Group's founding (2016)

Millions of yen

2011	2012 (plan)	2013 (plan)
¥454,100	¥510,000	¥535,000
341,485	396,000	420,000
18,884	20,000	21,000
21,994	23,900	24,800
46,477	49,600	—
3,165	6,300	7,400
13,423	58,400	—
24,482	25,700	—
3,109	3,900	—
22,313	—	—
(28,579)	—	—
124,775	—	—
550,784	—	—
219,168	245,000	247,000
10.8%	13.7%	—
5.5%	5.1%	5.0%
6.4%	6.0%	5.9%
1.8	1.9	1.9
22.4%	—	—
2.5%	5.0%	5.7%
5.1%	8.2%	8.7%

	2016 (plan)
Net sales (incl. tax)	¥600,000 million
Net sales (excl. tax)	¥450,000 million
Operating income before goodwill amortization	¥40,000 million
Operating income to net sales (excl. tax; before goodwill amortization)	9.0%
Debt-to-equity ratio (times)	About 1 time
ROE (Before goodwill amortization)	8.0%

Operating income before goodwill amortization



TSUTOMU KAMIJO
President and Representative Director, Group CEO

Business Climate in Fiscal 2011

President Kamijo Talks About Strategy

Business Climate in Fiscal 2011

During 2011, the Japanese economy experienced a sharp slowdown as a result of the impact of the Great East Japan Earthquake, which struck on March 11. Thereafter, although consumer spending picked up in step with the disaster recovery effort, the economic outlook was shrouded in uncertainty due to the European debt crisis, the continued appreciation of the yen and other factors.

In the alcoholic beverages and restaurant industries, the earthquake had a significant impact on corporate earnings both indirectly and directly. In the soft drinks industry, however, the disaster boosted demand, along with the effects of fine weather. In the real estate industry, vacancy rates in the Tokyo office rental market were mostly unchanged, but rents continued to fall.

In this climate, the Sapporo Group worked to implement the Sapporo Group Management Plan 2011–2012.

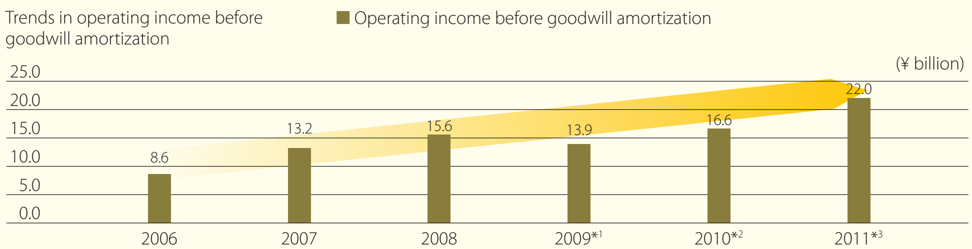
Higher Net Sales and Operating Income

Consolidated net sales jumped ¥64.9 billion, or 16.7%, to ¥454.1 billion, reflecting in part the inclusion of the POKKA Group in the consolidated accounts since April 2011. Operating income increased in all business segments when upfront investment costs of expanding into Vietnam were excluded from the International Alcoholic Beverages business and the amortization of goodwill was excluded from the Soft Drinks business. As a result, operating income increased sharply by ¥3.5 billion, or 22.6%, to ¥18.9 billion. However, the Sapporo Group was impacted by the application of accounting standards for asset retirement obligations and recorded disaster losses caused by the Great East Japan Earthquake under extraordinary losses. Moreover, an extraordinary gain on the sale of property, plant and equipment was recorded in the previous fiscal year. As a result, net income decreased ¥7.6 billion, or 70.6%, year on year to ¥3.2 billion.

In other developments in 2011, I am pleased to report that the Sapporo Group was able to launch a five-year straight bond issue with a five-year maturity at a low annual coupon rate of 0.62% in September. This bond issue was facilitated by the Group's recently upgraded bond rating, which was raised by one notch in recognition of the Group's efforts to enhance its earnings base and financial position.

Overview of 2011 Results –Trends–

Steady growth in operating income before goodwill amortization.
Profits growth trend intact even after excluding the contributions from the consolidation of POKKA Group



*1: ¥2.4 billion increase in cost burden in 2009 owing to accounting changes from 2009
*2: ¥1.8 billion cost increase from amortization costs for new sales and logistics system, etc.
*3: POKKA Group income items consolidated from Q2

Progress With the Sapporo Group's New Management Framework

Looking Back at the Sapporo Group Management Plan 2011–2012

We positioned 2011 as the first year of a period for solidifying our growth trajectory so that the Group can drive dynamic growth and achieve the New Management Framework. Accordingly, we promoted three basic strategies under the Sapporo Group Management Plan 2011–2012. The three strategies are "growth in new areas," "growth in all businesses" and "bolster management capabilities that underpin growth."

Long-term Management Strategies: Sapporo Group's New Management Framework

Basic approach: Working steadily toward long-term goals while also boldly revising resource allocations, executing strategic investments, and enhancing competitiveness through aggressive management

Food value creation

2007

Creating comfortable surroundings

Four basic strategies for growth

1. Concentrate resource on high-value-added products and services
2. Engage in strategic alliances aimed at building competitive advantage and expanding business
3. Actively expand overseas operation
4. Expand group synergies on the strategic and operational fronts

Target (for 2016, 140th anniversary of founding)

- Consol. sales ¥600 bn (incl. liquor taxes)
  ¥450 bn (excl. liquor taxes)
- Consol. operating income ¥40 bn (before goodwill amortization)
- Operating margin 9% (excl. liquor taxes; before goodwill amortization)
- ROE 8% or higher (before goodwill amortization)
- D/E ratio about 1.0 time

Growth in New Areas

Our first strategy is "growth in new areas." The Sapporo Group has completed the conversion of the POKKA Group into a consolidated subsidiary. The POKKA Group will bring new competitive advantages to the Sapporo Group's business portfolio. In March 2012, we established POKKA SAPPORO FOOD & BEVERAGE LTD., eyeing the start of business operations in 2013. We have also been active in forming alliances. We entered into a commission sales contract for Makgeolli, a South Korean alcoholic beverage, with CJ CheilJedang Corp., the leading South Koreans food manufacturer. We also forged a domestic business alliance concerning exclusive sales of spirits and certain other products with BACARDI JAPAN LIMITED, the owner of leading brands such as BACARDI rum, which boasts the highest global rum sales volume. In other alliances, we commenced production and sales of SAPPORO PREMIUM-brand beers in the Oceanian market through a licensing agreement with Coopers Brewery. We also completed the Long An Brewery in Vietnam, achieving a longstanding goal to build a manufacturing site in this strategic region. In November 2011, the Sapporo Group commenced beer production and sales in Vietnam.

Growth in All Businesses

Our next strategy is "growth in all businesses." The Sapporo Group has steadily produced results by focusing on the key priority of strengthening the Sapporo brand. For details on business performance, please refer to the detailed review of operations starting on page 16 of this report.

Bolster Management Capabilities That Underpin Growth

Finally, our third strategy is to "bolster management capabilities that underpin growth." We have partitioned the group headquarters functions of Sapporo Holdings Limited, our pure holding company, and centralized highly specialized professional operations and common functions among the Group's operating companies at Sapporo Group Management Co., Ltd. Under this structure, Sapporo Group Management will provide strong, efficient support to the entire Group.

Through these strategies, the Sapporo Group has achieved its initial operating income forecast. We believe that the Sapporo Group has thus made steady progress with management strategies designed to solidify its growth trajectory.

Aiming for a New Group Management Structure

The Sapporo Group will strive to develop businesses that leverage its strengths, focusing on two business domains we refer to as the "food value creation business" and the "creating comfortable surroundings business." In the food value creation business, we have positioned the Japanese Alcoholic Beverages business, the International Alcoholic Beverages business and Food & Soft Drinks business as core domains that will drive significant growth for the Group as a whole. As such, our priority is to invest in the growth of each of these fields. In the creating comfortable surroundings business, we expect our Real Estate business to deliver stable profits based on excellent properties. Meanwhile, our Restaurants business shares the characteristics of both the food value creation and creating comfortable surroundings businesses.

Under this new management structure, we aim to develop the Food & Soft Drinks business into the Group's third source of stable profits, alongside Alcoholic Beverages and Real Estate, in 2016, the target year of the New Management Framework. Specifically, we aim to increase the share of net sales from the Food & Soft Drinks business to approximately 30% of the Group's net sales target for 2016.

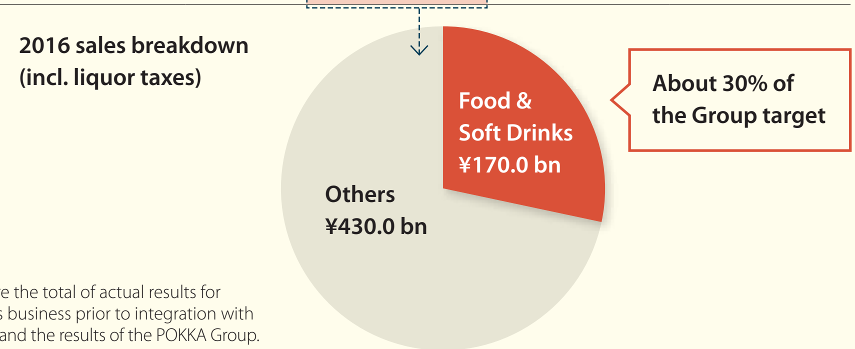
Medium-term Target of New Group Management Structure

In addition to alcoholic beverages and real estate, we aim to grow the Food & Soft Drinks business into the Group's third source of stable profits.

Share of Food & Soft Drinks business in the Group's targets

(¥ billion)

	2010 results*	2016 targets	Change	Growth rate
Net sales	133.0	170.0	37.0	128%
Operating income (Before goodwill amortization)	5.2	8.5	3.3	163%
Operating margin (Before goodwill amortization)	3.9%	5.0%	1.1%	–



* 2010 results are the total of actual results for the Soft Drinks business prior to integration with POKKA Group and the results of the POKKA Group.

International Business Development

The Pacific Rim region is as a key region for the Sapporo Group. Within this area, the Group has adopted a strategy focused on two particular regions, namely North America and Asia and Oceania.

In North America, we will accelerate the growth of the strong-performing Canadian premium brand SLEEMAN, along with that of SAPPORO U.S.A., INC., which has cemented a dominant position for the Sapporo brand as the top Asian beer in the U.S.

In Asia and Oceania, we will first seek to rapidly establish a foothold in the Vietnam market from the Vietnam-based Long An Brewery, which was completed in November 2011. From there, we plan to move into other countries in Southeast Asia.

The Sapporo Group also intends to promote international business development in the Food & Soft Drinks business. In addition to developing the POKKA brand, which boasts a large market share mainly in Singapore, we have taken other actions such as acquiring the majority of shares issued by Silver Springs Citrus, Inc., one of the biggest private-brand chilled beverage manufacturers in the U.S.

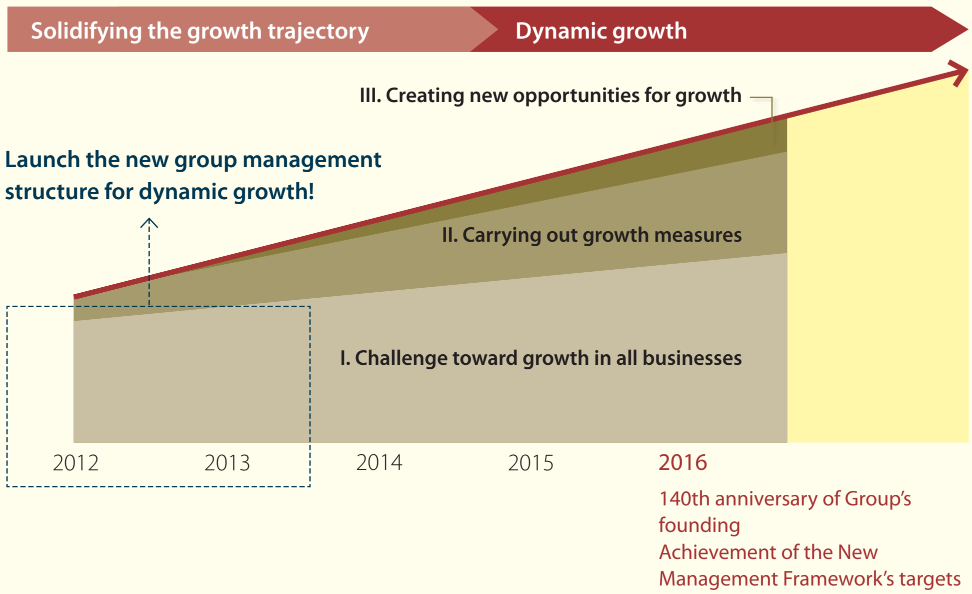
Sapporo Group Management Plan 2012–2013

Under the Sapporo Group Management Plan 2012–2013, the next two years are a critical period for solidifying the growth trajectory of the Sapporo Group and advancing to a dynamic growth stage. Accordingly, we are currently building a new Group management structure.

The former Soft Drinks and POKKA Group segments have been integrated into the new Food & Soft Drinks segment, paving the way for POKKA SAPPORO FOOD & BEVERAGE LTD. to start business operations in 2013. In addition, the former International Alcoholic Beverages segment has been renamed as the International segment from the year ending December 2012. Under this new structure, the Sapporo Group is targeting net sales of ¥535.0 billion, operating income of ¥21.0 billion and net income of ¥7.4 billion for the year ending December 2013.

Position of Sapporo Group Management Plan 2012–2013

Solidify the growth trajectory to move up to the dynamic growth stage.



Basic Strategies

We have three basic strategies for spurring the Sapporo Group to dynamic growth. The first strategy is called "Challenge toward growth in all businesses." While harnessing the strengths of each business segment, including their respective brands and business resources, we will tackle new challenges to prevail in the markets.

The second strategy is "Carrying out growth measures." We will further solidify our foundations, including through additional upfront investments, to ensure that we reap the benefits of initiatives taken over the past few years. Examples include completing the integration process of POKKA SAPPORO FOOD & BEVERAGE LTD. and capturing synergies, developing the Vietnamese market, and increasing our equity in Yebisu Garden Place to 100%.

The third strategy is "creating new opportunities for growth." This strategy will entail actively promoting M&As and alliances both in Japan and overseas.

Strategic Investments

Proactive investment in the Sapporo Group's growth will remain a priority. During the 5 years from 2012 to 2016, we plan to strategically invest between ¥150 billion and ¥200 billion (including ordinary expenditures). Our basic policy is to execute these investments within the scope of our operating cash flows. In fiscal 2012, we plan to invest approximately ¥64.0 billion, including ordinary capital expenditures. Main investment projects approved at this time include increasing our equity in Yebisu Garden Place to 100%, and the investment in Silver Springs Citrus of the U.S.

The Sapporo Group has strengthened its foundations for promoting growth strategies, and has seen its credit rating return to an A-level rating. Therefore, we believe that business conditions now warrant proactive investments in growth.

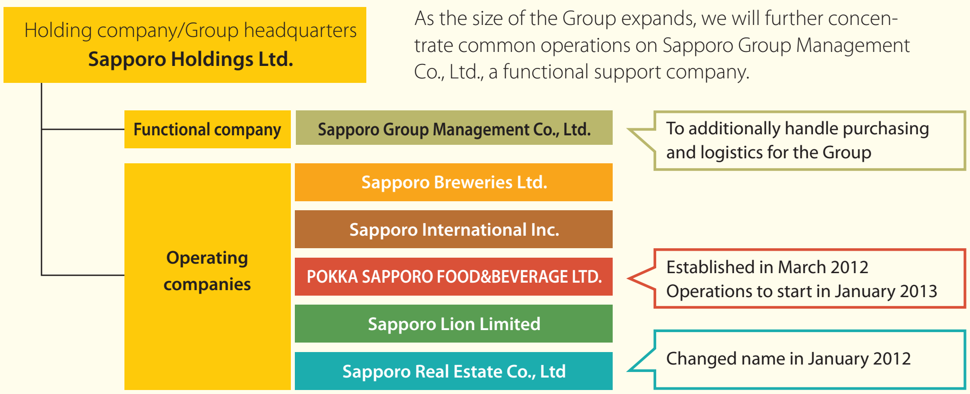
Overall Group Strategy

As the size of the Group has expanded through M&As and organic growth, we have centralized common operations of each operating company, such as purchasing and logistics, at Sapporo Group Management Co., Ltd., to promote even more efficient Group management.

Overall Group Strategy

1. Further promotion of efficiency in Group management

As the size of the Group expands, we will further concentrate common operations on Sapporo Group Management Co., Ltd., a functional support company.



2. Initiatives for enhancing Group brand

To expand the Sapporo Group's customer base, we will implement Group-wide initiatives in the areas where we can leverage the Group's strengths.

3. Strengthening development of Group human resources

We will develop human resources to strengthen abilities to implement growth strategy and respond to changes.

Another priority is to enhance Group brands. To expand the Group's customer base, we will implement Group-wide initiatives primarily in key areas where we can leverage the Group's strengths.

Finally, we believe that human resources development is of paramount importance, as human resources are the driving force behind the Sapporo Group's ability to execute strategies, adapt to change and achieve growth across the Group. To this end, we will continue to conduct our training program for global human resources. The program will focus on nurturing leaders who will develop business in key strategic regions such as North America and Southeast Asia going forward.

For details on strategies for each business segment, please see the review of operations starting on page 16 of this report.

TSUTOMU KAMIJO
President and Representative Director, Group CEO

FEATURE:
LAYING THE GROUNDWORK FOR DYNAMIC GROWTH

1 Taking the Sapporo Brand to the World

Construction of Sapporo Vietnam Limited Long An Brewery Completed

In November 2011, the Sapporo Group completed construction of the Sapporo Vietnam Limited Long An Brewery. This is the first brewery built by a Japanese brewer in Vietnam.

The completion of the Long An Brewery means that the Sapporo Group has now established its own breweries in three locations worldwide, adding Southeast Asia, to Japan and Canada. The Sapporo Group will continue promoting further global development of SAPPORO PREMIUM-brand* beers.

Sapporo Holdings sees Vietnam as a bridgehead for expanding sales of SAPPORO PREMIUM-brand beers. As such, the Sapporo Group plans to use its convenient location to maximum advantage as it makes inroads into surrounding countries in Asia. In tandem with this expansion, the Sapporo Group aims to successively ramp up production capacity at the Long An Brewery to 150,000 kiloliters in 2019.

