# SAPPORO HOLDINGS LIMITED

Annual Report 2013

> Building a Foundation for Future Success

SAPPORO

Annual Report 2013

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## Forward-looking Statements

Statements in this annual report with respect to the Company's plans, strategies, forecasts and other statements that are not historical facts are forward-looking statements that are based on management's judgment in light of currently available information. Factors that could cause actual results to differ materially from our earnings forecasts include, without limitation, global economic conditions, our response to market demand for and competitive pricing pressure on products and services and currency exchange rate fluctuations.

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

## Profile

# SAPPORO Group,

since it began brewing beer in 1876, has been providing products and services that satisfy customers as a manufacturer of food products focused on the beer business. In 2007, the Group formulated the New Management Framework to be achieved by 2016, the 140th anniversary of its founding, and it is taking steps to raise corporate value. With three years including this year remaining until 2016, the Group started “Sapporo Group Medium-Term Management Plan 2014-2016” ending in 2016 with the aim of achieving its targets by accelerating its growth strategy and realizing sustained growth. We expand our business in North America, Asia, and Oceania as well as in Japan with the goal of becoming a company that is essential for customers to enjoy rich lives throughout the world by continuing the creation and supply of new products and services that become No.1 in the market.

| Founded | Capital | Consolidated net sales |
|---|---|---|
| 1876 | ¥53,887 million | ¥509,835 million |

| Total assets | Number of employees | Group subsidiaries and affiliates |
|---|---|---|
| ¥616,753 million | 7,434 [ Consolidated ]<br>66 [ Parent Company ] | 51 [ Subsidiaries ]<br>3 [ Affiliates ] |

# Our Business

Sapporo Group, through its five business domains, is expanding the business of creating value in food and creating comfortable surroundings in order to continue to accelerate its growth strategy as a manufacturer of food products.

The core domain driving the Group's dynamic growth

★ Creating value in food

## Japanese Alcoholic Beverages

As the Group's core business, we are aggressively expanding into such areas as wine, *shochu*, ready-to-drink (RTD) beverages, and non-alcoholic beverages focusing on its leading products such as *Mugi to Hop* brand in the new genres market and the innovative new beer *Goku Zero*, in addition to our core products such as *Sapporo Draft Beer Black Label* in the standard beer market and the *Yebisu Beer* brand in the premium beer market.


## International

The Group is strengthening and expanding the Sapporo brand, especially in the beer business in North America, where growth remains steady, and in Vietnam, where business is in full swing, as well as Southeast Asia including Singapore, South Korea, and Oceania. The Group is also expanding its business by entering the soft drinks market in North America.


## Food & Soft Drinks

In Japan, the Group is conducting the Food & Soft Drinks business as POKKA SAPPORO Food & Beverage Ltd. and is rolling out diverse brands such as the strong lemon-based product and soup brands in its food business, and *Ribbon*, *POKKA Coffee*, and other brands in its Soft Drinks business. Also, we are aggressively expanding the Café de Crié chain. In its overseas Soft Drinks business by leveraging its high visibility in Singapore, it is strengthening its business presence in neighboring countries.

## Net sales by Segment (¥ Billion)


**Result** ¥509.8 billion

**Target** ¥595.0 billion

### The business domain expected to contribute stable profits backed by prime properties

### ★ Creating comfortable surroundings

#### Real Estate

The Real Estate business mainly develops rental real estate, including Yebisu Garden Place, Sapporo Factory, and office buildings principally located in three areas: Ebisu, Ginza, and Sapporo, with the aim of raising the value of its existing properties. In autumn 2014, the construction of the Sapporo Ebisu Building (tentative name) will be completed. We decided to redevelop the Sapporo Ginza Building located at the main Ginza intersection and will begin demolition work in spring 2014, with completion targeted for the first half of 2016.

#### Restaurants

Through Sapporo Lion Limited, with its more than a century of history as a restaurant industry pioneer, we are expanding the key brands such as *GINZA LION BEER-HALL* , the *YEBISU BAR* chain and other brands in order to provide value by combining food with comfortable surroundings. We are also expanding our *GINZA LION BEER-HALLS* business internationally including in Singapore.

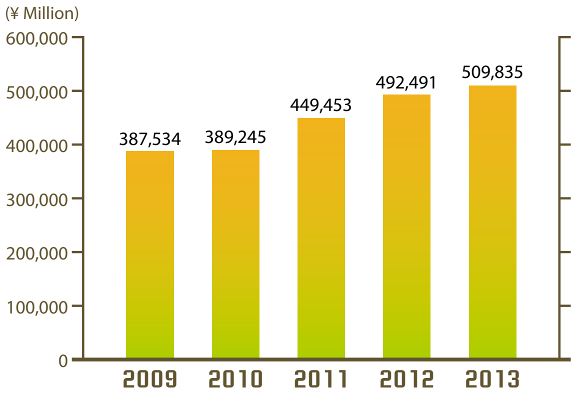
# Financial Highlights

SAPPORO HOLDINGS LIMITED and consolidated subsidiaries

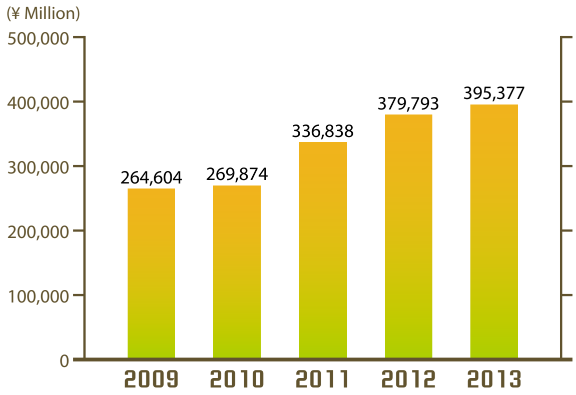
| | Millions of yen | | |
|---|---|---|---|
| Years ended December 31 | 2007 | 2008 | 2009 |
| **For the Year:** | | | |
| Net sales | | | |
| Including tax | ¥449,011 | ¥414,558 | ¥387,534 |
| Excluding tax | 309,794 | 284,412 | 264,604 |
| Operating income | 12,363 | 14,685 | 12,896 |
| Operating income before goodwill amortization | 13,232 | 15,553 | 13,923 |
| EBITDA | 37,759 | 37,158 | 36,470 |
| Net income | 5,509 | 7,640 | 4,535 |
| Capital expenditures (cash basis) | 19,884 | 27,342 | 21,910 |
| Depreciation and amortization | 24,527 | 21,605 | 22,547 |
| Goodwill amortization | 870 | 867 | 1,027 |
| Cash flows from operating activities | 30,691 | 22,292 | 12,454 |
| Free cash flows | 17,196 | 39,148 | (19,773) |
| | | | |
| **At Year End:** | | | |
| Net assets | 125,189 | 116,862 | 118,591 |
| Total assets | 561,859 | 527,287 | 506,875 |
| Financial liabilities | 212,464 | 189,252 | 196,794 |
| | | | |
| **Other Indicators:** | | | |
| Overseas sales ratio | 9.0% | 8.8% | 8.5% |
| Operating income to net sales | | | |
| Excluding tax | 4.0% | 5.2% | 4.9% |
| Excluding tax; before goodwill amortization | 4.3% | 5.5% | 5.3% |
| Debt-to-equity ratio (times) | 1.7 | 1.6 | 1.7 |
| Equity ratio | 22.3% | 22.1% | 23.4% |
| ROE | 4.6% | 6.3% | 3.9% |
| ROE (before goodwill amortization) | 5.3% | 7.0% | 4.7% |

Note: Yen amounts have been translated into U.S. dollar amounts at the rate of ¥105.40=U.S.$1.00, the exchange rate prevailing on December 31, 2013.

## Net sales (including tax)

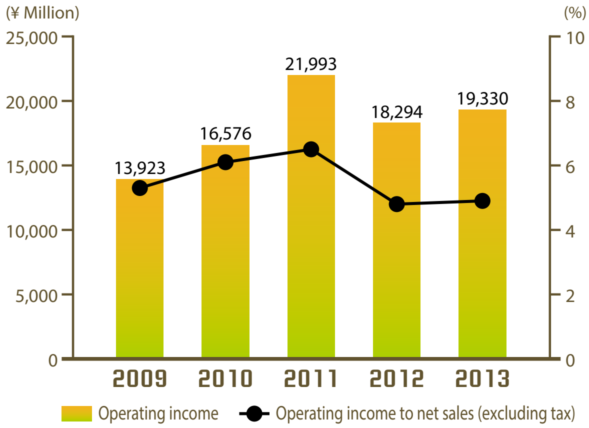



## Net sales (excluding tax)



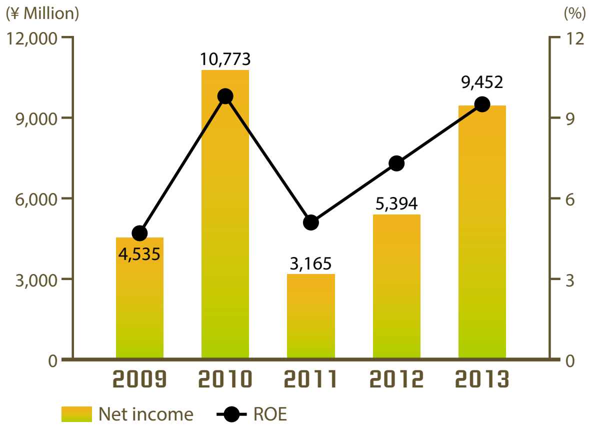
| 2010 | 2011 | 2012 | 2013 | 2014 (plan) | Thousands of U.S. dollars 2013 |
|---|---|---|---|---|---|
| | | | | | |
| ¥389,245 | ¥449,453 | ¥492,491 | ¥509,835 | ¥537,700 | $4,837,141 |
| 269,874 | 336,838 | 379,793 | 395,377 | 430,100 | 3,751,207 |
| 15,403 | 18,884 | 14,415 | 15,344 | 15,000 | 145,582 |
| 16,576 | 21,993 | 18,294 | 19,330 | 19,000 | 183,395 |
| 39,080 | 46,477 | 44,100 | 44,388 | 43,200 | 421,142 |
| 10,773 | 3,165 | 5,394 | 9,452 | 5,000 | 89,677 |
| 19,801 | 13,423 | 53,870 | 13,769 | 23,200 | 130,635 |
| 22,504 | 24,482 | 25,805 | 25,059 | 24,200 | 237,747 |
| 1,173 | 3,109 | 3,879 | 3,985 | 4,000 | 37,812 |
| 27,431 | 22,313 | 29,618 | 32,862 | 29,700 | 311,781 |
| 24,836 | (28,579) | (29,868) | 19,594 | 2,700 | 185,898 |
| | | | | | |
| | | | | | |
| 126,645 | 124,775 | 134,947 | 155,367 | — | 1,474,067 |
| 494,798 | 550,784 | 597,636 | 616,753 | — | 5,851,544 |
| 181,335 | 219,168 | 257,647 | 247,828 | 247,800 | 2,351,311 |
| | | | | | |
| | | | | | |
| 9.4% | 11.0% | 14.1% | 18.3% | 19.7% | |
| | | | | | |
| 5.7% | 5.6% | 3.8% | 3.9% | 3.5% | |
| 6.1% | 6.5% | 4.8% | 4.9% | 4.4% | |
| 1.4 | 1.8 | 1.9 | 1.6 | 1.6 | |
| 25.3% | 22.4% | 22.1% | 24.6% | — | |
| 8.9% | 2.5% | 4.2% | 6.7% | 3.3% | |
| 9.8% | 5.1% | 7.3% | 9.5% | 5.9% | |

## Operating income and Operating income to net sales (excluding tax)




Note: Figures are before goodwill amortization.

## Net income and ROE




Note: ROE is before goodwill amortization.

To Our Stakeholders

# Accelerating Growth Strategies

**Tsutomu Kamijo**

*President, Representative Director and Group CEO*

The Sapporo Group formulated the Sapporo Group's New Management Framework with a target set for 2016, which coincides with its 140th anniversary, and is working to achieve stable earnings growth while maximizing its corporate value. Further, the Group formulated the New Medium-Term Management Plan for fiscal 2016, the final year of the Framework. As a "manufacturer of food products," we will accelerate the four growth strategies of the New Management Framework with the aim of achieving our targets. We hope to meet your expectations and ask for your continued support.

## Summary of Fiscal 2013

### Business Environment in Fiscal 2013

In 2013, the Japanese economy saw the emergence of positive developments from the beginning of the year amid a backdrop of monetary easing and economic stimulus measures. However, the consumer spending environment remained clouded in uncertainty. More specifically, conditions in the industries in which Sapporo Group companies operate were as follows.