* SAPPORO PREMIUM is the Sapporo Group's international brand name.

Outdoor advertising in Vietnam

Outline of the Long An Brewery

- **Name:** Sapporo Vietnam Limited Long An Brewery
- **Location:** Viet Hoa, Duc Hoa III Industrial Zone, Duc Lap Ha Ward, Duc Hoa District, Long An Province
- **Plant Manager:** Yasuhiro Hanazawa
- **Annual production capacity:** 40,000 kiloliters
- **Production:** Manufacture of SAPPORO PREMIUM-brand beers, Sapporo's international strategic product
- **Construction cost:** Approximately ¥5.2 billion

Sapporo Premium brand

Sapporo Group's Global Business Development

The Sapporo Group has expanded business in the Asia-Pacific region centered on North America, Asia and Oceania, focusing on the highly priced SAPPORO PREMIUM-brand beers. In 1984, the Sapporo Group fully launched North American sales of SAPPORO PREMIUM-brand beers after establishing Sapporo U.S.A., Inc., as a U.S. subsidiary. SAPPORO PREMIUM-brand beers went on to win a solid reputation in the market as a premium beer. Ever since 1986, the Sapporo Group has maintained SAPPORO PREMIUM-brand beers' position as the top Asian beer in the U.S. In 2002, the Sapporo Group began OEM production of SAPPORO PREMIUM-brand beers at SLEEMAN BREWERIES LTD. of Canada. Through the acquisition of SLEEMAN BREWERIES LTD. in 2006, the Sapporo Group established a production and sales base in North America.

Elsewhere, the Sapporo Group is developing business in the Asia-Pacific region with SAPPORO PREMIUM-brand beers as its premium brand. The Group's markets its products in several countries including South Korea through exports from Japan, Taiwan through local production, and Australia through licensed production.

In January 2012, the Sapporo Group acquired 51% of the shares issued by Silver Springs Citrus, Inc., one of the biggest private brand chilled beverage manufacturers in the United States, for US$24 million. In the International business, the Sapporo Group will use this acquisition as a starting point to actively develop overseas businesses in beverages other than beer, and in food.

Sales in the U.S.

Sales in South Korea

2 POKKA SAPPORO FOOD & BEVERAGE LTD. Established

Toward Growth in the Food & Soft Drinks Business

In March 2012, the Sapporo Group integrated its soft drinks business Sapporo Beverage Co. Ltd. with the POKKA Group to establish POKKA SAPPORO FOOD & BEVERAGE LTD. Operations at the new company are scheduled to start in January 2013. The Sapporo Group is currently examining business strategies and launching the divisions needed to maximize synergies from the current competitive advantages of both companies.

Under the new management system, the Sapporo Group plans to drive growth in both the food and soft drinks businesses by nurturing competitive brands through product differentiation and concentrated investment in key categories and brands. In addition to examining business schemes and the organizational structure, the Group will further optimize production and procurement systems and build a joint distribution system, structuring the new company so that it can efficiently produce results. In this manner, the Sapporo Group aims to rapidly achieve concrete benefits from the integration.

Ribbon Series

MIKICHI, Hong Kong

TONKICHI, Singapore

Impact of POKKA Group Integration

By December 31, 2011, the Sapporo Group had made a total investment of ¥53.7 billion in POKKA CORPORATION, bringing its shareholding ratio to 98.6%. This investment includes the acquisition cost for management integration with POKKA CORPORATION, as well as its net financial liabilities and lease obligations. The inclusion of POKKA CORPORATION's nine-month results from April to December 2011 in the Sapporo Group's consolidated financial results had a positive impact of ¥75.9 billion on net sales, ¥4.2 billion on operating income before goodwill amortization and ¥8.5 billion on EBITDA for the year ended December 31, 2011.

Going forward, the Sapporo Group aims to grow the Food & Soft Drinks business into one of the Group's core businesses alongside the Alcoholic Beverages business and the Real Estate business. To this end, the Sapporo Group plans to develop a management system at the new company in anticipation of the full-scale commencement of operations in January 2013. Under this new management system, the Group will strive to enhance its business to expand Group-wide synergies. In 2012, the Sapporo Group is forecasting net sales of ¥134.6 billion and operating income before goodwill amortization of ¥5.7 billion in the Food & Soft Drinks business. In 2016, Group's forecasts for the same business are for net sales of ¥170 billion, representing nearly 30% of Group-wide net sales, and operating income before goodwill amortization of ¥8.5 billion.

(¥ billion)

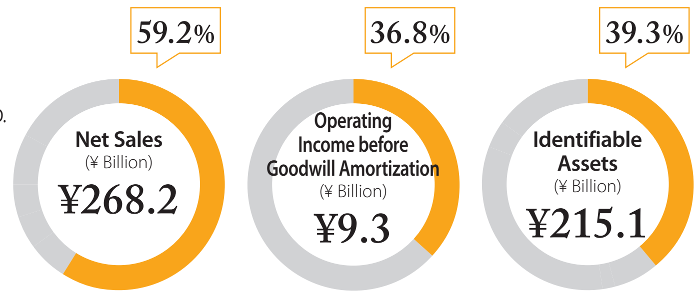
	2012 forecast	2016 forecast	Change	Growth rate
Net sales	134.6	170.0	35.4	126.3%
Operating income (Before goodwill amortization)	5.7	8.5	2.8	149.1%
Operating margin (Before goodwill amortization)	4.2%	5.0%	0.8%	–

Green tea on sale in Singapore

JAPANESE ALCOHOLIC BEVERAGES

From left: Sapporo Draft Beer Black Label, Yebisu, Premium Alcohol Free

- 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.



Note) Percentages are calculated after excluding Other from the consolidated total

Outlook

The Japanese beer and beer-type beverages market saw total demand decrease by an estimated 4% year on year, mainly because product supply and sales promotion activities of companies were impacted by the Great East Japan Earthquake.

In our Japanese Alcoholic Beverages business, we have five core breweries in Japan. Two of these breweries, in Sendai and Chiba, were damaged in the earthquake. Because these breweries account for a large share of our sales, our product supply and marketing activities were impacted heavily over an extended period. Consequently, net sales in our Japanese Alcoholic Beverages business declined by ¥11.1 billion, or 4.0% year on year, to ¥268.2 billion. However, as a result of ongoing cost control focusing mainly on sales promotion expenses and equipment costs, operating income rose by ¥14 million, or 0.2%, to ¥9.3 billion. Operating income before goodwill amortization rose by ¥14 million, or 0.2%, to ¥9.3 billion.

Beer Business

Our overall sales volume for beer decreased 6.7% from the previous fiscal year. Because of the damage to our breweries, we focused on supplying our three core brands: *Yebisu Beer*, *Sapporo Draft Beer Black Label* and *Mugi to Hop*. Consequently, although sales of products other than these three core brands dropped sharply, sales volume of canned products for the three core brands increased year on year.

In March 2011, we launched a non-alcoholic beer called *Premium Alcohol Free*, which achieved sales far in excess of initial targets. Meanwhile, in ready-to-drink (RTD) beverages, we launched seasonal offerings in limited production runs that won strong consumer support, in addition to a new and improved *Nectar Sour Sparkling Peach*.

Wine and Spirits Business

Sales volumes increased year on year, leading to higher sales and earnings for this category, as demand grew for both imported and domestic wines. The *Grande Polaire* series of premium wines made from 100% domestic grapes was particularly noted for its quality, receiving a prize at the Japan Wine Competition.

In western spirits, the Group laid the foundations for expansion into new areas. In May 2011, the Group concluded a business alliance with BACARDI JAPAN LIMITED, holder of the world's leading rum brand, Bacardi. In May 2011, it signed a sales licensing agreement with CJ CheilJedang Corporation, the leading South Korean food manufacturer.

Shochu Business

The *shochu* (Japanese distilled spirits) category saw sales and profits increase year on year, with new offering *Triangle Ginger Highball*, the singly distilled *shochu Sasainata*, and the Japanese plum liquor *Kuroumesyu* contributing to higher sales volume. The singly distilled *shochu Waramugi* won the gold prize from the Alcohol Appreciation and Evaluation Committee of the Fukuoka Regional Taxation Bureau.

Growth Strategy for the Japanese Alcoholic Beverages Business

The Japanese Alcoholic Beverages business is the core business of the Sapporo Group, accounting for over half its earnings. We will therefore focus management resources here, concentrating on core products that leverage superior brand power. At the same time, this business will remain a leader in high-value-added fields by developing and providing products that meet diverse customer needs. Along with the Real Estate business, the Japanese Alcoholic Beverages business will provide stable earnings to support the growth of the entire Group.

Management Plan 2012–2013 Key Points

1. Bolster alcoholic-beverage marketing

Increase sales by winning additional customer support using a select-and-focus approach (selectively focusing resources on key areas).

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

- Lay the groundwork for growth in expanding areas
  To lay the groundwork for growth, we will offer products that embody our 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 a highly suitable alternative to beer for home use.

- Expand the wine, spirits and *shochu* sectors
  Over the medium term, we intend to expand our non-beer alcoholic beverages operations, which include RTD beverages. We will do this by boosting brand power and offering innovative value propositions.

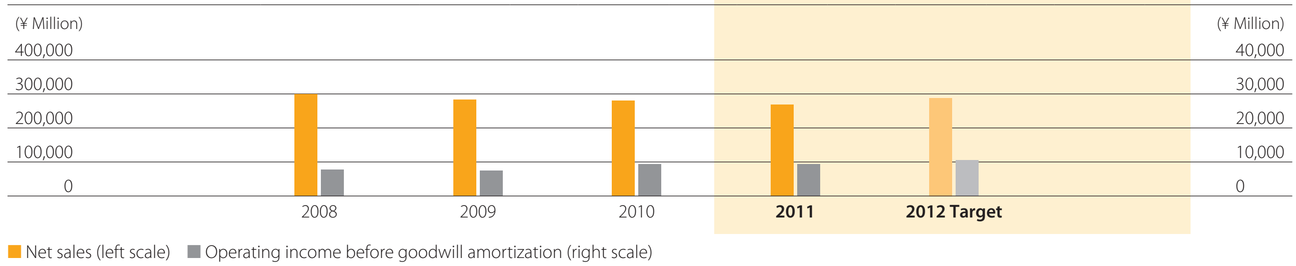
2. Strengthen the operating base

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.

Strengthening the Group's Business Foundations | Solidifying the Growth Trajectory

¥ Million

	2008	2009	2010	2011	2012 Target	2013 Target
Net sales	299,699	282,914	279,329	**268,189**	**288,000**	**300,000**
Operating income	7,709	7,483	9,290	**9,305**	**10,500**	**12,000**
Operating income before goodwill amortization	7,709	7,483	9,290	**9,305**	**10,500**	–

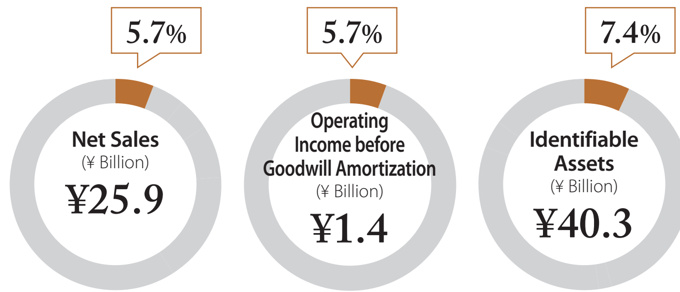


Figures have been restated based on the segment classifications for the management approach from 2011 onward. This change has also been reflected in figures of 2010.

INTERNATIONAL ALCOHOLIC BEVERAGES

Sapporo brand and SLEEMAN brand

- SAPPORO INTERNATIONAL INC.
- SAPPORO U.S.A., INC.
- SAPPORO CANADA INC.
- SLEEMAN BREWERIES LTD.
- SAPPORO ASIA PRIVATE LIMITED
- SAPPORO VIETNAM LIMITED
- Silver Springs Citrus, Inc.



Note) Percentages are calculated after excluding Other from the consolidated total

Outlook

In the North American beer market, total demand was estimated to have contracted by 1–2% as consumer spending remained weak despite signs of recovery. Meanwhile, the beer market in rapidly growing Asian economies continued to expand steadily.

Given this context, in the International Alcoholic Beverages business we focused in North America on sales activities targeting the premium-price range market, where the Sapporo brand has a strong presence. In the Asian and Oceanian markets, meanwhile, we continued our growth strategy of expanding sales channels, establishing production sites, and forging business alliances. Net sales in the International Alcoholic Beverages business rose only ¥0.5 billion, or 2.0%, year on year to ¥25.9 billion, with growth on a local currency basis negated by the impact of the strong yen. However, due to a ¥1.0 billion impact from upfront investment costs in Vietnam, among other factors, operating income declined ¥0.1 billion, or 24.0%, to ¥0.4 billion. Operating income before goodwill amortization declined ¥0.2 billion, or 11.8%, to ¥1.4 billion.

North American Market

Despite the contraction of the North American beer market, the Sapporo Group's Canadian subsidiary SLEEMAN BREWERIES LTD. recorded a 5th consecutive term of increased sales volume (excluding outsourced production of Sapporo brand products), up 9% year on year. At Sapporo U.S.A., Sapporo brand sales volume was up 10% year on year.

Asian and Oceanian Market

Sapporo Group sales volume outside of North America, most notably in Asia, rose 40% over the previous year.

In Vietnam, Sapporo Vietnam Limited commenced sales of locally produced beer, following completion of the Sapporo Vietnam Limited Long An Brewery on November 24, 2011. In other markets, we continued to pursue our growth strategies, expanding sales channels in the home-use market in Singapore through cooperation with POKKA Group and commencing sales of beer for the home-use and commercial-use markets in South Korea in conjunction with the Maeil Dairies Co., Ltd. From October 2011, we began brewing and sales in the Oceanian market under a licensing agreement with Australian beer manufacturer Coopers Brewery Ltd.

Growth Strategy for the International Alcoholic Beverages Business

The International Alcoholic Beverages business is expected to grow rapidly going forward. In fast-growing Asia in particular, the beer market is expected to expand steadily. The Sapporo Group is pursing a unique international growth strategy in these markets with a focus on organic growth and alliances with local companies.

Management Plan 2012–2013 Key Points

1. Bolster brand power in the North American market

- **Canada**

  Continuing a five-year streak of growth above the market average, SLEEMAN BREWERIES LTD. will continue to strive for more growth in sales through further investment in marketing of strong-selling premium beer brands.

- **U.S.A.**

  Sapporo U.S.A. achieved sales of 3 million cases (24 12oz cans) in 2011. Going forward, we will seek to accelerate growth of the Sapporo brand, which has been the top Asian beer brand in the U.S. market since 1986, in order to boost sales even higher.

2. Execute marketing strategies for capturing growth in the Asian market

- **Vietnam**

  Sapporo Vietnam Limited Long An Brewery commenced shipments from November 2011, and in 2012 will start full-scale marketing operations. Moving ahead, the Sapporo Group will position Vietnam as a beachhead in its Southeast Asia strategy, using its convenient location to maximum advantage as it makes inroads into surrounding countries.

- **Singapore**

  In Singapore, we will expand our sales channels for export beer in the home-use market in cooperation with POKKA Corporation.

- **South Korea**

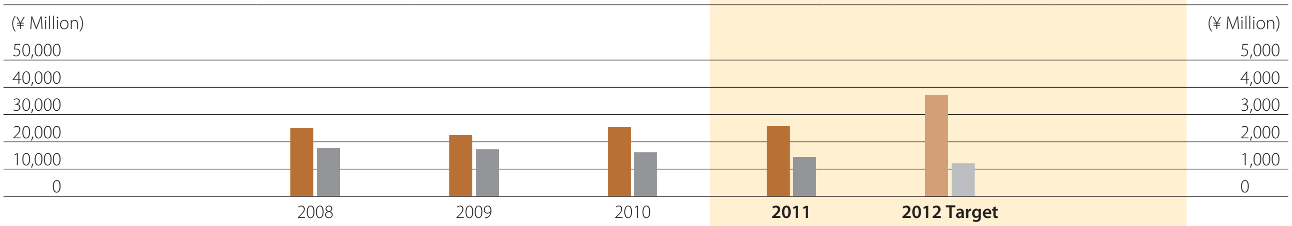
  In the South Korean market, we have formed an alliance with Maeil Dairies Co., Ltd., through which we are steadily increasing our sales channels. We have acquired 15% of the shares of M's Beverage Co., Ltd., a wholly owned alcoholic beverage sales subsidiary of Maeil Dairies, deepening our involvement in management and marketing strategies. Going forward, we aim to enhance the value of the Sapporo brand and strengthen our product sales network in South Korea.

- **Oceania**

  In Oceania, the Group will make a full-scale entry into the premium markets of Australia and New Zealand in 2012 through Coopers Brewery, with whom it has a licensing agreement. Our aim is to establish Sapporo as the leading Japanese beer brand in these markets.

¥ Million

	Strengthening the Group's Business Foundations			Solidifying the Growth Trajectory		
	2008	2009	2010	**2011**	**2012 Target**	**2013 Target**
Net sales	25,021	22,582	25,386	**25,888**	**37,300**	**44,000**
Operating income	901	693	498	**378**	**0***	**200**
Operating income before goodwill amortization	1,768	1,720	1,607	**1,433**	**1,200**	**–**



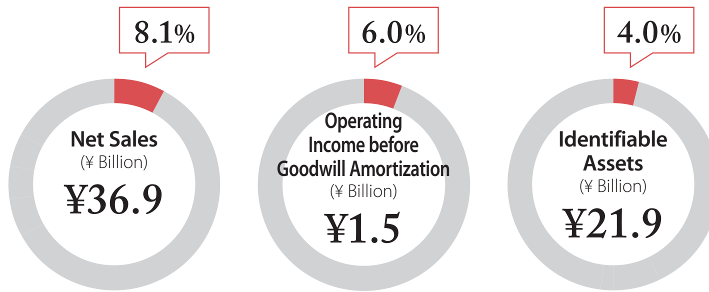
■ Net sales (left scale) ■ Operating income before goodwill amortization (right scale)

*¥1.8 billion impact of upfront investment costs in Vietnam

SOFT DRINKS

- SAPPORO BEVERAGE CO., LTD.
- STELLA BEVERAGE SERVICE CO., LTD.
- STAR BEVERAGE SERVICE CO., LTD.