The soft drinks industry enjoyed rising demand supported by favorable weather conditions, including another hot summer in Japan. The alcoholic beverage and restaurant industries, however, did not see demand rebound as much as expected despite signs of a recovery in consumer spending. In the real estate industry, vacancy rates in the Greater Tokyo office leasing market continued to decline, but rent levels remained weak.

### Fiscal 2013 Results

The Group implemented the new Sapporo Group Management Plan 2013-2014, which sets out three basic strategies, namely to "Accept challenges leading to growth in all businesses," "Steadfastly implement growth measures," and "Create new growth opportunities." The Group leveraged the strengths of each businesses' brands and management resources while accepting new challenges to enable it to stay ahead of the competition. We took a number of measures such as starting the integrated operations of POKKA SAPPORO Food & Beverage Ltd., as well as outsourcing production and restructuring the existing production network in the United States. As a result of these efforts, along with the fact that the sales volume of beer and beer-type beverages surpassed that of the previous fiscal year, the impact of the weak yen, and the inclusion to the consolidated accounts of Silver Springs Citrus, Inc., a U.S. maker of private-brand chilled drinks, Sapporo Group posted consolidated net sales of ¥509.8 billion, up ¥17.3 billion, or 3.5%, from 2012. In addition, operating income totaled ¥15.3 billion, rising ¥0.9 billion, or 6.4%. Consolidated net income was ¥9.5 billion, climbing ¥4.1 billion, or 75.2%, partly due to the posting of a ¥3.5 billion gain on sales of investment securities in extraordinary gains.

## Outlook for Fiscal 2014

In fiscal 2014, amid uncertainty over consumer spending increases, the consumption tax increase, and other factors, we will work toward the goals for 2016 outlined in the Sapporo Group's New Management Framework by accelerating our growth strategies as a manufacturer of food products. The Japanese Alcoholic Beverages business will seek to further raise the value of core beer and beer-type beverage brands, while in non-beer businesses, we will aggressively expand the key growth areas of ready-to-drink (RTD) beverages, wine, shochu, and western spirits by focusing our management resources. The International Business will expand sales by gaining wider brand recognition for the SLEEMAN and Sapporo brands in the North American market. The Food & Soft Drinks business plans to increase sales in Japan by establishing core brands and strengthening its marketing efforts in terms of both quality (ability to make proposals and develop new customers) and quantity (increased marketing activities).

Through these measures we expect consolidated net sales of ¥537.7 billion, a growth of ¥27.9 billion, or 5.5%. In the Japanese Alcoholic Beverage business, we foresee a decline in operating income due to higher raw material costs caused by the yen's depreciation and aggressive spending to strengthen our brands. In the International Business, we expect operating income to be largely the same as in 2013 due to continued spending to create markets with the aim of building a stronger brand in Vietnam. In the Restaurants Business, operating income should also increase as we expand sales and take continued steps to raise our earning capacity. In the Real Estate Business, the outlook is for operating income to decline due to lower rental income as we begin redevelopment of the Sapporo Ginza Building.

As a result, in fiscal 2014, we forecast consolidated operating income of ¥15.0 billion, a decline of ¥0.3 billion, or 2.2%, year on year. Consolidated net income is expected to be ¥5.0 billion, down ¥4.5 billion, or 47.1%, owing to extraordinary losses related to the redevelopment of the Sapporo Ginza Building.

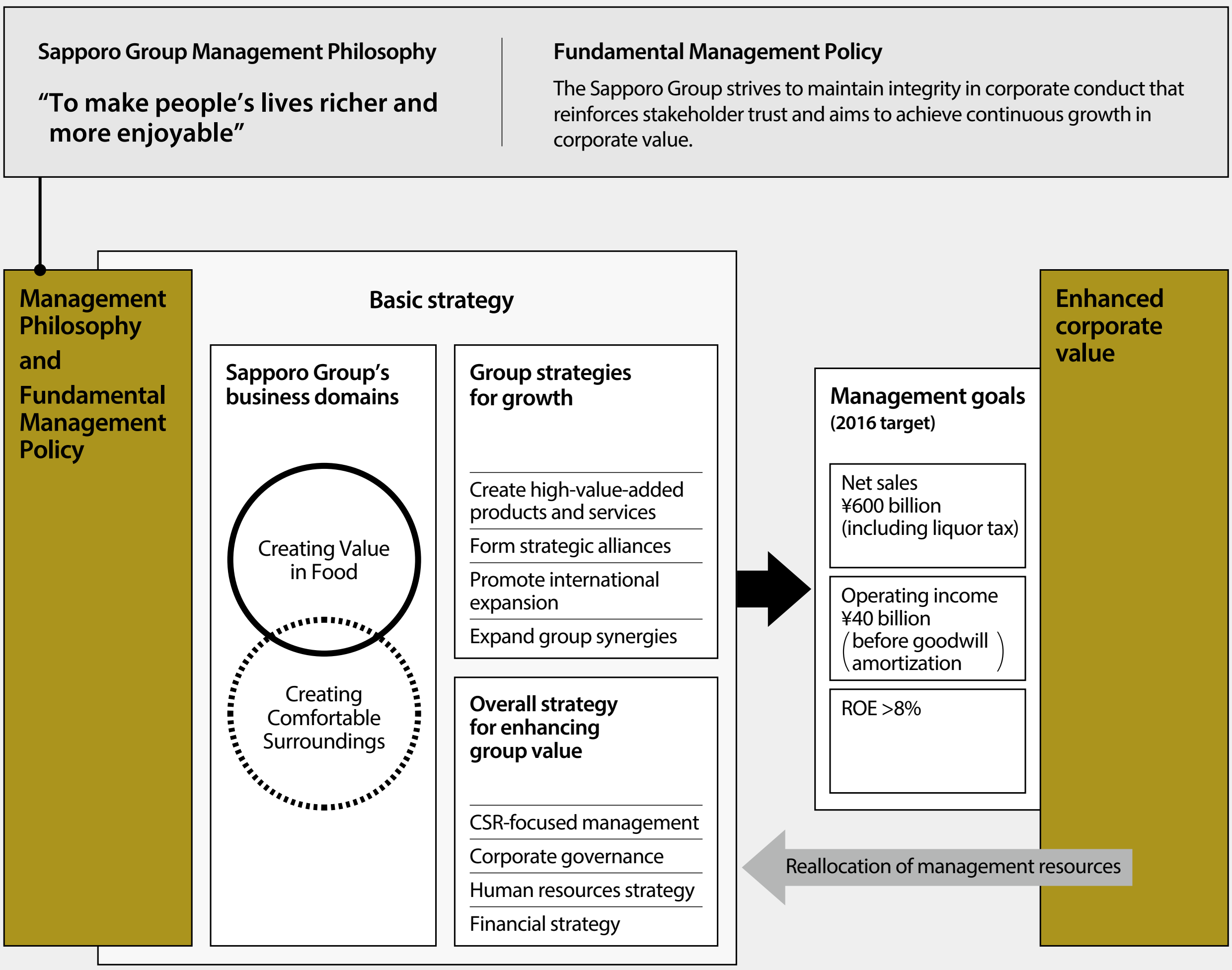
## Shareholder Returns

Providing fair returns to shareholders is a key management policy of the Sapporo Group. Our basic policy is to pay stable dividends to the extent permitted by our operating performance and financial condition. In line with this policy, and to maintain a stable dividend payout, we paid an annual dividend of ¥7 per share for 2013, the same dividend paid in 2012. In 2014, we plan to maintain the annual dividend at ¥7 per share, while making strategic investments and strengthening our financial foundation.