From left: Ribbon Citron, Gerolsteiner



Note) Percentages are calculated after excluding Other from the consolidated total

Outlook

Overall demand in the Japanese soft drinks market is estimated to have grown slightly by only around 1% year on year, due to the impact of the Great East Japan Earthquake and weather conditions.

We continued to concentrate marketing investment and sales efforts on our core brand products. At the same time, we pursued cost structure reforms to create a stable earnings base. The Soft Drinks business saw sales increase by ¥2.9 billion, or 8.6%, year on year to ¥36.9 billion, while operating income declined by ¥0.5 billion, or 40.9%, year on year to ¥0.8 billion due in part to a ¥0.7 billion increase in amortization of goodwill. Operating income before goodwill amortization increased ¥0.2 billion, or 12.5%, to ¥1.5 billion.

Bolstering Brands in the Soft Drinks Business

We pursued aggressive marketing measures for the *Gabunomi* and *Ribbon* series, and for *Gerolsteiner* naturally carbonated water from Germany. Moreover, sales of mineral water and unsweetened beverages increased following the earthquake, lifting sales volumes by 4% year on year.

Growth Strategy for the Soft Drinks Business

In the Soft Drinks business, the Group is preparing for the start of operations at POKKA SAPPORO FOOD & BEVERAGE LTD. in January 2013. To ensure that the business structure is capable of efficiently producing results, the Group is examining options for business schemes, organizations and other aspects, while working to optimize the production system and develop a Group procurement and distribution system, among other measures.

Management Plan 2012–2013 Key Points

1. Enhance our brand power

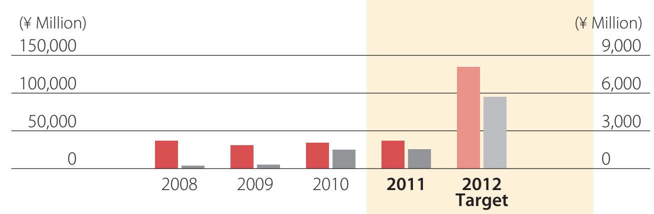
- We will focus our investments on product differentiation and key categories and brands. The goal is to develop competitive brands to ensure the growth of both the Soft Drinks business and the Food business.

2. Generate synergies with the POKKA Group

- Food business: We will strengthen the POKKA Lemon brand and expand the lemon-based products category. We will also enhance the product lineup in the soup category.
- Soft Drinks business: We will strengthen and develop the brands that both companies have developed. We will also work to develop unique, high-value-added products that utilize both companies' processing technologies and materials.
- Sales: We will strengthen the vending machine channel, and work to develop the commercial-use channel, where there is the potential for Group synergies.

¥ Million

	Strengthening the Group's Business Foundations			Solidifying the Growth Trajectory		
	2008	2009	2010	**2011**	**2012* Target**	**2013 Target**
Net sales	36,849	30,746	33,938	**36,857**	**134,600**	**140,000**
Operating income	221	301	1,280	**757**	**3,000**	**3,100**
Operating income before goodwill amortization	221	301	1,343	**1,511**	**5,700**	–



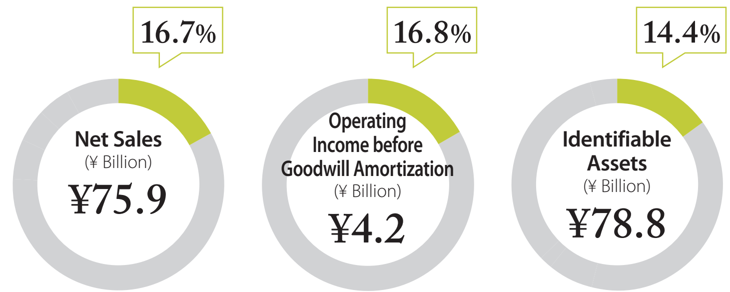
■ Net sales (left scale)
■ Operating income before goodwill amortization (right scale)

*From the first quarter of 2012, the former Soft Drinks and POKKA Group segments were integrated to work towards targets as the Food & Soft Drinks business.

POKKA GROUP

- POKKA CORPORATION
- SUN POKKA CO., LTD.
- POKKA CREATE CO., LTD.
- POKKA CORPORATION (Singapore) Pte Ltd.

From left: Pokka Lemon 100, Jikkuri Kotokoto Soup



Note) Percentages are calculated after excluding Other from the consolidated total

Outlook

Total domestic demand for soft drinks rose slightly year on year, and lemon-based products (flavorings) were generally in line with the previous year, while demand for instant soups (including cup soups) declined by about 2% year on year. All figures are estimates.

The POKKA Group strengthened and developed its brands in Japan, while overseas it made steady progress in improving the cost of goods sold ratio, lowering distribution costs, and other measures. As a result, the POKKA Group recorded net sales of ¥75.9 billion and operating income of ¥2.9 billion after recording amortization of goodwill of ¥1.3 billion. Operating income before goodwill amortization was ¥4.2 billion. No year-on-year comparisons are available.

POKKA Group's Domestic Business

In its domestic beverages business, the POKKA Group promoted sales of *Kireto Lemon*, launched a new product called *Kireto Lemon Soukai Sparkling*, and bolstered the *POKKA Coffee* lineup. The domestic foods business, meanwhile, saw strong sales of core products *POKKA Lemon 100* and *Kantanbimi* soup as well as new product *Jukkuri Kotokoto Shrimp Bisque*. In the domestic restaurants business, the POKKA Group's coffee shop chain *Café de Crié* achieved strong sales through effective store remodeling and progressive opening of new stores.

POKKA Group's International Business

The overseas restaurant business posted steady gains in sales as it continued to open new outlets in Hong Kong, a core overseas market.

Growth Strategy of the POKKA Group

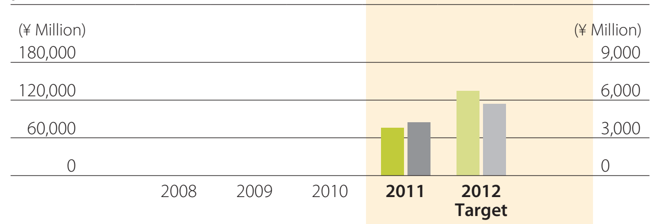
In March 2012, POKKA Corporation and Sapporo Beverage Co., Ltd. merged to form POKKA SAPPORO FOOD & BEVERAGE LTD. Currently, the two companies are making every effort to establish an organization that will capture maximum synergies from the integration. By 2016, the new company is targeting annual sales of ¥170.0 billion.

- Established a new company (POKKA SAPPORO FOOD & BEVERAGE LTD.) in March 2012 as an entity to drive forward integration.
- Set up necessary organizations, including management strategy divisions that play a central role in business strategy, one by one.

Strengthening the Group's Business Foundations | Solidifying the Growth Trajectory

¥ Million

	2008	2009	2010	2011	2012* Target	2013 Target
Net sales	–	–	–	**75,850**	**134,600**	**140,000**
Operating income	–	–	–	**2,934**	**3,000**	**3,100**
Operating income before goodwill amortization	–	–	–	**4,234**	**5,700**	**–**



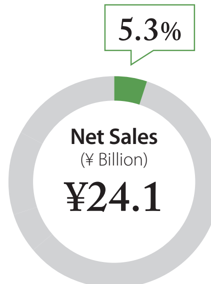
■ Net sales (left scale)
■ Operating income before goodwill amortization (right scale)

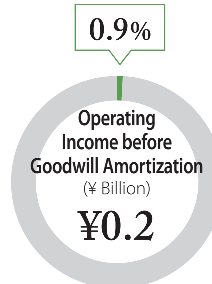
*From the first quarter of 2012, the former Soft Drinks and POKKA Group segments were integrated to work towards targets as the Food & Soft Drinks business.

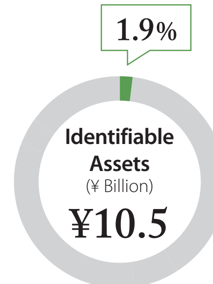
RESTAURANTS

• SAPPORO LION LIMITED

Sapporo Lion Beer-Hall in Ginza 7-chome, Tokyo







Outlook

The restaurant industry showed some signs of a gradual recovery, but the business environment remains as severe as ever.

In the restaurant business, we introduced measures to stimulate demand and made progress with reducing costs at existing restaurants. Despite these efforts, net sales declined by ¥2.3 billion, or 8.9%, year on year to ¥24.1 billion. Nevertheless, operating income rose ¥0.1 billion, or 47.2%, to ¥0.2 billion, bolstered by steady performance at new restaurants, cost reductions, and the closure of unprofitable locations.

Existing Restaurants

In an attempt to restore customer traffic at existing restaurants, we conducted promotional campaigns and boosted sales activities directed at corporate customers. We revitalized two existing restaurants in Tokyo's Kanda and Otemachi districts, by converting them to our *Ooi Hokkaido Betsukai Pub* format, a Japanese-style pub format originating from the Hokkaido town of Betsukai and featuring traditional local fare. We also improved the profit structure of our Restaurants business by reducing costs and closing 10 unprofitable locations.

New Restaurants

In new openings, we opened three new locations for our *Yebisu Bar* chain—in Osaka's Umeda district, inside Tokyo Dome City, and in Tokyo's Kagurazaka district. We also opened four new locations by undertaking operation of food services in some leisure facilities and taking over restaurants already in operation. The total number of locations operating on December 31, 2011 stood at 191.

Growth Strategy for the Restaurants Business

The Restaurants business will work to improve its business performance to contribute to the overall performance of the Sapporo Group, and realizing synergies within the Group.

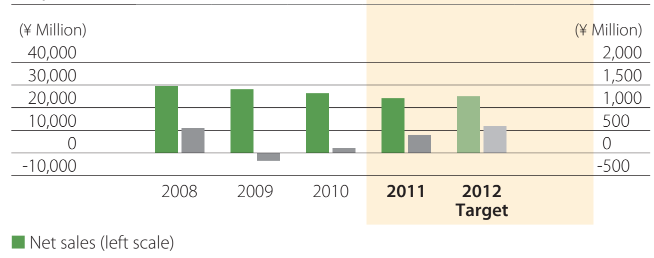
Management Plan 2012–2013 Key Points

- Strengthen the restaurant management system with a focus on area to increase profitability
- Open new medium-sized restaurants totaling around 1,650 square meters, primarily in the successful *Yebisu Bar* and brasserie formats
- Reduce costs through the new distribution system that uses the Tokyo Metropolitan Logistics Center established in 2011.

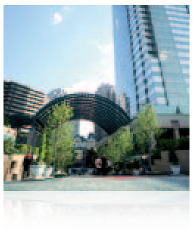
Strengthening the Group's Business Foundations | Solidifying the Growth Trajectory

¥ Million

	2008	2009	2010	2011	2012 Target	2013 Target
Net sales	29,538	28,026	26,429	**24,091**	**24,900**	**26,000**
Operating income (loss)	551	(172)	149	**219**	**600**	**800**
Operating income (loss) before goodwill amortization	551	(172)	149	**219**	**600**	**–**



REAL ESTATE



Yebisu Garden Place

- SAPPORO REAL ESTATE 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.

5.0%
Net Sales
(¥ Billion)
¥22.5

33.9%
Operating Income before Goodwill Amortization
(¥ Billion)
¥8.6

33.0%
Identifiable Assets
(¥ Billion)
¥180.2

Outlook

In Japan's real estate sector, vacancy rates in the Tokyo area office building rent market remained roughly the same year on year, with rent levels continuing to decline gradually.

In our Real Estate business, we worked to maintain occupancy rates and rent levels, while taking steps to reduce costs even further. Our businesses involving real estate development and acquisition of new properties performed well. The Real Estate business recorded a year-on-year decrease in net sales of ¥1.1 billion, or 4.5%, to ¥22.5 billion, and an increase in operating income of ¥0.6 billion, or 7.1%, to ¥8.6 billion.

Moreover, the Real Estate business has large unrealized gains due to holding premium property in an area with high marked prices for real estate. (See page 60 Note 19 Real Estate for lease)

Existing Properties

We worked quickly to restore Group-owned existing properties and facilities in the aftermath of the March 2011 earthquake. As a result, we maintained high occupancy rates in our main Tokyo area buildings, including Yebisu Garden Place.

Real Estate Development

In June 2011, we opened a new wing at the PAL Urayasu fitness club in Urayasu City, Chiba Prefecture. The new wing was well received by the club's clientele.

New Income-Generating Property Acquisitions

The Storia Shirokanedai rental apartment building newly acquired in February 2011 contributed to segment earnings. The building is located in Tokyo's Minato district.

Growth Strategy for the Real Estate Business

The Real Estate business is a source of stable earnings for the Group alongside the Japanese Alcoholic Beverages business. It generates cash flow that contributes to Group growth.

Management Plan 2012–2013 Key Points

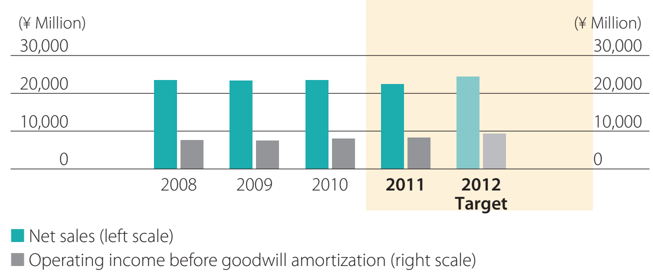
- In 2012, Yebisu Garden Place Co., Ltd. changed its name to Sapporo Real Estate Co., Ltd. as part of a plan to raise the value of the Sapporo brand, and to strengthen Group synergies.
- Having acquired 100% ownership of Yebisu Garden Place in March 2012, we will work to maintain and improve occupancy rates and achieve appropriate rent levels. We will also proceed with renovation of the shop and restaurant facilities for the 20th anniversary of the complex in 2014.
- We will embark on measures to boost future earnings. Specifically, we will examine options for redeveloping prime Group-owned properties in Tokyo's Ginza "Sapporo GInza Building" and Ebisu districts "Seiwa Yebisu Building" to enhance their value.

From April 2008 to February 2012 the Sapporo Group held an 85% stake in Yebisu Garden Palace.

Strengthening the Group's Business Foundations | Solidifying the Growth Trajectory

¥ Million

	2008	2009	2010	**2011**	**2012 Target**	**2013 Target**
Net sales	23,452	23,267	23,537	**22,468**	**24,400**	**24,000**
Operating income	7,612	7,524	7,986	**8,553**	**9,300**	**8,600***
Operating income before goodwill amortization	7,612	7,524	7,986	**8,553**	**9,300**	–



*Impact of redeveloping the Seiwa Yebisu Building

TAKAO MURAKAMI
Chairman and Representative Director

HIROSHI TANAKA
Outside Director

In this section, we present a dialogue between Mr. Takao Murakami, Chairman of the Board, and Mr. Hiroshi Tanaka, an outside director, on corporate governance at Sapporo Holdings. We hope that readers will find this frank exchange of opinions helpful to understanding how the Sapporo Group approaches corporate governance.

Transparency and Accountability—Crucial to Corporate Governance

MURAKAMI: Overseas investors have told me at several meetings that Sapporo provides considerable disclosure in English, and that this disclosure was very helpful in understanding the company. We strive to provide real-time disclosure in English, as we believe that this is crucial given the importance of not misleading investors. Mr. Tanaka, you worked in the U.S. for some time. How did you find things over there?

TANAKA: In the mid-1980s, I worked in the fields of corporate law and in-and-out technology licensing at a U.S. law firm. At the time, people were starting to talk about transparency and accountability in the U.S. These topics finally started to gain currency in Japan about 10 years later. Today they are a matter of course. However, one might ask how much explanation a company must provide to fulfill its accountability to stakeholders, and how far it must go to ensure transparency. I believe that the specific answers will vary from company to company on a case-by-case basis. Companies must enforce compliance with not necessarily just laws and regulations, but social norms as well. Companies must also fulfill their accountability to stakeholders by proactively disclosing information.

MURAKAMI: Explaining things after an incident has occurred is inevitably perceived as making excuses. If we provide proactive disclosure, we are able to explain the events leading up to an incident as well as what kinds of measures to prevent a recurrence should be taken, on our own terms.

TANAKA: Personnel directly involved in business execution have an unavoidable tendency to let down their guard. However, the outside directors and the Chairman of the Board can see things from a different perspective because of their position. Therefore, the outside directors and the chairman bear tremendous responsibility for ensuring accountability and transparency.

MURAKAMI: In regard to how much information must be disclosed, I believe that basically all information must be made public. I have always worked in the food business, where incidents can have a direct bearing on people's health and safety. I believe that the most important principle is to investigate the cause of an incident as quickly as possible and rapidly convey the facts to the public.

Another issue is management's approach, so to speak. It is important to practice discipline as a corporation and an organization rather than simply increasing the number of outside directors.

TANAKA: When corporate misconduct occurs at another company, it's important to take an interest and consider whether something similar could happen at one's own company, rather than just dismissing it outright as an incident that happened because a company is unusual in some respects. I have heard that at some companies, no questions or opinions are expressed at meetings of the Board of Directors. I suspect that these types of practices gradually increase until finally an impermissible line is crossed that leads to a clear breach of law. In this sense, I believe that it is crucial to ensure that the Board of Directors functions properly.

Directors who execute business operations must sometimes make difficult decisions on matters that approach the limits of what is permissible, in the hope of generating profits and contributing to shareholders and all other stakeholders. In such situations, I believe that outside directors will be called upon to determine how such a decision will stand up against social norms. Although everyone must uphold social norms, outside directors are there to see things from a different position and perspective.

MURAKAMI: Since I was formerly appointed president of Sapporo Holdings, I have appointed three outside directors—one new outside director every year. I wanted individuals with leadership experience as president of companies in different industries to join the Sapporo Group's management. It was very difficult to get outside directors with such leadership experience to join the management team, while giving consideration to independence. Ultimately, however, I feel extremely fortunate that we were able to attract outside directors who have made decisions as the presidents of companies in fields different than those of Sapporo Holdings, including financial services firms and chemical manufacturers.

TANAKA: Another issue is that if you try to do everything internally within the company, you inevitably end up with just a circle of friendly insiders, because everyone has been working for decades within the same organization.