## Sapporo Group's New Management Framework (released on October 30, 2007)

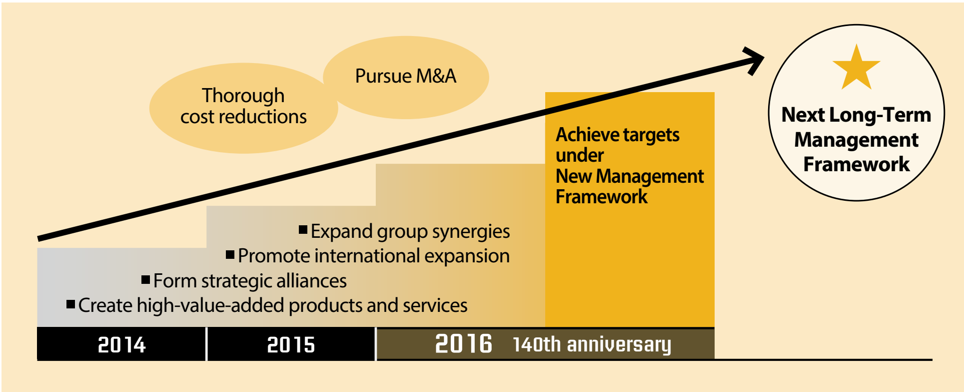
The Sapporo Group's New Management Framework with targets set for 2016 contains the financial indicators described below. To achieve these targets, as a medium- to long-term management strategy, the Group will actively work to, 1) Create high-value-added products and services, 2) Form strategic alliances, 3) Promote international expansion, and 4) Expand synergies among Group companies.

### Overview of the Sapporo Group's New Management Framework



## Outline of the Medium-Term Management Plan 2014-2016

To achieve the New Management Framework, the Sapporo Group formulated the Sapporo Group Medium-Term Management Plan 2014-2016, a new management plan. As a "manufacturer of food products," we will accelerate the four management strategies contained in the Framework based on this plan and promote further cost reductions, expand synergies among Group companies, and pursue M&As to achieve the targets set for 2016.




### 2014-2016 Targets Based on Current Businesses

(¥ Billion)

| | 2013 results | 2014 targets | 2015 targets | 2016 targets | 2016 New Management Framework |
|---|---|---|---|---|---|
| Net sales (including liquor tax) | ¥509.8 | ¥537.7 | ¥563.0 | ¥595.0 | ¥600.0 |
| (excluding liquor tax) | ¥395.4 | ¥430.1 | ¥454.3 | ¥484.4 | ¥450.0 |
| Operating income | ¥15.3 | ¥15.0 | ¥19.5 | ¥27.5 | ¥40.0 |
| (before goodwill amortization) | ¥19.3 | ¥19.0 | ¥23.4 | ¥31.2 | |
| Net income | ¥9.5 | ¥5.0 | ¥8.6 | ¥13.4 | — |
| Operating income to net sales (excluding liquor tax) | 3.9% | 3.5% | 4.2% | 5.2% | 9.0% |
| (excluding liquor tax; before goodwill amortization) | 4.9% | 4.4% | 5.2% | 6.4% | |
| Debt-to-equity ratio (times) | 1.6 | 1.6 | 1.5 | 1.3 | around 1:1 |
| ROE | 6.7% | 3.3% | 5.5% | 8.1% | 8.0% or higher |
| (before goodwill amortization) | 9.5% | 5.9% | 8.0% | 10.4% | |

Notes: 1. Assumed exchange rates: 2014-2016: US$ = ¥105.00, CAN$ = ¥101.00
2. We aim to achieve the goals of the 2016 New Management Framework through further cost reduction, creation of group synergies and M&As in addition to achievement of targets based on the performance of current businesses under the Medium-Term Management Plan 2014-2016.

# Group Strategy

## ● Japanese Alcoholic Beverages Business

To fulfill the new vision of "Seek No.1 by accumulating one-of-a-kind products," we will continue to create innovations unique to Sapporo in order to be the "No.1 creator of moving experiences." We will aggressively invest in branding and other efforts during 2014–2015 with the aim of achieving a profit increase in 2016.

## ● International

We will promote market penetration of the Sapporo brand chiefly in North America and Southeast Asia. In Canada and U.S. markets, we will seek better performance in the beer and soft drinks businesses for which we have enjoyed favorable results. In Southeast Asia, we will continue to pursue the beer business according to plan in Vietnam and improve operating income and achieve profitability.

## ● Food & Soft Drinks

In the domestic food and soft drinks business, we will seek earlier recovery of business performance through focused efforts to establish the core brands of POKKA SAPPORO, enhance marketing power in terms of the quality of proposals and pioneering ideas as well as the number of activities, and reduce costs to achieve growth in 2015 and thereafter. In the restaurants business, we will accelerate the opening of *Café de Crié* franchised coffee shops, which have been operating favorably. In the overseas soft drinks business, based on the increased capacity of manufacturing due to the completion of a Malaysian factory, we will maintain the top share of the tea beverages market in Singapore and further expand their sales, while accelerating the growth of sales in other countries.

## ● Restaurants

By supplying hospitable services and safe and delicious food menus, we will seek to offer "Japan's No.1 enjoyable stores." In the domestic market, we will strengthen the core *GINZA LION* and *YEBISU BAR* brands. Overseas, we will promote the expansion of the *GINZA LION BEER HALL* restaurant format, the first store of which was opened in Singapore last fall and has been operating favorably.

## ● Real Estate

We will enhance the value of the properties we hold in Ebisu, Ginza and Sapporo to contribute to a stronger Group brand. Through two redevelopment projects—Sapporo Ebisu Building (tentative name) and Sapporo Ginza Building—and enhancement of the value of Yebisu Garden Place, we aim for a significant profit increase during fiscal 2015–2016.

## ● Expanding Synergies Among Group Companies

Led by Group headquarters, we will promote alliances and cooperation between different businesses of the Group. To accelerate its growth as a "manufacturer of food products," Group headquarters will integrate and reinforce the R&D functions within the Group. The headquarters will also promote the sharing of skills and expertise through communication among personnel within the Group to create an environment that stimulates innovation, thereby enhancing the Group's ability to develop and expand new products and services. In addition, structural reforms and cost reductions will be promoted across Group companies to maximize cost-related synergies.

## CSR Activities

The Sapporo Group has positioned CSR-focused management as one of the key strategies for realizing the sustained growth of the Group. Based on the Group's basic CSR policy, we will promote "quality of food and space," "conservation of the global environment," "harmonious coexistence with society," "fair and just dealings," "development of human resources and enhancement of the working environment," and "sound corporate management." Through these efforts, we will continuously conduct in-house training and entrench CSR and compliance awareness and behavior.

## Formulating the Next Long-Term Management Framework

### Target of the Group

In order to begin formulating the next long-term management framework targeting 2026, our 150th anniversary, we established an approach that forms the basis of the Group's target. The Sapporo Group will focus on achieving its target of becoming a group of companies that is essential for customers to enjoy rich lives throughout the world by continuing to create and supply new products and services that become No.1 in the market.

### Guidelines for Corporate Behavior

To achieve our ideal, the Group established the following guidelines for corporate behavior.

(1) We seek continued innovation and provide customers with valuable No.1 products and services to contribute to ensuring their richer life.

(2) We endeavor to create products and services that will activate communications between customers.

(3) We strive to ensure the efficient business operations by addressing changes in the business environment.

Special Feature

# Building a Foundation for Future Success

★ Group Strategies

1 Create High-Value-Added Products and Services

2 Form Strategic Alliances

3 Promote International Expansion

4 Expand Group Synergies

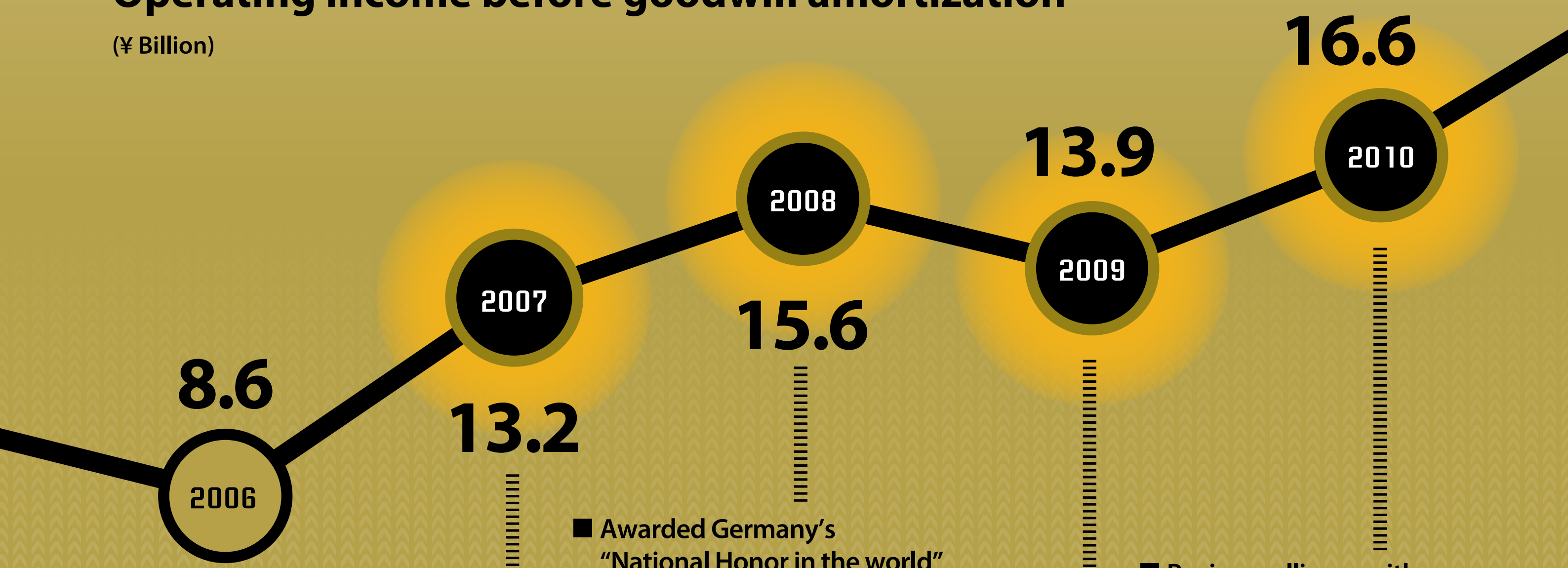
# Changes to Sapporo Group

The Sapporo Group is implementing its medium-term management plan and is steadily building the foundations for achieving its targets under the New Management Framework in FY2016. With its sights set on 2026, the year marking the 150th anniversary of its foundation, the SAPPORO Group will be a group of companies that is essential for customers to enjoy rich lives throughout the world by continuing the creation and supply of new products and services that become No.1 in the market.

★ Group Strategies | 1 | 2 | 3 | 4 |

## Operating income before goodwill amortization

(¥ Billion)




2006
- Acquired SLEEMAN BREWERIES LTD. of Canada
- Entered *shochu* business

2007
- Formulated long-term management plan: Sapporo Group New Management Framework