MURAKAMI: Even if you have no intention of creating a circle of such insiders, everyone will essentially form their perceptions on a similar basis. Because they have always worked in the same environment, anybody's proposal can be approved with almost no scrutiny. However, the perspectives of outside directors are entirely different when each of them comes from different industries. Previously, we received an extremely important observation from an experienced outside director as we were feverishly considering a new business plan. This reminded me of the immense importance of receiving opinions from people with different experiences than our own. We expect much more from our outside directors than merely keeping a watchful eye out for misconduct.

TANAKA: Given my experience at a manufacturer, I can appreciate the tendency to get ahead of ourselves when trying something new with only internal personnel. That is why I believe that it is crucial for outside directors like me to provide advice on how to successfully implement new initiatives.

MURAKAMI: The atmosphere within Sapporo Holdings must be different to that of when you were president of Kureha Corporation. What do you think?

TANAKA: Both companies have unique corporate cultures. That said, one common issue is whether actions taken solely on a standalone basis will lead to the future development of each company. Currently, given that what the domestic market offers is unlikely to grow much, the Sapporo Group is trying to expand into new businesses, rather than merely relying on existing businesses. While the Board of Directors is of course concerned with achieving short-term earnings targets and other issues, it is also important that they devise strategies for generating medium- and long-term profits. In this context, we find that new ideas emerge when external perspectives are brought in. Outside directors must also remind themselves on a daily basis of the judgments and values that they will bring to bear when called upon to make extremely difficult decisions in urgent situations.

Four More Years Until 2016, the Final Target Year of the New Management Framework

MURAKAMI: When we formulated the New Management Framework in 2007, we were told by some people that while the plan might be outstanding, planning for 2016—9 years ahead at the time—was like building castles in the clouds. However, my real intention was to change the thinking of management. I believed that a management plan that simply builds upon existing business would be inadequate at a time when the world was demanding action. So why not set ambitious goals for the future and what we should basically set out to achieve? Then we could dramatically change our thinking by asking ourselves what we must do in each year, such as in 2015 and this year, in order to realize our vision for 2016. Our drive to globalize operations and grow in areas other than existing businesses was developed as a result of this approach.

TANAKA: One of the first topics we discussed when I joined Sapporo Holdings as an outside director was the New Management Framework. Ever since, we have worked together to discuss specific topics, notably whether changes to the sales composition and cost structure were being properly implemented.

MURAKAMI: Presidents are fully absorbed in what is happening with their current businesses and what they should do with them in the future. The entire organization orients itself to the president. Since my appointment as chairman, I have made a point of providing advice to the president from an objective standpoint and from a different perspective, to ensure that he does not make any poor judgments at such a crucial time.

TANAKA: Meanwhile, the roles of outside directors are to bring in an external perspective. This allows decisions to be made bringing both perspectives to bear. Unless both perspectives are discussed thoroughly, we will end up looking back and wondering why we made such decisions.

Expectations of an Outside Director for the Future Sapporo Group

TANAKA: I believe that achieving the New Management Framework targeted for 2016 is a key priority. So far, I have participated in four sessions of the annual general meeting of shareholders. From these meetings, I have the impression that shareholders and customers are one and the same at Sapporo. We have received strong support from our shareholders. Although that enthusiasm sometimes generates critical opinions, I believe that the underlying message is that everyone wants Sapporo to do its very best. We have a duty to respond to such expectations.

MURAKAMI: I feel exactly the same way.

TANAKA: Sapporo's management team has undergone many different experiences in the course of leading the company forward. Through all this, I believe that the management team has carried out its duties with accountability and transparency. Through experience, Sapporo has greatly enhanced its ability to ensure transparency and accountability, and must continue to ensure them going forward.

Moreover, corporations obviously have a primary duty to generate profits, while providing returns and contributing to shareholders and other stakeholders. The Board of Directors is a strategic decision-making body for fulfilling this duty. Recently, corporate social responsibility (CSR) has attracted considerable attention and corporate governance has become a major issue. I believe that outside directors within the Board of Directors have a pivotal role to play in implementing 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 the meetings of the Board of Directors held in 2011.

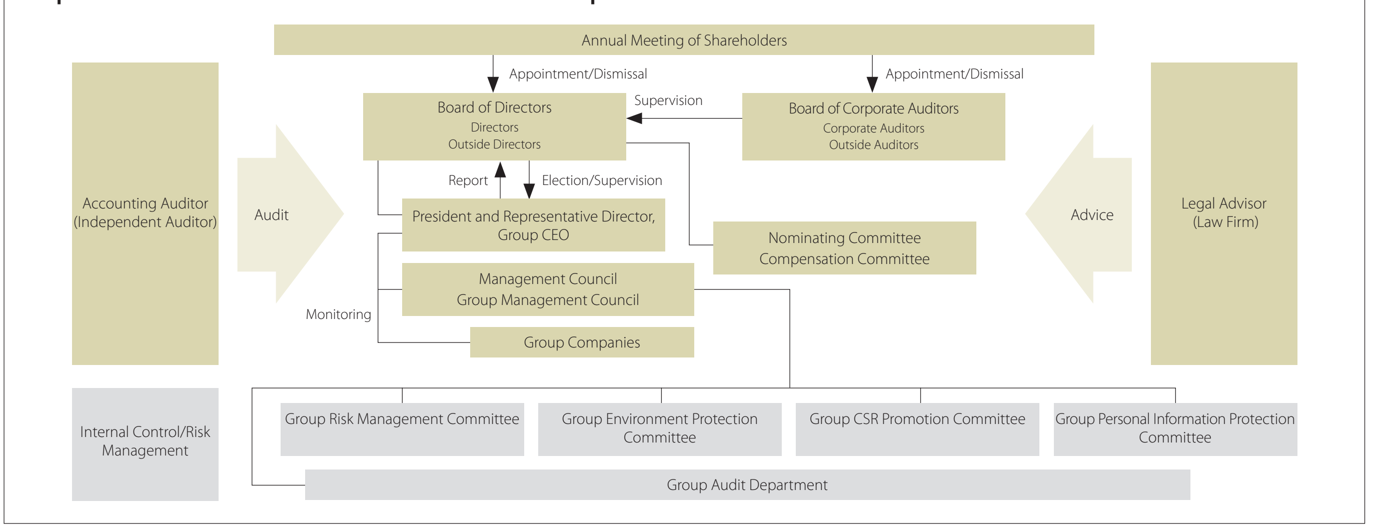
President and Representative Director and Group CEO, Group Operating Officers

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.

Corporate Functions and Internal Control Relationships



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 expected to audit the duties executed by the directors from an objective and neutral standpoint. At the meetings of the Board of Directors held in 2011, 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 2011, nor were any retirement benefits, stock options or other non-cash remuneration.

Compensations amounts in 2011 were as follows.

Executive classification	Total amount of compensation (¥ Million)	Total compensation by type (¥ Million)			Number of eligible directors and corporate auditors
		Base salary	Bonuses	Retirement benefits	
Directors (Excluding outside directors)	133	133	–	–	7
Outside directors	21	21	–	–	3
Corporate auditors (Excluding outside corporate auditors)	29	29	–	–	3
Outside corporate auditors	9	9	–	–	2
Total	193	193	–	–	15

Notes:

1. Compensation of ¥107 million was paid by consolidated subsidiaries to 4 directors (excluding outside directors), separately from the base salary for directors shown in the above table. The base salary for directors was not paid to 3 of these 4 directors.
2. Salary of ¥6 million was paid to 1 director (excluding outside directors), separately from the base salary for directors shown in the above table. This amount corresponds to the portion of salary for key personnel paid to this individual, who concurrently serves as key personnel and director.
3. The total number of corporate auditors (excluding outside corporate auditors) was 2 as of the end of the fiscal year under review. However, the total amount of compensation, total compensation by type, and the number of eligible directors and corporate auditors include 1 corporate auditor who retired at the 87th Annual Meeting of Shareholders held on March 30, 2011.
4. Compensation of ¥9 million was paid to 1 corporate auditor (excluding outside corporate auditors) by a consolidated subsidiary where the corporate auditor concurrently serves as a full-time corporate auditor, separately from the base salary for corporate auditors shown in the above table.
5. Remuneration limits have been established by resolution of the 83rd Annual Meeting of Shareholders held on March 29, 2007. The remuneration limits are ¥240 million for directors (however, excluding compensation from consolidated subsidiaries, the portion of salary paid as salary for key personnel and so forth), and ¥84 million for corporate auditors.
6. The Company abolished its retirement bonus plan for directors and corporate auditors at the close of the 80th Annual Meeting of Shareholders held on March 30, 2004. Since then, the Company has stopped providing for these bonuses. Of the directors who were in office at the time of this annual meeting of shareholders, Mr. Hiroaki Eto was the only director who has remained in office through March 2012. Mr. Eto retired at the end of his term at the close of the 88th Annual Meeting of Shareholders held on March 29, 2012. Accordingly, the Company paid Mr. Eto a retirement bonus of ¥1 million, which was equivalent to the amount of the reserve in existence at the time of his retirement.
7. The Company does not provide non-cash remuneration, such as stock options.

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

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	Member of the Board of Sapporo Breweries Ltd. Director and Executive Managing Officer 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)

3. HIDENORI TANAKA (April 16, 1955)
Managing 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
March 2012	Member of the Board Managing Director of the Company (up to the present)

4. 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)

5. 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)

6. 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
September 2011	Member of the Board Director of Corporate Planning Department of the Company
March 2012	President and Representative Director of Sapporo Real Estate Co., Ltd. Member of the Board Director of the Company (up to the present)

7. TATSUJI MORIMOTO (December 10, 1959)
Director

April 1983	Joined the Company
September 1999	Director of Production & Technology Department, Shin-Kyushu Brewery of the Company
July 2003	Top Support Group Leader of Corporate Planning Department, Management Strategy Headquarters, of Sapporo Breweries Limited
March 2006	President of Sapporo Wines Limited
March 2009	Operating Officer and Director of Shizuoka Brewery, of Sapporo Breweries Limited
March 2012	Member of the Board Director of Corporate Planning Department of the Company (up to the present)

8. 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	Member of the Board Director of Corporate Strategic Division of Kureha Corporation
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)

9. SHIGEHIKO HATTORI (August 21, 1941)
Director

April 1964	Joined Shimadzu Corporation
June 1989	President of Shimadzu Scientific Instruments, Inc. (seconded to the United States of America)
June 1993	Member of the Board Director of Shimadzu Corporation (seconded to the United States of America)
June 1997	Member of the Board Managing Director of Shimadzu Corporation
June 2003	President and CEO of Shimadzu Corporation
June 2009	Chairman of the Board of Shimadzu Corporation
March 2012	Member of the Board Director of the Company (up to the present)

10. TERUHIKO IKEDA (December 5, 1946)
Director

April 1969	Joined The Fuji Bank, Ltd. (currently Mizuho Financial Group, Inc.)
June 1996	General Manager of Branch Department of The Fuji Bank, Ltd.
April 1998	Member of the Board Managing Director of The Fuji Bank, Ltd.
May 2001	Member of the Board Senior Managing Director of The Fuji Bank, Ltd.
April 2002	Deputy President of Mizuho Corporate Bank, Ltd.
June 2004	President and Chief Executive Officer of Mizuho Trust & Banking Co., Ltd.
June 2008	Chairman of Mizuho Trust & Banking Co., Ltd.
June 2010	Advisor of Mizuho Trust & Banking Co., Ltd.
March 2012	Member of the Board Director of the Company (up to the present)

Board of Corporate Auditors

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)

KEIJI IIDA (July 20, 1954)
Corporate Auditor

March 1977	Joined Pokka Lemon Co., Ltd. (Currently POKKA Corporation)
April 2003	Operating Officer and General Manager of Corporate Strategic Division of POKKA Corporation
April 2005	Operating Officer and General Manager of Procurement Group of POKKA Corporation
January 2006	Operating Officer and General Manager of Corporate Strategic Department of POKKA Corporation
April 2008	Operating Officer and General Manager of Corporate Strategic Division of POKKA Corporation
June 2011	Director and General Manager of Corporate Strategic Division of POKKA Corporation (Member of the Board)
March 2012	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)

JUNYA SATO (May 4, 1953)
Corporate Auditor

April 1982	Registered as a lawyer (Daiichi Tokyo Bar Association) Joined the Law Offices of Furness, Sato & Ishizawa (Currently Law Offices of Ishizawa, Ko & Sato) (up to the present)
October 1990	Registered as a lawyer (New York State Bar Association)
April 2011	Vice Chairman of Daiichi Tokyo Bar Association
March 2012	Corporate Auditor of the Company (up to the present)

Notes: 1. Mr. Hiroshi Tanaka, Mr. Shigehiko Hattori and Mr. Teruhiko Ikeda are outside directors.
2. Mr. Isao Takehara and Mr. Junya Sato are outside corporate auditors.

FIVE-YEAR SUMMARY

(YEARS ENDED DECEMBER 31)

	Millions of yen				
	2011	2010	2009	2008	2007
Net sales	**¥454,100**	¥389,245	¥387,534	¥414,558	¥449,011
Japanese Alcoholic Beverages	**268,189**	279,329	282,914	299,699	315,893
International Alcoholic Beverages	**25,888**	25,386	22,582	25,021	27,777
Soft Drinks	**36,857**	33,938	30,746	36,849	52,239
POKKA	**75,850**	–	–	–	–
Restaurants	**24,091**	26,429	28,026	29,538	28,954
Real Estate	**22,468**	23,537	23,267	23,452	24,148
Other	**755**	625	–	–	–
Operating cost and expenses	**435,216**	373,842	374,638	399,873	436,649
Operating income	**18,884**	15,403	12,896	14,685	12,363
Income before income taxes and minority interests	**5,841**	17,762	8,874	17,970	221
Net income	**3,165**	10,773	4,535	7,640	5,509
	Yen				
Per share:					
Net income:					
Primary	**¥ 8.08**	¥ 27.50	¥ 11.57	¥ 19.49	¥ 14.10
Diluted	*	26.44	11.05	18.89	13.76
Net assets	**314.87**	319.32	302.16	297.60	319.07
Cash dividends	**7.00**	7.00	7.00	7.00	5.00
	Millions of yen				
Year-end data:					
Net assets	**¥124,775**	¥126,645	¥118,591	¥116,862	¥125,189
Total assets	**550,784**	494,798	506,875	527,287	561,859
Financial liabilities	**219,168**	181,335	196,794	189,252	212,464
ROE (%)	**2.5**	8.9	3.9	6.3	4.6
Increase in property, plant and equipment and intangible fixed assets	**20,672**	22,571	23,485	29,378	19,548
Depreciation and amortization	**24,482**	22,504	22,547	21,605	24,527

* Information concerning diluted net income per share is omitted because there were no latent shares with dilutive effect in the year ended December 31, 2011.

Sapporo Holdings Limited and the Sapporo Group

The Group began implementing its Medium-Term Management Plan 2011–2012, under which the plan's two-year period is envisioned as a period for firmly setting the Group on a growth trajectory. Efforts centered on the plan's three core strategies: 1) *growth in new areas*, 2) *growth in all businesses*, and 3) bolster *management capabilities that underpin growth*. This plan is based on the Sapporo Group's New Management Framework unveiled in 2007.

Prominent among measures taken to achieve "growth in new areas" was turning the POKKA Group into a consolidated subsidiary in March 2011 and the continued efforts to integrate its operations with the rest of the Sapporo Group. In addition, we completed construction of a brewery in Vietnam and started producing and selling Sapporo brand beer locally. We also laid foundations for future growth by starting up sales via new strategic alliances. In the Oceania market, the Australian beer maker Coopers Brewery began brewing and selling Sapporo's premium brand beer. In Japan, meanwhile, we teamed up with the leading South Korean food manufacturer, CJ CheilJedang Corporation, to launch sales of makgeolli, a milky, sweet alcoholic beverage made from rice. We also formed an alliance with BACARDI JAPAN LIMITED to distribute that company's spirits in Japan.

The strategy of achieving "growth in all businesses" is focused on leveraging the brand strength and enterprise resources of our many businesses to build unique competitive advantages.

Meanwhile, efforts at "bolster management capabilities that underpin growth" included dividing up Sapporo Holding's group headquarter functions and transferring to Sapporo Group Management Co., Ltd., functions requiring a high degree of specialization and functions common to all of our operating companies.

In terms of the scope of consolidation, the Company had 55 consolidated subsidiaries and 8 equity-method affiliates in the year ended December 31, 2011.

Operational Overview

In 2011, the Japanese economy showed signs of a moderate recovery in business conditions in the early part of the year, but the Great East Japan Earthquake and tsunami disaster struck on March 11 and subsequent electricity shortages dealt a heavy blow to the economy, resulting in a sharp slowdown. Thereafter, consumer spending showed some improvement as recovery efforts began, but the European debt crisis, continued yen appreciation and other adverse factors continue to cloud the outlook for a full-fledged economic recovery.

The industries in which the Sapporo Group operates were variously affected by the adverse external environment. The alcoholic beverage and restaurant industries both saw profits drop sharply on weak consumer spending and the direct impact of the post-disaster environment. On the other hand, the soft drinks industry saw demand rise on special post-disaster demand and favorable weather conditions in October and November. In the real estate industry, vacancy rates flattened out in the Greater Tokyo office leasing market, but rents remained on a moderate downward slope.

Consolidated Operating Results

Net Sales

Net sales increased ¥64,855 million, or 16.7%, year on year, to ¥454,100 million.

By business segment, Japanese Alcoholic Beverages saw a 4.0% year-on-year decline in net sales to ¥268,189 million. This mainly reflected a decline in unit sales of beer and beer-type beverages due to the direct impact of the Great East Japan Earthquake, although the nonalcoholic beer category posted sales far higher than initially forecast.

International Alcoholic Beverages saw a 2.0% year-on-year increase in net sales to ¥25,888 million. This mainly reflected a strong sales performance in North America, resulting in sales growth on a local currency basis. However, this growth was partly offset by the yen's appreciation.

The Soft Drinks segment saw a 8.6% year-on-year increase in net sales to ¥36,857 million. The higher sales were partly the result of a successful marketing strategy launched at the start of 2011.

The POKKA Group's results were included in the consolidated income statement from April 1, 2011. The POKKA Group posted sales of ¥75,850 million (no year-on-year comparison is available) on steady performances by its Domestic Beverage & Foods business and Restaurants business.

The Restaurants segment recorded a 8.8% year-on-year decrease in net sales to ¥24,091 million. This was mainly due to the impact of the earthquake and the closure of unprofitable restaurants.

The Real Estate segment posted a 4.5% year-on-year decrease in net sales to ¥22,468 million, as rent levels in the office leasing market in the Tokyo Metropolitan Area continued to decrease.

Cost of Sales

Cost of sales increased ¥25,467 million, or 9.8%, year on year to ¥286,679 million.

The cost of sales ratio decreased 4.0 percentage points to 63.1%.

This was mainly because raw ingredient, materials costs and fixed manufacturing costs decreased in the Japanese Alcoholic Beverages business and the Soft Drinks business.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥35,908 million, or 31.9%, year on year to ¥148,537 million. This mainly reflected the impact of the inclusion of the POKKA Group's results in the consolidated income statement from April 2011.

Operating Income

Operating income increased ¥3,481 million, or 22.6%, year on year to ¥18,884 million.

The Japanese Alcoholic Beverages business achieved operating income growth, as the nonalcoholic beer category posted sales far higher than initially forecast, along with a reduction in selling and equipment expenses. This was despite lower unit sales of beer and beer-type beverages, partly due to the impact of the Great East Japan Earthquake. The International Alcoholic

Beverages business posted lower operating income due to the impact of the strong yen and upfront investment in Vietnam, despite higher sales in North America supported by a steady performance. The Soft Drinks business saw operating income decline, despite higher unit sales, due to deterioration in the product mix and an increase in the amortization of goodwill. The POKKA Group contributed to earnings growth by focusing investment on core brands in the Domestic Beverage & Foods business and capturing synergies with Sapporo Beverage Co., Ltd.

The Restaurants business achieved operating income growth thanks to the closure of unprofitable restaurants and cost reductions, although it was directly impacted by the Great East Japan Earthquake. The Real Estate business maintained a stable earnings structure and achieved income growth despite a continuing decline in rent levels in the office leasing market in the Tokyo Metropolitan Area.

Other Income (Expenses)

Other expenses were ¥13,043 million, compared with other income of ¥2,359 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 ¥2,618 million in fiscal 2011. Net financial expenses increased slightly from the previous year due to an increase in financial liabilities, despite a lower interest rate for raising funds.

Equity in income of affiliates was ¥33 million, down 94.6% from the previous year. This mainly reflected a year-on-year decline in equity in income of affiliates due to the conversion of POKKA CORPORATION into a consolidated subsidiary.

The Company recorded a loss on disposal of property, plant and equipment of ¥998 million. This primarily reflected the refurbishment and replacement of beer production equipment.

The Company booked a loss on impairment of property, plant and equipment of ¥1,670 million. The main reasons were a decline in the market value of unutilized real estate, the closure of unprofitable locations in the Restaurants business, and write-downs of leases and other assets in the Foods business.

The application of new accounting standards for asset retirement obligations had a negative impact of ¥1,085 million. This mainly reflected obligations to restore plants, distribution facilities and restaurant facilities to their original state in accordance with real estate leasing agreements.

Disaster-related losses caused by the Great East Japan Earthquake were ¥5,431 million, mainly reflecting the loss of inventories and property, plant and equipment, fixed costs incurred while operations were suspended and the cost of restoring facilities and other assets to their original state.

Income Before Income Taxes and Minority Interests

As a result of the aforementioned and other factors, income before income taxes and minority interests decreased ¥11,922 million to ¥5,841 million.

Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥2,798 million.

Income taxes accounted for 47.9% 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 decreased ¥7,608 million, or 70.6%, year on year to ¥3,165 million.

Segment Information

	Millions of Yen			
	Net Sales	Operating Income	Depreciation and Amortization	Increase in Property, Plant and Equipment, and Intangible Fixed Assets
Japanese Alcoholic Beverages	¥268,189	¥9,305	¥13,248	¥5,181
International Alcoholic Beverages	25,888	378	1,053	4,364
Soft Drinks	36,857	757	807	1,352
POKKA Group	75,850	2,934	4,248	4,273
Restaurants	24,091	219	573	516
Real Estate	22,468	8,553	4,415	4,966

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, and loans, primarily from financial institutions.

Assets

Total assets at December 31, 2011 stood at ¥550,784 million, up ¥55,986 million, or 11.3%, from a year ago.

The increase mainly reflected the inclusion of the POKKA Group in the Company's scope of consolidation, and an increase in goodwill following the acquisition of shares of Sapporo Beverage Co., Ltd.

Liabilities

Financial liabilities increased ¥37,833 million to ¥219,168 million.

This mainly reflected the inclusion of the POKKA Group in the Company's scope of consolidation and the issuance of commercial paper.

Total liabilities increased ¥57,856 million, or 15.7%, to ¥426,009 million.

Net Assets

Retained earnings increased ¥424 million to ¥28,741 million.

The balance of foreign currency translation adjustments at the fiscal year-end decreased ¥1,174 million, to a deficit of ¥6,433 million.

This mainly reflected stronger exchange rates for the yen at foreign subsidiaries on December 31, 2011, compared with the previous fiscal year-end.

As a result, net assets decreased ¥1,870 million from a year earlier to ¥124,775 million.

Cash Flows

Consolidated cash and cash equivalents as of December 31, 2011 were ¥9,058 million, a decrease of ¥4,212 million, or 31.7%, 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 ¥22,313 million, ¥5,118 million, or 18.7%, lower than in the previous fiscal year.

The main contributors were income before income taxes and minority interests of ¥5,841 million and depreciation and amortization of ¥24,482 million. These were partially offset by a ¥4,705 million increase in notes and accounts receivable, a ¥4,130 million decrease in deposits received, a ¥1,676 million decrease in liquor taxes payable, a ¥1,580 million increase in inventories and other factors.

Cash Flows From Investing Activities

Investing activities used net cash of ¥50,892 million, an increase of ¥48,297 million from the net cash used in the previous fiscal year.

This change mainly reflected payments of ¥18,663 million to acquire shares of a subsidiary in line with a change in the scope of consolidation, ¥16,142 million for the purchase of affiliates' securities, and ¥11,608 million for purchases of property, plant and equipment.

Cash Flows From Financing Activities

Financing activities provided net cash of ¥24,245 million, a change of ¥42,365 million from the net cash used in the previous fiscal year.

This change mainly reflected proceeds of ¥13,000 million from a net increase in commercial paper, ¥13,194 million from a net increase in short-term bank loans, ¥38,613 million from long-term debt and ¥9,960 million from the issuance of bonds. These were partially offset by a ¥24,927 million repayment of long-term debt and a payment of ¥20,000 million for redemption of bonds.

Cautionary Statement

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.

Management Indicators

The current ratio decreased 5.0 percentage points from 65.7% to 60.7%. This was the combined result of a ¥19,281 million increase in total current assets and a ¥45,546 million increase in current liabilities, which mainly reflected the inclusion of POKKA Group in the scope of consolidation.

The equity ratio decreased from 25.3% a year earlier to 22.4%, mainly reflecting a decrease in foreign currency translation adjustments as well as an increase of ¥55,986 million in total assets.

Return on equity (ROE) decreased from 8.9% to 2.5%, due to the year-on-year decrease in net income.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, increased from 1.4 to 1.8 in line with the increase in financial liabilities.

Outlook For 2012

In accordance with the Sapporo Group Management Plan 2012–2013, a rolling two-year plan, the Group will focus on three fundamental strategies: (1) Creating new opportunities for growth, (2) Challenge toward growth in all businesses, and (3) Carrying out growth measures. We regard the next two years as a period for starting up a new management structure that will place the Sapporo Group firmly on a robust growth trajectory and enable us to further raise our corporate value.

Consequently, the Company is forecasting consolidated net sales of ¥510,000 million, (up 12.3% year on year), operating income of ¥20,000 million (up 5.9% year on year), and net income of ¥6,300 million (up 99.1% year on year). Please see pages 16 to 23, Management Plan 2012–2013 Key Points for details on targets for sales and operating income by segment, and strategies. The main factor behind the net income variance is the absence of losses stemming from the application of revised accounting standards relating to asset retirement obligations, lower extraordinary losses related to earthquake damages, and an increase in corporate taxes owing to a rise in income before income taxes and minority interests.

For 2012, the Company plans to maintain annual dividends of ¥7 per share by steadily executing the Sapporo Group Management Plan, while also making strategic investments and strengthening its financial foundation.

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, 2011.

High Dependency on Specific Business Areas

In 2011, Japanese Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 59% 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, an overseas subsidiary of the POKKA Group conducts business activities centered on the Beverage & Restaurants business. In Vietnam, the Sapporo Group has commenced sales of locally produced beer on a full scale after completing construction of the Long An Brewery.

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.

Raw Material and Supply Prices

Prices of certain raw materials and supplies are subject to fluctuations in market conditions. A sharp increase in these prices could push up the cost of sales, which may in turn adversely affect operating results.

Capital Investment Plans

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

Leaks of Customer Information

In the event of the leak of personal information and other related issues resulting from an unforeseen intrusion of a computer virus, unauthorized access to information or other incident, the Sapporo Group could face claims for damages and suffer a decline in its trustworthiness. This could have a negative impact on operating results by increasing costs and reducing earnings.

Credit Risk of Customers

The collection of receivables may be hindered by such factors as an unforeseen bankruptcy of customers or investees. This could have a negative impact on the Group's 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.

Risk of Natural Disasters

The Sapporo Group could sustain damage as a result of a large-scale natural disaster or a secondary disaster. This could have a negative impact on the Group's operating results such as by disrupting the supply of products.

Financial Liabilities

The Sapporo Group raises a significant portion of the funds it requires for various businesses through the issuance of corporate bonds and borrowings from financial institutions. Accordingly, the Group has a high balance of financial liabilities relative to total assets. Moreover, the Group's financial liabilities may increase further as a result of large-scale investments accompanying the execution of its growth strategy. In the event of an increase in market interest rates, or a downgrading of the Company's ratings by ratings agencies, the Group's interest expenses could increase or fund raising conditions could deteriorate. This could have a negative impact on the Group's 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.

Business and Capital Alliances

The Sapporo Group is promoting business and capital alliances with other companies worldwide as part of efforts to increase its competitiveness, with a view to achieving growth in line with the Sapporo Group Medium-Term Management Plan. However, the Group may not achieve results as initially anticipated, depending on market conditions, changes in the business environment and other factors. In certain situations, the Sapporo Group's operating results and financial position may be negatively affected in the event of deterioration in the business operations, assets and other aspects of an alliance partner or investee. In addition, the Sapporo Group may record the amortization of large amounts of goodwill in line with investments, or may record an impairment loss on goodwill and other assets due to deterioration in the business results of investees. These factors could have a negative impact on 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, 2011 AND 2010)

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2011**	2010	**2011**
Current assets:			
Cash and cash equivalents	**¥ 9,058**	¥ 13,270	**$ 116,530**
Time deposits	**147**	120	**1,892**
Notes and accounts receivable—trade	**79,340**	61,353	**1,020,717**
Marketable securities (Note 12)	**–**	2	**–**
Inventories (Note 5)	**28,354**	22,169	**364,776**
Allowance for doubtful receivables	**(387)**	(161)	**(4,977)**
Deferred tax assets (Note 17)	**4,539**	2,811	**58,398**
Other current assets	**7,966**	10,173	**102,488**
Total current assets	**129,018**	109,737	**1,659,824**
Investments and long-term loans:			
Investment securities (Notes 12 and 14):			
Unconsolidated subsidiaries and affiliates	**3,418**	10,437	**43,979**
Other	**27,790**	27,591	**357,521**
Long-term loans receivable	**10,143**	10,396	**130,486**
Allowance for doubtful receivables	**(1,412)**	(1,595)	**(18,160)**
Deferred tax assets (Note 17)	**2,203**	2,649	**28,344**
Other investments	**16,251**	14,494	**209,074**
	58,394	63,972	**751,243**
Property, plant and equipment (Notes 6 and 14):			
Land	**83,826**	77,584	**1,078,428**
Buildings and structures	**376,201**	357,770	**4,839,840**
Accumulated depreciation	**(201,765)**	(185,485)	**(2,595,716)**
Machinery and vehicles	**203,307**	180,519	**2,615,554**
Accumulated depreciation	**(163,081)**	(142,521)	**(2,098,039)**
Lease assets	**19,151**	–	**246,375**
Accumulated depreciation	**(9,071)**	–	**(116,700)**
Construction in progress	**2,059**	3,564	**26,487**
Other	**20,149**	20,400	**259,223**
Accumulated depreciation	**(16,397)**	(15,201)	**(210,947)**
Property, plant and equipment, net	**314,379**	296,629	**4,044,506**
Intangibles:			
Goodwill	**40,148**	14,128	**516,506**
Other	**8,845**	10,332	**113,786**
	48,993	24,460	**630,291**
	¥ 550,784	¥ 494,798	**$ 7,085,864**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2011**	2010	**2011**
Current liabilities:			
Short-term bank loans (Note 14)	**¥ 26,434**	¥ 4,177	**$ 340,068**
Current portion of bonds (Note 14)	**10,000**	20,000	**128,650**
Current portion of long-term debt (Note 14)	**30,937**	23,912	**398,003**
Current portion of lease obligations	**3,899**	–	**50,162**
Notes and accounts payable—trade	**32,355**	24,348	**416,245**
Liquor taxes payable	**32,535**	34,253	**418,568**
Income taxes payable (Note 17)	**2,986**	1,819	**38,412**
Accrued bonuses (Note 2 (k))	**2,118**	2,056	**27,253**
Deposits received	**15,302**	19,218	**196,860**
Other current liabilities	**56,024**	37,260	**720,756**
Total current liabilities	**212,590**	167,043	**2,734,978**
Bonds (Note 14)	**32,000**	35,843	**411,681**
Long-term debt (Note 14)	**106,798**	97,402	**1,373,962**
Lease obligations	**7,715**	–	**99,258**
Dealers' deposits for guarantees	**32,624**	31,936	**419,703**
Employees' retirement benefits (Note 15)	**7,452**	7,191	**95,871**
Directors' and corporate auditors' severance benefits	**53**	42	**685**
Deferred tax liabilities (Note 17)	**12,187**	13,455	**156,784**
Other long-term liabilities	**14,590**	15,240	**187,700**
Contingent liabilities (Note 9)			
Total liabilities	**426,009**	368,153	**5,480,622**
Net assets			
Shareholders' equity:			
Common stock (Note 22):			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2011 393,971,493 shares	**53,887**	–	**693,254**
— at December 31, 2010 393,971,493 shares	**–**	53,887	**–**
Capital surplus	**46,311**	46,316	**595,790**
Retained earnings (Note 7)	**28,741**	28,317	**369,755**
Treasury stock, at cost	**(1,197)**	(1,190)	**(15,405)**
Total shareholders' equity	**127,741**	127,329	**1,643,394**
Accumulated other comprehensive income (Note 4)**:**			
Unrealized holding gain on securities	**1,993**	2,985	**25,644**
Deferred hedge gains	**(8)**	(8)	**(106)**
Foreign currency translation adjustments	**(6,433)**	(5,259)	**(82,760)**
Total accumulated other comprehensive income (Note 4)	**(4,448)**	(2,281)	**(57,222)**
Minority Interests	**1,482**	1,598	**19,070**
Total net assets	**124,775**	126,645	**1,605,242**
	¥550,784	¥494,798	**$7,085,864**

CONSOLIDATED STATEMENTS OF INCOME

(THREE YEARS ENDED DECEMBER 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Net sales	**¥454,100**	¥389,245	¥387,534	**$5,842,016**
Operating cost and expenses:				
Cost of sales	**286,679**	261,212	267,690	**3,688,135**
Selling, general and administrative expenses	**148,537**	112,630	106,948	**1,910,939**
Operating income	**18,884**	15,403	12,896	**242,942**
Other income (expenses):				
Interest and dividend income	**940**	1,058	936	**12,088**
Interest expense	**(3,558)**	(3,647)	(3,623)	**(45,772)**
Other, net (Notes 6 and 8)	**(10,425)**	4,948	(1,334)	**(134,119)**
	(13,043)	2,359	(4,022)	**(167,803)**
Income before income taxes and minority interests	**5,841**	17,762	8,874	**75,139**
Income taxes (Note 17)**:**				
Current	**4,115**	3,171	913	**52,933**
Deferred	**(1,316)**	3,823	3,437	**(16,932)**
	2,798	6,994	4,350	**36,001**
Minority interests	**123**	4	11	**1,579**
Net income (Note 22)	**¥ 3,165**	¥ 10,773	¥ 4,535	**$ 40,718**

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

*CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 4)

(YEAR ENDED DECEMBER 31, 2011)

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	**2011**
Income before minority interests	**¥ 3,042**	**$ 39,138**
Other comprehensive income:		
Unrealized holding gain on securities	**(960)**	**(12,348)**
Deferred hedge losses	**(0)**	**(3)**
Foreign currency translation adjustments	**(1,140)**	**(14,664)**
Share of other comprehensive income of associates accounted for using equity method	**(130)**	**(1,674)**
Total other comprehensive loss	**(2,230)**	**(28,689)**
Comprehensive income	**¥ 812**	**$ 10,449**
Total comprehensive income attributable to:		
Owners of the parent	**¥ 998**	**$ 12,843**
Minority interests	**(186)**	**(2,394)**