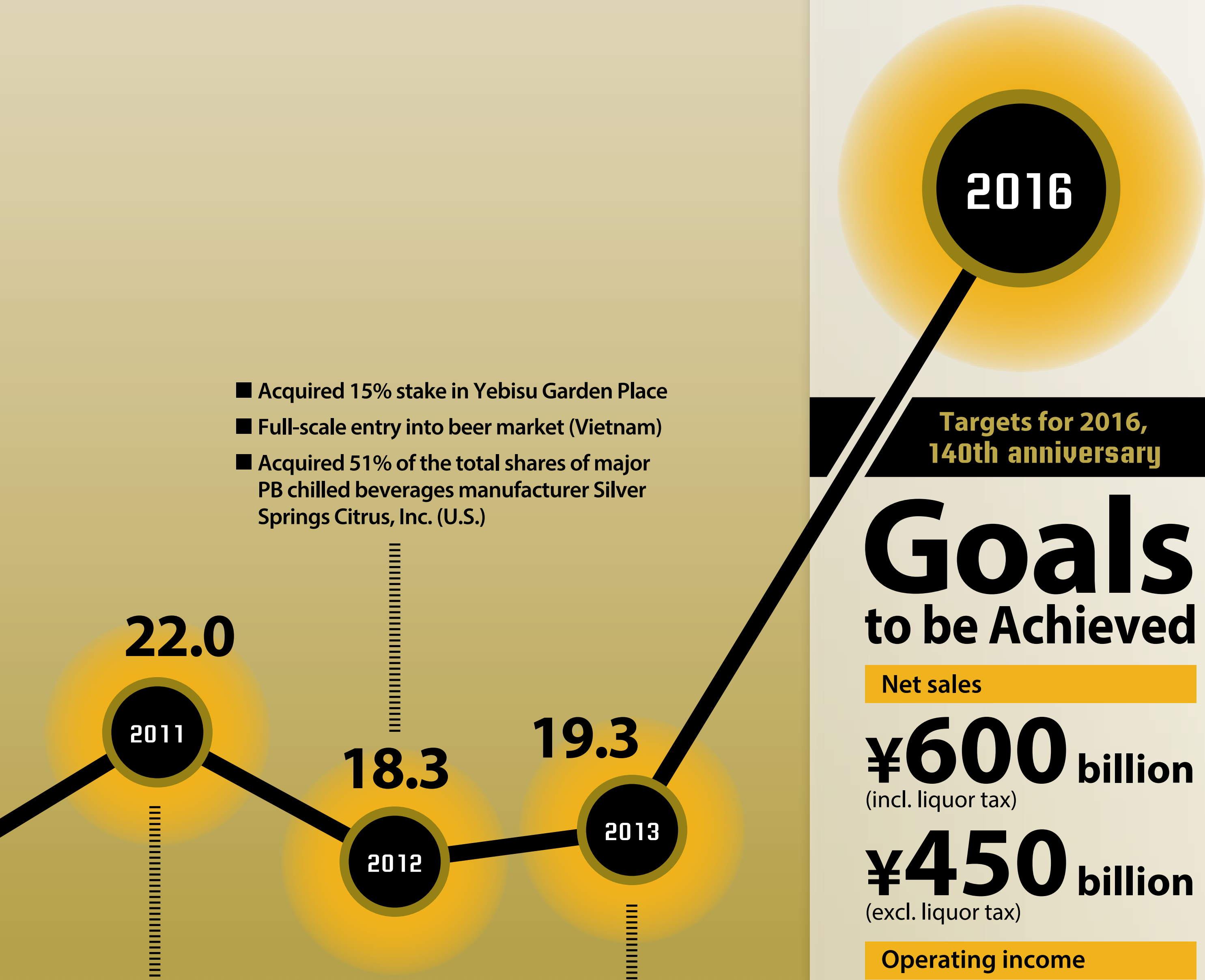
2008
- Awarded Germany's "National Honor in the world" (the Bundesehrenpreis in Gold)
- Sold 15% stake in Yebisu Garden Place

2009
- Capital and business alliance with POKKA CORPORATION
- Started operations of Azumino Food Co., Ltd. through joint venture with Marudai Food Co., Ltd.

2010
- Business alliance with Maeil Dairies Co., Ltd. (South Korea)

Sapporo Group's New Management Framework >>>

- Acquired 15% stake in Yebisu Garden Place
- Full-scale entry into beer market (Vietnam)
- Acquired 51% of the total shares of major PB chilled beverages manufacturer Silver Springs Citrus, Inc. (U.S.)




- Entered Western spirits business through business alliance with Bacardi Japan Ltd.
- Business integration with POKKA CORPORATION
- Beer plant completed (Vietnam)
- Beer production and sale under licensing agreement with Coopers Brewery Ltd. (Australia)

- Launched *Goku Zero*
- Started operations of POKKA SAPPORO Food & Beverage Ltd.
- Started construction of soft drinks plant (Malaysia)
- Opened first overseas *GINZA LION BEER HALL* (Singapore)
- Reorganized production bases in North America and outsourced production of beer to City Brewing Company, LLC.

**Targets for 2016, 140th anniversary**

# Goals
## to be Achieved

**Net sales**

**¥600 billion**
(incl. liquor tax)

**¥450 billion**
(excl. liquor tax)

**Operating income**

**¥40 billion**
(before goodwill amortization)

**Operating income to net sales**

**9%**
(excl. liquor tax)
(before goodwill amortization)

**ROE**

**8% or higher**

**D/E ratio**

**Around 1:1**

★ Group Strategies 1

# Create High-Value-Added Products and Services

In each of its businesses, the Sapporo Group is concentrating management resources on the areas in which it is most competitive, to ensure that it maintains market superiority. As a group, we are committed to creating high-value-added products and services in order to provide valuable products and services that customers can identify with.

## *Goku Zero*
## - First such concept in the world

*Goku Zero*, launched in June 2013, is a new genre beer that is the world's first zero purine*[1], zero carbohydrate*[2] beer-type beverage. This product focuses on increased interest in purines among customers and uses the new *Goku Zero* manufacturing method developed using technology now being patented. *Goku Zero* delivers both in terms of performance and taste: zero purines and zero carbohydrates with a pleasant taste and clean finish. In FY2013, we sold 3.58 million cases*[3], outperforming our initial plan by 63%, and our 2014 sales target is 5.5 million cases (a 54% increase year on year).

*1: 0.00mg purines per 100ml
*2: Less than 0.5g carbohydrate per 100ml is shown as "zero carbohydrate" in accordance with nutrition labelling standards.
*3: Cases of large bottles (633ml×20 bottles)



## Strong brands in the lemon category

The lemon products (flavorings) sold by POKKA SAPPORO Food & Beverage are undisputedly No.1 in their category*[1], with a market share of 86%. In FY2013, core brands *POKKA Lemon* and *Kireto Lemon* grew strongly, and *Kireto Lemon Sparkling* was also well received. In March 2014, we are launching new versions of products, which are expected to help further enhance brand appeal.

*1: Source: Lemon juice survey in Foodstuff Marketing Handbook 2014 by Fuji Keizai Co., Ltd. (2012 results)

★ Group Strategies 2

# Form of Strategic Alliances

The Sapporo Group will promote strategic alliances with powerful partners that will enable the Group to enhance its strengths, complement its capabilities, and acquire know-how, so as to rapidly develop competitive advantage on a large scale, instead of being constrained by group business operation alone.