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)
	2011	2010	2009	**2011**
Shareholders' Equity				
Common stock:				
Balance at beginning of year	**¥53,887**	¥53,887	¥53,887	**$693,254**
Changes during the year	**–**	–	–	**–**
Balance at end of year	**¥53,887**	¥53,887	¥53,887	**$693,254**
Capital surplus:				
Balance at beginning of year	**¥46,316**	¥46,318	¥46,326	**$595,851**
Disposition of treasury stock	**(5)**	(3)	(7)	**(61)**
Balance at end of year	**¥46,311**	¥46,316	¥46,318	**$595,790**
Retained earnings (Note 7)**:**				
Balance at beginning of year	**¥28,317**	¥20,287	¥19,972	**$364,303**
Net income	**3,165**	10,773	4,535	**40,718**
Cash dividends	**(2,741)**	(2,742)	(2,743)	**(35,266)**
Changes due to change in accounting policies applied to foreign subsidiaries	**–**	–	(1,477)	**–**
Balance at end of year	**¥28,741**	¥28,317	¥20,287	**$369,755**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (1,190)**	¥ (1,132)	¥ (1,058)	**$ (15,314)**
Net increase	**(7)**	(59)	(73)	**(91)**
Balance at end of year	**¥ (1,197)**	¥ (1,190)	¥ (1,132)	**$ (15,405)**
Accumulated Other Comprehensive Income (Note 4)				
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 2,985**	¥ 2,638	¥ 3,046	**$ 38,408**
Net change during the year	**(992)**	348	(408)	**(12,764)**
Balance at end of year	**¥ 1,993**	¥ 2,985	¥ 2,638	**$ 25,644**
Deferred hedge gains:				
Balance at beginning of year	**¥ (8)**	¥ 1	¥ –	**$ (103)**
Net change during the year	**0**	(9)	1	**(3)**
Balance at end of year	**¥ (8)**	¥ (8)	¥ 1	**$ (106)**
Foreign currency translation adjustments (Note 2 (n))**:**				
Balance at beginning of year	**¥ (5,259)**	¥ (3,627)	¥ (5,536)	**$ (67,653)**
Net change during the year	**(1,174)**	(1,631)	1,909	**(15,107)**
Balance at end of year	**¥ (6,433)**	¥ (5,259)	¥ (3,627)	**$ (82,760)**
Minority Interest:				
Balance at beginning of year	**¥ 1,598**	¥ 219	¥ 226	**$ 20,553**
Net change during the year	**(115)**	1,379	(7)	**(1,483)**
Balance at end of year	**¥ 1,482**	¥ 1,598	¥ 219	**$ 19,070**

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)
	2011	2010	2009	2011
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 5,841	¥ 17,762	¥ 8,874	$ 75,139
Depreciation and amortization	24,482	22,504	22,547	314,966
Loss on impairment of property, plant and equipment and leased assets	1,670	2,375	926	21,480
Goodwill amortization	3,109	1,173	1,032	39,999
Decrease in employees' retirement benefits	(205)	(297)	(43)	(2,631)
Decrease in allowance for doubtful receivables	(109)	(198)	(23)	(1,398)
Interest and dividend income	(940)	(1,058)	(936)	(12,088)
Interest expense	3,580	3,647	3,623	46,053
Gain on sales of property, plant and equipment	(316)	(16,576)	(948)	(4,063)
Loss on sales and disposal of property, plant and equipment	1,021	10,133	1,524	13,131
Gain on sales of investment securities	(2)	(645)	(20)	(22)
Loss on devaluation of investment securities	1,261	1,246	244	16,226
Effect of adoption of new accounting standards for asset retirement obligations	1,085	–	–	13,954
(Increase) decrease in notes and accounts receivable	(4,705)	(1,598)	2,668	(60,533)
(Increase) decrease in inventories	(1,580)	571	(981)	(20,324)
Decrease in other current assets	–	–	5,976	–
Increase (decrease) in notes and accounts payable	(702)	4,276	(3,884)	(9,031)
Decrease in liquor taxes payable	(1,676)	(943)	(433)	(21,567)
Decrease in deposits received	(4,130)	(7,866)	(19,751)	(53,132)
Increase (decrease) in other current liabilities	(541)	611	(4,402)	(6,960)
Other	1,369	(4,127)	(1,836)	17,606
Subtotal	28,512	30,990	14,156	366,805
Interest and dividends received	956	1,134	932	12,294
Interest paid	(3,605)	(3,616)	(3,545)	(46,385)
Income taxes paid	(3,556)	(2,289)	(1,952)	(45,751)
Income taxes refundable	7	1,212	2,862	94
Net cash provided by operating activities	22,313	27,431	12,454	287,058
Cash flows from investing activities:				
Purchases of investment securities	(2,155)	(2,812)	(1,469)	(27,723)
Proceeds from redemption and sales of investment securities	263	791	57	3,382
Purchases of affiliates securities	(16,142)	(760)	(8,043)	(207,664)
Purchases of newly consolidated subsidiaries	(18,663)	(1,609)	–	(240,097)
Purchases of property, plant and equipment	(11,608)	(17,528)	(18,399)	(149,343)
Proceeds from sales of property, plant and equipment	769	23,746	1,439	9,897
Purchases of intangibles	(1,814)	(2,048)	(3,429)	(23,341)
Increase in long-term loans receivable	(26)	(22)	(755)	(329)
Collection of long-term loans receivable	328	665	208	4,216
Other	(1,844)	(3,019)	(1,836)	(23,720)
Net cash used in investing activities	(50,892)	(2,595)	(32,227)	(654,723)
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	13,194	(16,366)	(6,399)	169,744
Proceeds from long-term debt	38,613	15,600	50,000	496,752
Repayment of long-term debt	(24,927)	(16,287)	(17,254)	(320,686)
Proceeds from issuance of bonds	9,960	11,952	–	128,136
Redemption of bonds	(20,000)	(10,000)	(19,710)	(257,301)
Net Increase in commercial paper	13,000	–	–	167,246
Cash dividends paid	(2,735)	(2,741)	(2,739)	(35,187)
Proceeds from minority shareholders	181	–	–	2,329
Repayment of finance lease obligations	(3,029)	–	–	(38,965)
Purchase of treasury stock	(19)	(75)	(120)	(244)
Proceeds from sales of treasury stock	7	13	39	92
Other	–	(215)	(71)	–
Net cash provided by (used in) financing activities	24,245	(18,120)	3,746	311,914
Effect of exchange rate changes on cash and cash equivalents	121	286	77	1,558
Net increase (decrease) in cash and cash equivalents	(4,212)	7,002	(15,950)	(54,193)
Cash and cash equivalents at beginning of year	13,270	6,268	22,218	170,723
Cash and cash equivalents at end of year	¥ 9,058	¥ 13,270	¥ 6,268	$ 116,530

The accompanying Notes to Consolidated Financial Statements are an integral part of these 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, 2009 and 2010 to the 2011 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2011 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥77.73=U.S.$1.00, the exchange rate prevailing on December 31, 2011.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances, transactions and profits have been eliminated in consolidation.

During the year ended December 31, 2011, the Company gained 25 subsidiaries in accordance with POKKA Corporation's share acquisitions and lost 3 subsidiaries due to a merger among consolidated subsidiaries overseas. Accordingly, the number of consolidated subsidiaries was 55 as of December 31, 2011.

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.

The business years of the Company's consolidated subsidiaries prior to 2011 had the same account settlement date as the consolidated account settlement, but in the fiscal year ended December 31, 2011 some consolidated subsidiaries had different account settlement dates. Seventeen companies including POKKA Corporation finished their business year on March 31. Therefore, to prepare the consolidated financial statements for the Company, a provisional account settlement was performed for these companies on December 31, the consolidated account settlement date. Moreover, eight consolidated subsidiaries including POKKA CORPORATION (SINGAPORE) PTE. LTD. finish their business year on October 31. The financial statements of these companies as of October 31 were therefore used to prepare the consolidated financial statements for the Company. However, the necessary adjustments have been made for significant transactions that occurred between October 31 and the consolidated account settlement date.

(b) Investments in unconsolidated subsidiaries and affiliates

During the year ended December 31, 2011, the Company gained four subsidiaries via share acquisitions, one subsidiary as a result of consolidation, and had one company removed from the scope of affiliation due to a court decision for commencement of civil rehabilitation proceedings in accordance with the provisions of the Civil Rehabilitation Act, under which it was declared that the Company did not hold substantial influence over the company in question.

As a result, the Company had made investments in eight affiliates accounted for by the equity method as of December 31, 2011.

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.

(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).

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 its major subsidiaries 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) Hedge accounting

Gain or loss on derivatives positions designated as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized.

In addition, if an interest-rate swap meets certain conditions, the interest expense is computed at a combined rate and recognized.

(p) 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 "Accounting Standard for Equity Method of Accounting for Investments" and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method")

Effective from the year ended December 31, 2011, the Company has applied the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, March 10, 2008). The application of this accounting standard and practical solution had no effect on income before income taxes and minority interests for the fiscal year under review.

(Application of Accounting Standard for Asset Retirement Obligations, etc.)

Effective from the year ended December 31, 2011, the Company has applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008). As a result of this change, in the year ended December 31, 2011, operating income was ¥94 million ($1,204 thousand) lower, and income before income taxes and minority interests were ¥1,178 million ($15,158 thousand) lower than would have been reported previously.

(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.

(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.

(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. 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.

4. Changes in Method of Accounting

Effective from the year ended December 31, 2011, the Company has applied the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010). However, the amounts recorded as accumulated other comprehensive income and total accumulated other comprehensive income for the years ended 2010 and 2009 correspond to the amounts recorded as valuation and translation adjustments and total valuation and translation adjustments, respectively.

5. Inventories

Inventories at December 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Finished goods and merchandise	¥13,082	¥ 8,132	$168,299
Real estate for sale	87	205	1,115
Work in process	4,237	4,076	54,509
Raw materials	9,899	9,107	127,349
Supplies	1,050	650	13,504
	¥28,354	¥22,169	$364,776

6. Loss on Impairment of Property, Plant and Equipment

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2011:

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd. (Kitakanbara-gun, Niigata)	Idle real estate	Land	**¥ 309**	**$ 3,980**
			¥ 309	**$ 3,980**
Sapporo Lion Ltd. Restaurants for business (Chiyoda-ku, Tokyo and other)	Restaurants for operations	Buildings	**¥ 239**	**$ 3,081**
		Machinery	**22**	**280**
		Other	**54**	**689**
			¥ 315	**$ 4,049**
POKKA Corporation and its subsidiary Restaurants for business (Shibuya-ku, Tokyo and other)	Restaurants for operations	Buildings	**¥ 66**	**$ 851**
		Other	**4**	**52**
			¥ 70	**$ 904**
Yebisu Garden Place Co., Ltd. (Sapporo-shi, Hokkaido)	Real estate for lease	Buildings	**¥ 9**	**$ 115**
			¥ 9	**$ 115**
Sapporo Fine Foods Co., Ltd. (Ootashi, Gunma)	Food manufacturing facilities	Buildings	**¥ 227**	**$ 2,917**
		Machinery	**40**	**513**
		Lease	**628**	**8,078**
		Other	**72**	**925**
			¥ 966	**$12,432**
			¥1,670	**$21,480**

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2010:

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd. (Nasu-gun, Tochigi and other)	Real estate for lease	Buildings	¥ 409
			¥ 409
Sapporo Lion Ltd. Restaurants for business (Minato-ku, Tokyo and other)	Restaurants for operations	Buildings	¥ 542
		Machinery	50
		Other	33
			¥ 625
Yebisu Garden Place Co., Ltd. (Sapporo-shi, Hokkaido)	Real estate for lease	Buildings	¥ 156
			¥ 156
SLEEMAN BREWERIES LTD. (Ontario, Canada)	Other	Goodwill	¥1,123
		Other	61
			¥1,184
			¥2,375

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the 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. The asset groups for food manufacturing facilities are each respective business.

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.

Food manufacturing facilities have 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.

The recoverable amount is measured by the net selling cost and the value in use, with the net selling cost determined based on an appraisal value provided by a real estate appraisal company. The value in use is calculated based on future cash flows discounted by a certain discount rate. The discount rate was 6.3% in 2011, 7.6% in 2010 and 8.2% in 2009.

7. 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.

8. Other Income (Expenses)

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2011 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Gain on gift voucher redemptions	**¥ 511**	¥ 677	¥ 532	**$ 6,577**
Equity in income of affiliates	**33**	611	276	**427**
Gain on sales of property, plant and equipment	**316**	16,576	948	**4,063**
Gain on sales of investment securities	**2**	645	20	**22**
Reversal of provision for doubtful receivables	**–**	62	–	**–**
Reversal of removal costs	**–**	569	–	**–**
Settlement received	**262**	–	–	**3,365**
Loss on disposal of property, plant and equipment	**(998)**	(1,724)	(1,524)	**(12,834)**
Loss on sales of property, plant and equipment	**(23)**	(8,410)	–	**(297)**
Loss on impairment of property, plant and equipment	**(1,670)**	(2,375)	(926)	**(21,480)**
Devaluation of marketable securities and investments	**(1,261)**	(1,246)	(244)	**(16,226)**
Business reorganization costs	**–**	(664)	–	**–**
Loss on devaluation of inventories	**–**	–	(125)	**–**
Effect of adoption of new accounting standards for asset retirement obligations	**(1,085)**	–	–	**(13,955)**
Compensation expenses	**(268)**	–	–	**(3,445)**
Loss on phased acquisition	**(567)**	–	–	**(7,290)**
Loss on change in equity	**(244)**	–	–	**(3,143)**
Disaster losses	**(5,431)**	–	–	**(69,868)**
Other	**(3)**	226	(291)	**(35)**
	¥(10,425)	¥ 4,948	¥(1,334)	**$(134,119)**

9. Contingent Liabilities

Contingent liabilities at December 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Guarantee of loans, principally loans for employees' housing	¥929	¥1,069	$11,953

10. 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)
	2011	2010	2011
Acquisition costs:			
Machinery and vehicles	¥ 548	¥ 704	$ 7,047
Other	2,714	6,695	34,910
	¥3,261	¥7,399	$41,957
Accumulated depreciation:			
Machinery and vehicles	¥ 460	¥ 531	$ 5,924
Other	2,042	5,061	26,276
	¥2,503	¥5,593	$32,200
Accumulated loss on impairment:			
Machinery and vehicles	–	–	–
Other	73	265	933
	¥ 73	¥ 265	$ 933
Net book value:			
Machinery and vehicles	¥ 87	¥ 172	$ 1,122
Other	599	1,369	7,701
	¥ 686	¥1,541	$ 8,824

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,035 million ($13,316 thousand) and ¥1,577 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, 2011 and 2010, respectively.

There was no recorded loss on impairment of leased assets for the years ended December 31, 2011 and 2010.

The amount of depreciation was ¥192 million ($2,476 thousand) and ¥343 million for the years ended December 31, 2011 and 2010.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2011 and 2010 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2011	2010	2011
Due within one year	¥528	¥ 962	$6,797
Due after one year	230	845	2,960
Total	¥758	¥1,806	$9,757

(b) Operating leases

Future minimum lease payments subsequent to December 31, 2011 and 2010 for operating leases are summarized as follows:

i) Lessee

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2011	2010	2011
Due within one year	¥ 3,278	¥2,484	$ 42,175
Due after one year	7,458	5,565	95,951
Total	¥10,736	¥8,049	$138,125

ii) Lessor

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2011	2010	2011
Due within one year	¥ 3,456	¥ 3,165	$ 44,466
Due after one year	15,413	17,621	198,287
Total	¥18,869	¥20,786	$242,753

11. Financial Instruments

(a) Matters related to financial instruments

i) 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.

ii) 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.

iii) 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.

iv) 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.

(b) Matters concerning fair value, etc., of financial instruments

Amounts, market value and their variances reported in the consolidated balance sheets for the fiscal years ended December 31, 2011 and 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)		
			2011			2010			2011
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and cash equivalents	¥ 9,205	¥ 9,205	–	¥ 12,957	¥ 12,957	–	$ 118,422	$ 118,422	–
(2) Notes and accounts receivable—trade	79,340			61,353			1,020,717		
Allowance for doubtful receivables	(156)			(81)			(2,009)		
Sub total	79,184	79,184	–	61,272	61,272	–	1,018,708	1,018,708	–
(3) Marketable securities and Investment securities									
① Held-to-maturity debt securities	200	202	2	202	204	2	2,573	2,603	30
② Other securities	21,727	21,727	–	23,368	23,368	–	279,517	279,517	–
(4) Long-term loans receivable	10,398			10,745			133,772		
Allowance for doubtful receivables	(105)			(195)			(1,350)		
Sub total	10,293	10,295	2	10,550	10,550	0	132,422	132,448	25
Total assets	¥120,609	¥120,613	¥ 4	¥108,349	¥108,351	¥ 2	$1,551,642	$1,551,697	$ 55
(1) Notes and accounts payable—trade	¥ 32,355	¥ 32,355	–	¥ 24,348	¥ 24,348	–	$ 416,245	$ 416,245	–
(2) Short-term bank loans	26,434	26,434	–	4,177	4,177	–	340,068	340,068	–
(3) Liquor taxes payable	32,535	32,535	–	34,253	34,253	–	418,568	418,568	–
(4) Income taxes payable	2,986	2,986	–	1,819	1,819	–	38,412	38,412	–
(5) Bonds	42,000	42,546	546	52,000	52,920	920	540,332	547,351	7,019
(6) Long-term bank debt	137,735	140,314	2,579	121,315	122,400	1,086	1,771,965	1,805,143	33,177
Total liabilities	¥274,044	¥277,169	¥3,124	¥237,912	¥239,918	¥2,006	$3,525,591	$3,565,787	$40,196
(7) Derivative transactions	¥ 18	¥ 18	–	¥ (11)	¥ (11)	–	$ 225	$ 225	–

i) 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 "12. 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 of 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.

ii) Financial instruments for which the assessment of market value is not feasible

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
	Carrying value	Carrying value	Carrying value
Unlisted stocks, etc.	**¥ 9,282**	¥14,460	**$119,410**
Bonds with stock acquisition rights	**–**	3,843	**–**
Dealers' deposits for guarantees	**32,624**	31,936	**419,703**

iii) 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)			
				2011				**2011**
	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	**¥ 8,293**	**–**	**–**	**–**	**$ 106,685**	**–**	**–**	**–**
Notes and accounts receivable—trade	**79,340**	**–**	**–**	**–**	**1,020,717**	**–**	**–**	**–**
Marketable securities and Investment securities								
Held-to-maturity debt securities	**–**	**200**	**–**	**–**	**–**	**2,573**	**–**	**–**
Long-term loans receivable	**255**	**9,515**	**610**	**17**	**3,286**	**122,411**	**7,853**	**222**
Total	**¥87,888**	**¥9,715**	**¥610**	**¥17**	**$1,130,688**	**$124,984**	**$7,853**	**$222**

	Millions of yen			
				2010
	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	–	–	–
Notes and accounts receivable—trade	61,353	–	–	–
Marketable securities and Investment securities				
Held-to-maturity debt securities	2	200	–	–
Long-term loans receivable	348	9,472	925	–
Total	¥74,661	¥9,672	¥925	–

12. Marketable Securities and Investment Securities

(a) Trading securities

No relevant items as of December 31, 2011 and 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, 2011 and 2010 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
			2011			2011
December 31, 2011	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:						
Government and municipal bonds	–	–	–	–	–	–
Corporate bonds	**200**	**202**	**2**	**2,573**	**2,603**	**30**
Other	–	–	–	–	–	–
Subtotal	**¥200**	**¥202**	**¥2**	**$2,573**	**$2,603**	**$30**

	Millions of yen		
			2010
December 31, 2010	Carrying gain	Fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Government and municipal bonds	–	–	–
Corporate bonds	200	202	2
Other	–	–	–
Subtotal	¥200	¥202	¥2
Securities whose carrying value exceeds their fair value:			
Government and municipal bonds	¥ 2	¥ 2	–
Corporate bonds	–	–	–
Other	–	–	–
Subtotal	¥ 2	¥ 2	–
Total	¥202	¥204	¥2

(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, 2011 and 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)		
			2011			2010			2011
December 31	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	**¥13,022**	**¥ 7,472**	**¥ 5,551**	¥14,648	¥ 7,683	¥ 6,965	**$167,531**	**$ 96,122**	**$ 71,409**
Debt securities	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–
Subtotal	**¥13,022**	**¥ 7,472**	**¥ 5,551**	¥14,648	¥ 7,683	¥ 6,965	**$167,531**	**$ 96,122**	**$ 71,409**
Securities whose acquisition cost exceeds their carrying value:									
Stock	**¥ 8,705**	**¥11,183**	**¥(2,479)**	¥ 8,624	¥10,403	¥(1,779)	**$111,986**	**$143,875**	**$(31,890)**
Debt securities	–	–	–	–	–	–	–	–	–
Other	–	–	–	96	120	(24)	–	–	–
Subtotal	**¥ 8,705**	**¥11,183**	**¥(2,479)**	¥ 8,720	¥10,523	¥(1,803)	**$111,986**	**$143,875**	**$(31,890)**
Total	**¥21,727**	**¥18,655**	**¥ 3,072**	¥23,368	¥18,205	¥ 5,162	**$279,517**	**$239,997**	**$ 39,520**

(d) The realized gain and loss on sales of other securities

The realized gain and loss on sales of other securities in the periods ended December 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Sales	**¥211**	¥786	**$2,715**
Gain on sales of securities	**25**	658	**325**
Loss on sales of securities	**24**	(12)	**303**

(e) Marketable securities that have been written down

The Company recorded write-downs of ¥1,165 million ($14,985 thousand) and ¥104 million in other securities in the years ended December 31, 2011 and 2010, respectively.

The Company writes down marketable securities when their market value falls by 50% or more than their book value at the fiscal year-end. If their value falls by between 30% and 50%, the Company records the amount of write-downs deemed necessary based on the possibility of recovery for individual securities.

13. Derivatives

(a) Derivative transactions to which hedge accounting is applied

i) Currency-related

December 31, 2011

			Millions of yen			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value	Contract amount	Contract amount payable after one year	Fair value
Designation applied to forward exchange contracts, etc.	Forward foreign exchange contract Purchase denomination; euro	Accounts payable	**¥238**	**–**	**¥(14)**	**$3,067**	**–**	**$(178)**
	Forward foreign exchange contract Sell denomination; US$	Accounts receivable	**221**	**–**	**0**	**2,837**	**–**	**3**
Total			**¥459**	**–**	**¥(14)**	**$5,905**	**–**	**$(175)**

December 31, 2010

			Millions of yen		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value
Principle method	Forward foreign exchange contract Purchase denomination; euro	Accounts payable	¥249	–	¥238
Total			¥249	–	¥238

ii) Interest rate-related

December 31, 2011

			Millions of yen			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Hedging instrument	Main hedged item	Contract amount	Contract amount payable after one year	Fair value	Contract amount	Contract amount payable after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps Receive variable rate, pay fixed rate	Long-term debt	**¥47,456**	**¥27,470**	**–**	**$610,530**	**$353,409**	**–**
Total			**¥47,456**	**¥27,470**	**–**	**$610,530**	**$353,409**	**–**

December 31, 2010

Hedge accounting method	Hedging instrument	Main hedged item	Millions of yen		
			Contract amount	Contract amount payable after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps	Long-term debt			
	Receive variable rate, pay fixed rate		¥51,357	¥46,357	–
Total			¥51,357	¥46,357	–

(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.

(b) Derivative transactions to which hedge accounting is not applied

i) Currency-related

December 31, 2011

Hedge accounting method	Hedging instrument	Millions of yen				Thousands of U.S. dollars (Note 1)			
		Contract amount	Contract amount payable after one year	Fair value	Unrealized gain	Contract amount	Contract amount payable after one year	Fair value	Unrealized gain
Transactions other than market transactions	Forward foreign exchange contract								
	Purchase denomination; US$	**¥601**	**¥601**	**¥27**	**¥27**	**$ 7,738**	**$7,738**	**$344**	**$344**
	Sell denomination; US$	**306**	**–**	**4**	**4**	**3,943**	**–**	**54**	**54**
Total		**¥908**	**¥601**	**¥31**	**¥31**	**$11,680**	**$7,738**	**$398**	**$398**

14. Short-term Bank Loans, Bonds 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, 2011 and 2010 were 0.47% and 0.80%, respectively. Bonds at December 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
1.85% bonds due 2011	**–**	¥10,000	**–**
1.90% bonds due 2012	**10,000**	10,000	**128,650**
1.87% bonds due 2011	**–**	10,000	**–**
2.26% bonds due 2013	**10,000**	10,000	**128,650**
0.96% bonds due 2015	**12,000**	12,000	**154,381**
0.62% bonds due 2016	**10,000**	–	**128,650**
(Sapporo Beverage. Co., Ltd.) Zero coupon convertible bonds with stock acquisition rights due 2015	**–**	3,843	**–**
Total	**42,000**	55,843	**540,332**
Less current portion	**10,000**	20,000	**128,650**
Bonds, net of current portion	**¥32,000**	¥35,843	**$411,681**

• Sapporo Beverage. Co., Ltd. Zero coupon convertible bonds with stock acquisition rights due 2015

The Company has terminated its business alliance with Yugen Kaisha Crescent Partners and Goudou Kaisha CRPBH (the "Investor"), a fund operated by Crescent Partners. Accordingly, on April 28, 2011, after conversion of all Sapporo Beverage Co., Ltd. zero coupon convertible bonds with stock acquisition rights held by the Investor, the Company purchased all the shares in Sapporo Beverage.

The aggregate annual maturities of bonds subsequent to December 31, 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2012	¥10,000	$128,650
2013	10,000	128,650
2014	–	–
2015	12,000	154,381
2016	10,000	128,650
2017 and thereafter	–	–
	¥42,000	$540,332

Long-term debt at December 31, 2011 and 2010 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Loans from banks and insurance companies maturing from 2010 to 2023 with weighted-average annual interest rates:			
2011—1.28%			
2010—1.54%			
Secured	¥ 15,744	¥ 17,716	$ 202,541
Unsecured	121,991	103,599	1,569,424
	137,735	121,315	1,771,965
Less current portion	30,937	23,912	398,003
	¥106,798	¥ 97,402	$1,373,962

The aggregate annual maturities of long-term debt subsequent to December 31, 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2012	¥ 30,937	$ 398,003
2013	20,793	267,498
2014	34,856	448,424
2015	8,326	107,118
2016	35,561	457,491
2017 and thereafter	7,262	93,430
	¥137,735	$1,771,965

The assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2011 and 2010 are summarized as follows:

i) Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Investment securities	¥3,476	¥3,950	$44,715
Cash and deposit	20	–	263
Buildings and structures	823	–	10,584
Lands	613	–	7,882
Other investment	80	80	1,029
	¥5,012	¥4,030	$64,475

ii) Debt relating to the above pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Short-term bank loans	¥ 3,048	–	$ 39,211
Long-term bank debt	15,744	17,716	202,541
	¥18,791	¥17,716	$241,752

In addition, total assets of Sapporo Canada Inc. in the amount of ¥32,651 million ($420,053 thousand) are pledged as collateral for long-term debt of ¥3,668 million ($47,195 thousand).

15. Retirement Benefit Plans

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

Employees' retirement benefits as of December 31, 2011 and 2010 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Retirement benefit obligation	**¥(47,108)**	¥(43,646)	**$(606,045)**
Fair value of pension plan assets	**30,249**	27,441	**389,161**
Trust assets	**130**	–	**1,667**
	(16,729)	(16,205)	**(215,217)**
Unrecognized net retirement benefit obligation at transition	**6,023**	7,529	**77,484**
Unrecognized actuarial gain or loss	**8,947**	7,749	**115,100**
Unrecognized past service cost	**(5,675)**	(6,264)	**(73,015)**
Prepaid pension cost	**17**	–	**223**
Employees' retirement benefits	**¥ (7,452)**	¥ (7,191)	**$ (95,871)**

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, 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Service cost	**¥1,343**	¥1,064	¥1,141	**$17,284**
Interest cost	**945**	893	887	**12,163**
Expected return on plan asset	**(737)**	(691)	(613)	**(9,484)**
Amortization of net retirement benefit obligation at transition	**1,506**	1,506	1,575	**19,378**
Amortization of actuarial gain or loss	**976**	803	1,036	**12,561**
Amortization of past service cost	**(675)**	(609)	(609)	**(8,678)**
Other	**611**	672	492	**7,867**
	¥3,971	¥3,639	¥3,909	**$51,091**

Note: "Other" includes contributions to defined contribution pension plans and additional retirement payments, etc.

The assumptions used in calculation of the above information for each of the three years in the period ended December 31, 2011 were as follows:

	2011	2010	2009
Discount rate	**0.9 – 2.1%**	2.0 – 2.1%	2.0 – 2.1%
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	9 – 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	9 – 15 years
Period of recognition of net retirement benefit obligation	**15 years**	15 years	15 years

16. Stock Options

Not applicable in the year ended December 31, 2010.

Not applicable to Sapporo Holdings Ltd. in the year ended December 31, 2011.

Stock option details, amounts and changes at consolidated subsidiaries were as follows:

(a) Stock option details

	POKKA Corporation First Series of Class B New Stock Subscription Rights
Classification and number of grantees	POKKA Corporation directors: 5 POKKA Corporation employees: 408 POKKA Corporation subsidiaries' officers: 7 POKKA Corporation subsidiaries' employees: 4
Number of stock options by type of stock *1	Common stock: 436,083 shares
Grant date	April 21, 2006
Vesting conditions	None*2
Requisite period of service	From April 21, 2006 to April 21, 2008
Exercise period	From April 22, 2008 to April 21, 2016

*1 Shown after conversion into the number of shares

*2 Stock option grantees who have lost their position as director or employee of POKKA Corporation or a subsidiary thereof may not exercise their stock option rights. (Except for retirement following the completion of term of office and retirement due to retirement age)

(b) Stock option amounts and changes

Stock options outstanding in the year ended December 31, 2011, with the number of stock options converted into the number of shares, are shown as follows:

(1) Number of stock options

	POKKA Corporation First Series of Class B New Stock Subscription Rights
Balance before vesting (shares)	
End of previous fiscal year	
Granted	–
Expired	–
Rights vested	–
Balance of non-vested rights	–
Balance after vesting (shares)	
End of previous fiscal year*	362,082
Rights vested	–
Rights exercised	362,062
Expired	20
Balance of unexercised rights	0

* Shown above are balances at the time of POKKA Corporation's conversion into a consolidated subsidiary during the year ended December 31, 2011.

(2) Price information

	POKKA Corporation First Series of Class B New Stock Subscription Rights	
	Yen	U.S. dollars
Exercise price	500	6.43
Average stock price at the time of exercise	-	-
Fair value as of the grant date	-	-

17. 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, 2011. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2011 differ from the corresponding statutory tax rates for the following reasons:

	2011	2010*	2009
Statutory tax rates	**40.7%**		40.7%
Effect of:			
Disallowed expenses, including entertainment expenses	**4.5**		2.9
Dividends and other income deductible for income tax purposes	**(1.7)**		(0.6)
Inhabitants' per capita taxes	**4.4**		2.3
Tax deductions	**(3.0)**		–
Change in valuation allowance	**29.3**		(13.9)
Unschedulable temporary differences	**–**		19.7
Effect of tax rate change	**(16.4)**		–
The tax rate difference of overseas subsidiary company	**(3.6)**		(2.3)
Other, net	**(6.3)**		0.3
Effective tax rates	**47.9%**		49.0%

* 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 significant components of deferred tax assets and liabilities at December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Deferred tax assets:			
Property, plant and equipment	**¥ 6,288**	¥ 6,540	**$ 80,893**
Employees' retirement benefits	**2,708**	3,472	**34,844**
Gift coupon income	**2,214**	2,527	**28,484**
Tax loss carryforwards	**3,275**	1,970	**42,136**
Investment securities	**1,840**	1,568	**23,668**
Accrued expenses	**2,017**	1,338	**25,946**
Accrued bonuses	**864**	830	**11,110**
Allowance for doubtful receivables	**664**	673	**8,544**
Asset retirement obligations	**560**	–	**7,209**
Other	**2,681**	2,710	**34,486**
Gross deferred tax assets	**23,111**	21,630	**297,320**
Valuation allowance	**(10,571)**	(9,250)	**(135,991)**
Total deferred tax assets	**12,540**	12,380	**161,329**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**10,153**	12,356	**130,614**
Property, plant and equipment	**5,506**	5,828	**70,834**
Unrealized holding gain on securities	**1,247**	2,177	**16,040**
Gain on valuation of assets received through merger	**584**	–	**7,513**
Other	**495**	14	**6,371**
Total deferred tax liabilities	**17,985**	20,376	**231,372**
Net deferred tax liabilities	**¥ (5,444)**	¥ (7,995)	**$ (70,042)**

Effective from years beginning on or after April 1, 2012, the corporate tax rate will change following promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No. 117 of 2011).

As a result of this change, the normal effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities will change from the current 40.7% to 38.0% for temporary differences expected to be reversed in years starting on or after January 1, 2013, and will change to 35.6% for temporary differences expected to be reversed in years starting on or after January 1, 2016. As a result of this change, deferred tax liabilities (net of the amount of deferred tax assets) were ¥1,118 million ($14,338 thousand) lower and deferred income taxes expensed in the year ended December 31, 2011 were ¥959 million ($12,340 thousand) lower than would have been recorded previously, while unrealized holding gain on securities was ¥159 million ($2,048 thousand) higher than would have been recorded previously.

18. Business Combinations

Business combination through acquisition

(a) Outline of business combination

i) Name and business of acquired company
Name: POKKA CORPORATION
Business lines: Beverage and food businesses, restaurant business, confectionery business, logistics business, and others

ii) Primary reasons for business combination
In September 2009, the Company and POKKA CORPORATION entered into a new capital and business alliance agreement to strengthen their existing business alliance in the beverage business and to expand both companies' business areas. Subsequent efforts to enhance the vending machine business, generate costs savings through joint procurement, optimize production systems, and jointly develop businesses in foreign markets have produced some results. Since that time, however, market circumstances have become increasingly severe, and both companies must enhance corporate value by expanding into new business areas and further pursuing synergies through collaboration.

In the current market climate, the Company and POKKA reached the decision that jointly, not independently, building a new food value creation group that is highly competitive in the alcoholic and non-alcoholic beverages, food, and restaurant industries in Japan and overseas would be the best way for both companies to enhance corporate value by accelerating expansion into new business areas, generating added value through collaborative synergies, and building a solid business foundation.

iii) Date of business combination
March 29, 2011

iv) Legal form of business combination
Cash payment in exchange for shares

v) Name of companies after business combination
POKKA Corporation

vi) Percentage of voting rights acquired
Percentage of voting rights held before the business combination: 21.41%
Percentage of voting rights acquired on the date of business combination: 65.35%
Percentage of voting rights held after the business combination: 86.76%

vii) Primary reasons for deciding on the acquiring company
The Company was decided on as the acquiring company because it proposed to buy the equity in exchange for cash.

(b) Accounting period for which earnings of the acquired company were included in the consolidated statements of income

The acquired company's earnings for the nine months from April 1, 2011 through December 31, 2011 are reflected in the Company's consolidated financial statements. The acquired company's earnings for the three months from January 1, 2011 through March 31, 2011 are recorded as equity in losses of affiliates on the consolidated financial statements.

(c) Acquisition cost and breakdown

Acquisition price: ¥29,515 million ($379,708 thousand)
Costs incurred directly in the acquisition: ¥19 million ($239 thousand)
Acquisition cost: ¥29,533 million ($379,947 thousand)

(d) Difference between the acquisition cost and the accumulated acquisition cost paid for each transaction

Difference arising from phased acquisition: ¥567 million ($7,290 thousand)

(e) Amount of goodwill, reason for its recognition, amortization method, and amortization period

i) Amount of goodwill:
¥16,681 million ($ 214,595 thousand)

ii) Reason for its recognition:
Future business activities are expected to generate excess profitability.

iii) Amortization method and amortization period:
15 years with the straight-line method

(f) Assets acquired and liabilities assumed as of the date of the business combination

Current assets: ¥24,609 million ($316,599 thousand)
Fixed assets: ¥32,231 million ($414,659 thousand)
Total assets: ¥56,841 million ($731,258 thousand)
Current liabilities: ¥30,735 million ($395,401 thousand)
Fixed liabilities: ¥11,292 million ($145,272 thousand)
Total liabilities: ¥42,026 million ($540,673 thousand)

(g) Approximate effects on the consolidated statements of income for the fiscal year ended December 31, 2011 assuming that the business combination was completed on January 1, 2011 and method of calculation

Net sales: ¥22,305 million ($286,954 thousand)

Ordinary loss: ¥123 million ($1,582 thousand)

Net loss: ¥817 million ($10,511 thousand)

Method adopted to estimate the approximate effects

The approximate effects correspond to the acquired company's net sales and income/loss recorded on its consolidated statements of income assuming that the business combination was completed on January 1, 2011. These approximate effects have not been audited.

After the acquisition transactions stated above, the Company additionally acquired POKKA Corporation's shares. Data concerning the acquisition as of December 31, 2011 are as follows:

- Percentage of voting rights: 98.59%
- Acquisition cost: ¥34,803 million ($447,746 thousand)
- Balance of goodwill related to the acquisition as of December 31, 2011: ¥18,414 million ($236,899 thousand)

Transactions under common control

(a) Information related to constituent company in business combination

i) Name and business of constituent company

Name: Sapporo Beverage Co., Ltd.