## POKKA SAPPORO Food & Beverage starts operation

The Sapporo Group formed a capital and business alliance with POKKA CORPORATION ("POKKA") in September 2009, and POKKA and Sapporo Beverage were integrated in 2011 and made a new start as POKKA SAPPORO Food & Beverage Ltd. from January of 2013. The new company will concentrate management resources on brands owned by Sapporo Beverage and POKKA that can be differentiated and are competitive. It will take charge of the Group's food and beverage business and contribute to the Group's growth as its third core business, alongside the alcoholic beverages business and real estate business. POKKA SAPPORO Food & Beverage also aims to leverage technologies and ingredients of the two companies to develop new brands and products, and to strengthen and nurture brands owned by POKKA in the food business and turn them into an engine of growth.

おいしい「!」がある pokka sapporo




Total RTS
**170%**
YoY increase

## Alliance with Bacardi, the world's No.1 rum brand

The Sapporo Group started selling 90 items of 29 brands, mainly Western spirits, in October 2011, following its alliance with Bacardi Japan Ltd., which owns the world's No.1 rum brand*1. Together, we are leveraging our respective brand power and marketing expertise to nurture these offerings into a stable source of profits along with wine and *shochu*. In 2013, we launched *Mojito* RTD (can/bottle) and RTS, and total RTS sales in 2013 were up 170% from 2012.*2

*1: IWSR　*2: Total of Mojito, Daiquiri and Pina Colada

★ Group Strategies 3

# Promote International Expansion

We will achieve expansion of the Food and Soft Drinks businesses as well as the Alcoholic Beverages business in foreign markets, and we will leverage our technologies and business alliances to build and expand Sapporo brands in overseas markets.


Sales Volumes

1.5 times

(2013 result; compared with 2006)

North America (Canada)

## 7th straight year of sales increase in Canada: SLEEMAN

Since becoming part of the Sapporo Group in 2006, leading Canadian brewery SLEEMAN has achieved sales growth for 7 straight years. In FY2013, annual sales topped 19 million cases (1 case = 355ml×24 bottles) and sales volumes reached 1.5 times the 2006 level. SLEEMAN is playing a key part in the Sapporo Group's rapid development in the North America.


No.1

Japanese/Asian beer brand

North America (U.S.)

## Sapporo USA: No.1 brand for 28 consecutive years

Sapporo USA, the Sapporo Group's base in the U.S., has established the Sapporo brand as the No.1 Japanese/Asian beer brand for 28 consecutive years. It is now aiming to promote and expand the Sapporo brand in non-Japanese and non-Asian local markets.

2013 Sales Up

96% YoY

Asia (Vietnam)

## Exporting to 12 countries mainly in ASEAN Sapporo Vietnam

In the ASEAN market, which has a population of around 600 million people, the Sapporo Group is working to build and expand Sapporo brands out of its base, Sapporo Vietnam Ltd. Vietnam is Asia's third largest beer market and has huge growth potential. In 2010, the Sapporo Group built its first overseas beer factory in Vietnam, and now exports to 12 countries, mainly in ASEAN.

Sapporo Vietnam is implementing thorough marketing and sales activities with the focus on Ho Chi Minh City. In FY2013, sales in Vietnam grew sharply, up 96% year on year, and are expected to continue growing in the future.

Asia (Singapore)

## 37 years of history: POKKA Singapore

POKKA CORPORATION (Singapore) Pte Ltd., a subsidiary of POKKA SAPPORO Food & Beverage, has 37 years of history in Singapore, and the POKKA brand, including Jasmine Green Tea, which boasts the largest share of the green tea beverage market, has made inroads into the market. The brand was selected as the No.1 brand in the non-carbonated beverage category of the INFLUENTIAL BRANDS AWARDS 2013*1, a consumer trend survey targeting people from 18 to 28 years old. In 2014, a new plant will be completed in Malaysia, and POKKA Singapore plans to strengthen its production structure to meet growing demand in Singapore and to aggressively market POKKA brand products in countries in South East Asia and the Middle East.

*1: Brand Alliance Pte. Ltd., Singapore

INFLUENTIAL BRANDS AWARDS 2013

TOP1 BRAND


★ Group Strategies 4

# Expand Group Synergies

The Sapporo Group is pursuing greater synergies among our businesses by promoting flexible collaboration and cooperation, unconstrained by our current Group companies or existing organizational boundaries, and we aim to maximize our corporate value through synergies in our business strategies and operations.

### Product development through collaboration between group companies:

## Sapporo *Kireto Lemon Sour*

In April 2014, Sapporo Breweries Ltd. will launch Sapporo *Kireto Lemon Sour*. This is a new offering in the RTD market, which has been growing continuously over recent years. It uses POKKA SAPPORO Food & Beverage's long-selling brand Kireto Lemon to make a pleasant sour lemon tasting cocktail. The Sapporo Group will continue to energize the market by harnessing group synergy to create new value.


Sapporo Breweries

×

POKKA SAPPORO Food & Beverage

# Japanese Alcoholic Beverages


## ★ 2013 Result

[Net sales]

**¥274.9 billion**

[Operating income]

**¥9.9 billion**

### Fiscal 2013 Overview

Looking at the Japanese beer market in 2013, total domestic demand for beer and beer-type beverages is estimated to have declined by 1% year on year. During the period under review, beer sales declined slightly and *happo-shu* sales also decreased, while sales of new-genre beer slowed but continued to show year-on-year growth. Under these market conditions, the Sapporo Group's Japanese Alcoholic Beverages business achieved higher sales than the year-ago level and reported increased sales of wine products, Western spirits and *shochu* by strengthening investment in its core beer brands and energetically introducing new value proposals. As a result, net sales in the Japanese Alcoholic Beverages business climbed by ¥5.0 billion, or 1.8% compared with the previous year, to ¥274.9 billion. Operating income rose ¥2.4 billion, or 31.6% year on year, to ¥9.9 billion, reflecting successful efforts to control costs, starting with marketing expenses.

### Beer Business

In the beer and beer-type beverages category, sales of our Yebisu brand grew strongly and, in the new-genre beer segment, we launched *Goku Zero*, the world's first beer-type beverage with zero purine bodies, in addition to introducing new versions of *Mugi to Hop* and *Mugi to Hop* Black, and sales volumes were substantially above our planned target. As a result, sales volumes of beer and beer-flavored beverages increased year on year, and we also succeeded in expanding our market share.