Business: Beverages and other businesses

ii) Date of business combination

April 28, 2011

iii) Legal form of business combination

Cash payment in exchange for shares

iv) Name of company after business combination

Sapporo Beverage Co., Ltd.

v) Purpose and outline of transactions

On April 15, 2011, the Company terminated its business alliance with Yugen Kaisha Crescent Partners and Goudou Kaisha CRPBH (the "Investor"), a fund operated by Crescent Partners. Accordingly, on April 28, the Company purchased all shares in Sapporo Beverage after conversion of all bonds with stock acquisition rights of Sapporo Beverage Co., Ltd. held by the Investor. As a result, the Company has ownership of all voting rights in Sapporo Beverage.

(b) Outline of accounting methods adopted

The Company accounted for the transaction as a transaction under common control in accord with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued December 26, 2008) and its accompanying Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued December 26, 2008).

(c) Additional acquisition of subsidiary's shares

i) Acquisition cost and breakdown

Cash and cash equivalent: ¥10,872 million ($139,866 thousand)

ii) Amount of goodwill, reason for its recognition, amortization method, and amortization period

① Amount of goodwill: ¥7,692 million ($98,952 thousand)

② Reason for its recognition: Future business activities are expected to generate excess profitability.

③ Amortization method and amortization period: 10 years with the straight-line method.

19. Real Estate for Lease

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 years ended December 31, 2011 and 2010 were ¥7,049 million ($90,689 thousand) and ¥6,098 million. Significant earnings from rent are included under operating income; rental-related expenses are posted under operating expenses. In 2011 and 2010, the carrying value of this real estate for rent on the consolidated balance sheets, change in carrying value, and the total fair value were as follows:

Years ended or as of December 31, 2011 and 2010

Millions of yen								Thousands of U.S. dollars (Note 1)			
Balance at December 31, 2010	Change during 2011	Balance at December 31, 2011	Fair value at December 31, 2011	Balance at December 31, 2009	Change during 2010	Balance at December 31, 2010	Fair value at December 31, 2010	Balance at December 31, 2010	Change during 2011	Balance at December 31, 2011	Fair value at December 31, 2011
¥173,601	**¥(304)**	**¥173,297**	**¥299,801**	¥165,537	¥8,064	¥173,601	¥313,812	$2,233,387	**$(3,913)**	**$2,229,474**	**$3,856,951**

(Notes)

1. Amounts posted in the consolidated balance sheets represent the acquisition cost after the deduction of cumulative depreciation.
2. In regard to the main components of changes in the year ended December 31, 2011, the main increase was the acquisition of real estate of ¥3,994 million ($51,383 thousand), while the main decreases were depreciation and amortization of ¥3,952 million ($50,837 thousand) and impairment losses of ¥318 million ($4,095 thousand).
   In regard to the main components of changes in the year ended December 31, 2010, the main increase was the acquisition of real estate of ¥13,268 million while the main decrease was depreciation and amortization of ¥5,107 million.
3. Fair value at the end of the fiscal year under review is based primarily on real estate appraisals carried out by external appraisers.

20. Segment Information

(a) Segment information by geographic area

i) Net sales

Sales to external customers in Japan constituted more than 90% of net sales on the consolidated statements of income. Accordingly, geographical segment information has not been disclosed.

ii) Property, plant and equipment

Sales to external customers in Japan constituted more than 90% of net sales on the consolidated statements of income. Accordingly, geographical segment information has not been disclosed.

(b) Information by major customer

The Company does not have any major customers whose share of sales accounts for more than 10% of net sales shown on the consolidated statements of income. Accordingly, information by major customer is omitted.

(c) Segment information

Effective from the fiscal year ended December 31, 2011, the Company adopted the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, revised March 27, 2009) and accompanying "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, revised on March 21, 2008).

i) Overview of reportable segments

The Company's reportable segments are components of the Sapporo Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's board of directors to decide how to allocate resources and assess performance.

The Sapporo Group utilizes the assets of the Group and its traditional areas of strength in the two business domains, "creation of value in food" and "creation of comfortable surroundings." Under Sapporo Holdings, a pure holding company, each group company formulates development plans and strategies for its products, services, and sales markets and conducts business accordingly.

The Group's businesses are therefore segmented mainly based on the products, services, and sales markets of Group companies and their affiliated companies. The Company's six reportable segments are Japanese Alcoholic Beverages, International Alcoholic Beverages, Soft Drinks, the POKKA Group, Restaurants and Real Estate.

The Japanese Alcoholic Beverages segment produces and sells alcoholic beverages in Japan, while the International Alcoholic Beverages segment produces and sells alcoholic beverages overseas. The Soft Drinks segment produces and sells drinking water and other non-alcoholic beverages. The POKKA Group segment is a business group led by POKKA Corporation. The Restaurants segment operates restaurants of various styles. The Real Estate segment's activities include leasing and development of real estate.

ii) Calculation methods for sales, income (or loss), assets and other items by reportable segment

Accounting methods applied in reportable segments by business largely correspond to those presented under "Summary of Significant Accounting Policies" and "Change in Method of Accounting." Reportable segment income is based on operating income. Inter-segment sales or transfers are calculated as if the transactions were with third-parties based on market prices.

iii) Amounts of sales, income (or loss), assets, and other items by reportable segment

Year ended or as of December 31, 2011

	Millions of Yen										
	Reportable segment										
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥268,189	¥25,888	¥36,857	¥75,850	¥24,091	¥ 22,468	¥453,345	¥ 755	¥454,100	–	¥454,100
Intra-group sales and transfers	5,773	38	1,113	1,481	–	2,236	10,641	41	10,682	(10,682)	–
Total	273,963	25,926	37,970	77,332	24,091	24,704	463,986	796	464,782	(10,682)	454,100
Operating income (loss)	¥ 9,305	¥ 378	¥ 757	¥ 2,934	¥ 219	¥ 8,553	¥ 22,145	¥ (643)	¥ 21,502	¥ (2,618)	¥ 18,884
Identifiable assets	¥215,079	¥40,253	¥21,864	¥78,849	¥10,470	¥180,209	¥546,725	¥1,993	¥548,717	¥ 2,067	¥550,784
Depreciation and amortization	¥ 13,248	¥ 1,053	¥ 807	¥ 4,248	¥ 573	¥ 4,415	¥ 24,343	¥ 133	¥ 24,476	¥ 6	¥ 24,482
Increase in property, plant and equipment and intangible fixed assets	¥ 5,181	¥ 4,364	¥ 1,352	¥ 4,273	¥ 516	¥ 4,966	¥ 20,652	¥ 9	¥ 20,661	¥ 11	¥ 20,672

Year ended or as of December 31, 2011

	Thousands of U.S. dollars (Note 1)										
	Reportable segment									General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other	Total		
Net Sales	**$3,450,267**	**$333,051**	**$474,171**	**$ 975,819**	**$309,936**	**$ 289,056**	**$5,832,299**	**$ 9,717**	**$5,842,016**	**–**	**$5,842,016**
Intra-group sales and transfers	**74,274**	**487**	**14,316**	**19,055**	**–**	**28,768**	**136,900**	**526**	**137,426**	**(137,426)**	**–**
Total	**3,542,541**	**333,538**	**488,487**	**994,875**	**309,936**	**317,823**	**5,969,199**	**10,243**	**5,979,442**	**(137,426)**	**5,842,016**
Operating income (loss)	**$ 119,706**	**$ 4,865**	**$ 9,738**	**$ 37,744**	**$ 2,819**	**$ 110,030**	**$ 284,902**	**$ (8,275)**	**$ 276,627**	**$ (33,684)**	**$ 242,942**
Identifiable assets	**$2,767,007**	**$517,855**	**$281,285**	**$1,014,401**	**$134,695**	**$2,318,394**	**$7,033,637**	**$25,636**	**$7,059,273**	**$ 26,591**	**$7,085,864**
Depreciation and amortization	**$ 170,439**	**$ 13,542**	**$ 10,378**	**$ 54,645**	**$ 7,374**	**$ 56,798**	**$ 313,176**	**$ 1,711**	**$ 314,887**	**$ 79**	**$ 314,966**
Increase in property, plant and equipment and intangible fixed assets	**$ 66,652**	**$ 56,140**	**$ 17,394**	**$ 54,972**	**$ 6,638**	**$ 63,893**	**$ 265,690**	**$ 111**	**$ 265,801**	**$ 144**	**$ 265,945**

Year ended or as of December 31, 2010

	Millions of Yen										
	Reportable segment									General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other	Total		
Net Sales	¥279,329	¥25,386	¥33,938	–	¥26,429	¥ 23,537	¥388,620	¥ 625	¥389,245	–	¥389,245
Intra-group sales and transfers	5,689	–	287	–	–	2,281	8,256	36	8,292	(8,292)	–
Total	285,018	25,386	34,225	–	26,429	25,818	396,876	661	397,537	(8,292)	389,245
Operating income (loss)	¥ 9,290	¥ 498	¥ 1,280	–	¥ 149	¥ 7,986	¥ 19,203	¥ (751)	¥ 18,452	¥ (3,049)	¥ 15,403
Identifiable assets	¥226,427	¥39,465	¥21,767	–	¥12,419	¥179,890	¥479,967	¥3,406	¥483,373	¥11,426	¥494,798
Depreciation and amortization	¥ 14,348	¥ 1,099	¥ 549	–	¥ 679	¥ 5,693	¥ 22,368	¥128	¥ 22,497	¥ 8	¥ 22,504
Increase in property, plant and equipment and intangible fixed assets	¥ 6,993	¥ 2,166	¥ 1,092	–	¥ 317	¥ 11,719	¥ 22,288	¥276	¥ 22,565	¥ 7	¥ 22,571

Note: The "Other" category is a business segment that is not included in the reportable segments, and comprises food businesses and certain other operations.

iv) Impairment Losses on Fixed Assets or Goodwill by Reportable Segment

Year ended or as of December 31, 2011

	Millions of Yen									
	Reportable segment								General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other		
Loss on Impairment	**¥309**	**–**	**–**	**¥70**	**¥315**	**¥9**	**¥703**	**¥966**	**–**	**¥1,670**

Year ended or as of December 31, 2011

	Thousands of U.S. dollars (Note 1)									
	Reportable segment								General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other		
Loss on Impairment	**$3,980**	**–**	**–**	**$904**	**$4,049**	**$115**	**$9,048**	**$12,432**	**–**	**$21,480**

v) Amortization for and unamortized balance of goodwill by reportable segment

Year ended or as of December 31, 2011

	Millions of Yen									
	Reportable segment								General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other		
Amortization in year ended Dec. 2011	**¥0**	**¥ 1,055**	**¥ 754**	**¥ 1,300**	**–**	**–**	**¥ 3,109**	**–**	**–**	**¥ 3,109**
Unamortized balance as of Dec. 31, 2011	**–**	**¥12,177**	**¥7,879**	**¥20,092**	**–**	**–**	**¥40,148**	**–**	**–**	**¥40,148**

Year ended or as of December 31, 2011

	Thousands of U.S. dollars (Note 1)									
	Reportable segment								General corporate and intercompany eliminations	Consolidated
	Japanese Alcoholic beverages	International Alcoholic beverages	Soft drinks	POKKA Group	Restaurants	Real estate	Total	Other		
Amortization in year ended Dec. 2011	**$0**	**$ 13,568**	**$ 9,700**	**$ 16,730**	**–**	**–**	**$ 39,999**	**–**	**–**	**$ 39,999**
Unamortized balance as of Dec. 31, 2011	**–**	**$156,657**	**$101,369**	**$258,480**	**–**	**–**	**$516,506**	**–**	**–**	**$516,506**

vi) Gain on negative goodwill by reportable segment

Not applicable.

21. Related Party Transactions

Not applicable in the year ended December 31, 2010.

Related party transactions in the year ended December 31, 2011 were as follows:

(1) Transactions with parties related to the Company

Officers of material subsidiaries of the Company, and their close family members

Type	Name	Occupation	Transaction details	Transaction amount (¥ million)	Thousands of U.S. dollars (Note 1)
Officer of material subsidiary	Masatoshi Hori	Director of POKKA Corporation	Purchase of shares of subsidiary	**¥264**	**$3,395**
Officer of material subsidiary	Akifumi Ito	Director of POKKA Corporation	Purchase of shares of subsidiary	**¥194**	**$2,495**
Officer of material subsidiary	Eiji Yamada	Director of POKKA Corporation	Purchase of shares of subsidiary	**¥123**	**$1,587**
Officer of material subsidiary	Koji Yamauchi	Director of POKKA Corporation	Purchase of shares of subsidiary	**¥ 93**	**$1,194**

Note: Transaction conditions and policy on determining transaction conditions: Purchases of shares of subsidiaries are determined based on the financial position of the subsidiary at the time of the transaction.

(2) Transactions with consolidated subsidiaries and parties related to the Company

Officers of material subsidiaries of the Company, and their close family members

Type	Name	Occupation	Transaction details	Transaction amount (¥ million)	Thousands of U.S. dollars (Note 1)
Officer of material subsidiary	Masatoshi Hori	Director of POKKA Corporation	Exercise of stock options	**¥17**	**$214**
Officer of material subsidiary	Akifumi Ito	Director of POKKA Corporation	Exercise of stock options	**¥13**	**$161**

Notes: 1. Shown above are amounts related to stock options exercised in the year ended December 31, 2011. These stock options were granted based on a resolution of an extraordinary meeting of shareholders held on April 6, 2006.

2. The Transaction Amount column lists the product of the number of shares granted by exercise of stock options in the fiscal year under review multiplied by the amount paid..

22. 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.

Information concerning diluted net income per share is omitted because there were no latent shares with a dilutive effect in the year ended December 31, 2011.

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	**2011**	2010	2009	**2011**
Net income	**¥8.08**	¥27.50	¥11.57	**$0.10**
Diluted net income	**–**	26.44	11.05	**–**

* Information concerning diluted net income per share is omitted because there were no latent shares with a dilutive effect in the year ended December 31, 2011.

	Yen		U.S. dollars (Note 1)
As of December 31	**2011**	2010	**2011**
Net assets	**¥314.87**	¥319.32	**$4.05**

23. Subsequent Events

(Appropriation of retained earnings)

On March 29, 2012, 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**	**$35,263**

(Acquisition of trust beneficiary rights (noncurrent assets) by a consolidated subsidiary)

Sapporo Real Estate Co., Ltd. ("SRE," trade name changed from Yebisu Garden Place Co., Ltd. on January 1, 2012), a consolidated subsidiary of the Company, jointly owns the complex known as Yebisu Garden Place (located at Ebisu, Shibuya-ku, Tokyo, and others; the "Yebisu Garden Place Complex"). SRE has acquired the 15% trust beneficiary rights (noncurrent assets) held by the former joint holder in the Yebisu Garden Place Complex.

Purpose of the acquisition of trust beneficiary rights (noncurrent assets)

SRE is a core real estate company and consolidated subsidiary of the Sapporo Group. The Yebisu Garden Place Complex, which is the mainstay real estate property of SRE, was jointly owned in the form of trust beneficiary rights 85% by SRE and 15% by Tamachi Holding Tokutei Mokuteki Kaisha ("TMK," a special-purpose company), of which the asset adviser is Morgan Stanley Capital K.K. ("Morgan Stanley").

SRE and Morgan Stanley had previously taken specific initiatives to further enhance the real estate value of the Yebisu Garden Place Complex, and TMK recently broached the possibility of selling the above jointly held interest of 15% to SRE.

SRE is striving to acquire new real estate properties with the aim of developing and extending its real estate business, and having judged that the profit-earning capacity of the Yebisu Garden Place Complex could be clearly demonstrated through measures to enhance corporate value in the future, SRE agreed to purchase TMK's trust beneficiary rights.

Furthermore, it has been agreed to dissolve the strategic business and capital alliance in the real estate and other businesses entered into by and between the Company, Morgan Stanley Capital K.K. (including the real estate funds that are operated thereby or to which it issues advice, and the Tokubetsu Mokuteki Kaisha (special-purpose company) that incorporates such funds in its business operation.

Overview of the acquisition of the trust beneficiary rights (noncurrent assets)

1. Description of assets to be acquired
   Designation of real estate properties: Yebisu Garden Place (jointly held interest of 15% in land and buildings)
   Location: Ebisu 4-chome, Shibuya-ku, Tokyo, and Mita 1-chome, Meguro-ku, Tokyo, Japan
   Land area: 62,571.80 m^2 (actual measurement: including jointly held land lots)
   Total floor area: 284,780.31 m^2 (total registered area of the Office Tower and 10 other buildings)
   Completion: August 1994
   Fiduciary: Mizuho Trust & Banking Co., Ltd.
2. Seller of the trust beneficiary rights (noncurrent assets)
   Company name: Tamachi Holding Tokutei Mokuteki Kaisha
   Director: Kazuhiro Matsuzawa
   Head office: 56-15, 6-chome, Kameido, Koto-ku, Tokyo, Japan
3. Acquisition price: ¥40.5 billion
4. Ownership ratio of the property after the acquisition: 100%
5. Financing: Own funds and debt
6. Acquisition date: March 1, 2012.

(Issuance of corporate bonds)

On March 2, 2012, the Company issued domestic straight corporate bonds based on the following conditions:

26th Series of Unsecured Corporate Bonds

1. Issuing company: Sapporo Holdings Ltd.
2. Issuing amount: ¥10,000 million
3. Issue price: ¥100 with face value of ¥100
4. Interest rate: 0.64% per annum
5. Payment deadline: March 2, 2012
6. Maturity: March 2, 2017
7. Use of funds: Repayment of borrowings

(Borrowing of funds)

On March 28, 2012, the Company borrowed funds by entering into a syndicated loan agreement under the following conditions:

Syndicated loan

1. Arranger: Mizuho Corporate Bank, Ltd.
2. Agent: Mizuho Corporate Bank, Ltd.
3. Agreement date: March 28, 2012
4. Loan execution date: March 30, 2012
5. Loan amount: ¥12,000 million
6. Repayment conditions: Lump-sum repayment on March 29, 2019
7. Assets pledged as collateral: None
8. Use of funds: Long-term working capital

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
6,649
(Consolidated)
45
(Parent company)

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

Securities Traded:
Common Stock
Tokyo Stock Exchange, First Section

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

SAPPORO

SAPPORO HOLDINGS LIMITED
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Tokyo 150-8522, Japan
http://www.sapporoholdings.jp/english/

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