### Non-Alcoholic Beer and RTD Beverages

In the RTD category, the strongly favorable consumer response received by the limited-volume seasonal release in April of Sapporo Otoko Ume Sour, developed in collaboration with Nobel Confectionary Co., Ltd., encouraged us to launch the product as a year-round offering in September, as sales during the rest of the year exceeded our targets. In the bottled RTD market, we followed up our success with *Bacardi Mojito* and several other bottled offerings, helping to raise brand recognition for Bacardi, the world's No.1 selling rum. We also released new versions of *Sapporo Premium Alcohol Free* and *Sapporo Premium Alcohol Free Black*, which were favorably received.

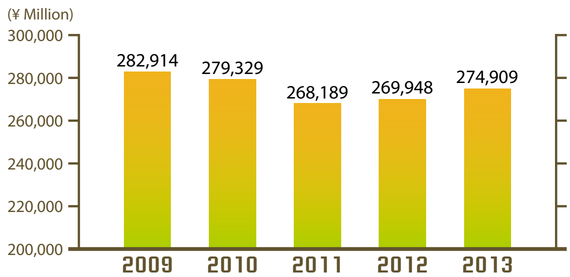
### Wine and Spirits Business

Among business products, we expanded the offerings of our core imported wine, Yellow Tail, and our domestic premium brand, *Grande Polaire*, was supported by favorable product reviews, including gold medal awards at the Japan Wine Competition 2013 for three wines in the series. As a result, overall wine sales in 2013 rose above the previous-year level. Our Western spirits business enjoyed rising sales volumes, with strong contributions from Bacardi products.

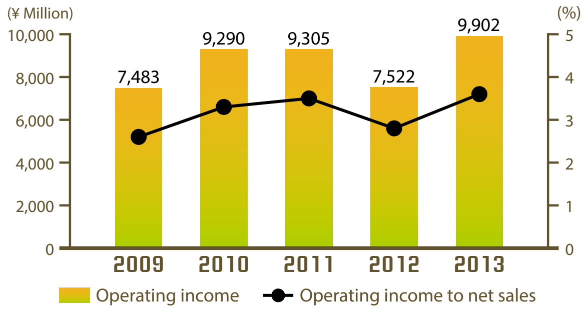
### *Shochu* Business

The *shochu* business sharply increased sales over the previous year's level thanks to the continued favorable consumer response to two blended *shochus: Imo Shochu Kokuimo* and *Mugi Shochu Koimugi* .

**Net sales**




**Operating income and Operating income to net sales**




Note: Figures are before goodwill amortization.

- SAPPORO BREWERIES LIMITED
- SAPPORO WINES LIMITED
- YEBISU WINEMART CO., LTD.
- TANOSHIMARU SHUZO CO., LTD.
- SAPPORO ENGINEERING LIMITED
- STARNET CO., LTD.
- NEW SANKO INC.
- SHINSEIEN CO.,LTD.

## ★ 2014 Targets

[Net sales]

**¥284.3 billion**

[Operating income]

**¥9.0 billion**

### Outlook for 2014

We expect the operating environment for our Japanese Alcoholic Beverages business to remain challenging as the negative impact of the trends toward a smaller drinking population and increasing diversity in consumer preferences and venues for drinking alcoholic beverages are compounded by an increase in Japan's consumption tax rate. The beer and beer-type beverages business will endeavor to further enhance the value of core brands as it aims for a third straight year of sales volume growth. It will concentrate management resources on the core *Yebisu Beer*, *Sapporo Draft Beer Black Label*, and *Mugi to Hop* brands while also aiming for a big increase in sales of *Goku Zero*. Similarly, the RTD, wine and *shochu* businesses will strengthen their offerings of "Only One" products, and endeavor to build greater brand recognition. The Japanese Alcoholic Beverages business as a whole will strive to achieve its profit targets despite the higher raw material prices caused by yen depreciation by effectively and flexibly controlling marketing expenses while also seeking to further enhance brand values. The business will also continue efforts to cut other costs wherever possible.

## [ Key Strategies under the Medium-Term Management Plan 2014-2016 ]

- To fulfill the new vision "Seek No.1 by accumulating one-of-a-kind products," we will continue innovations unique to Sapporo to be the "No.1 creator of moving experiences."
- We will make intensive investments in branding and other efforts during the 2014–2015 period commensurate with the increase in profit planned for 2016.

## Topic

### Yebisu Brand Beers Surpass Previous Year's Sales for the First Time in Three Years

Stronger advertising and sales promotion during the summer and year-end demand season of 2013 helped push Yebisu brand beer sales up 1.7%, surpassing those of the previous year for the first time in three years. In 2014, with the expected further growth of the high-priced beer category, we launched *Yebisu Natsu no Koku*, a product produced exclusively for the summer gift-giving season, and *Yebisu Royal Selection*, a limited-edition product for sale in convenience stores. As a premium brand launched more than a century ago that appeals to consumers with its distinctive values of "richness" and "history," we will continue to set our sights on offering the "No.1 Premium Value" as Japan's leading premium beer.

# International


## ★ 2013 Result

[Net sales]

**¥48.2 billion**

[Operating income]

**¥1.2 billion**

### Fiscal 2013 Overview

In North America, where the economic outlook remains unclear, we estimate that total demand in the beer market declined 2 to 3% in 2013. The Asian beer market, however, continues to grow steadily. Our International Business segment continued marketing activities targeting the premium beer market, where it has core strengths. As a result, net sales of the business increased by ¥12.1 billion, or 33.5% year on year, to ¥48.2 billion, supported by increased sales on local-currency bases at continuing operations, a full year's contribution from Silver Springs Citrus, which was consolidated in April 2012, and the positive impact of yen depreciation. Segment operating income increased ¥1.3 billion year on year, to ¥1.2 billion.

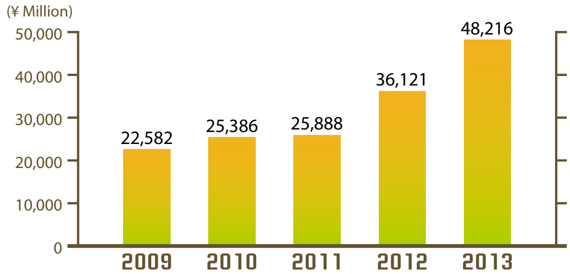
### North American Market

Canadian subsidiary SLEEMAN BREWERIES achieved a 4% year-on-year increase in unit sales (excluding outsourced production of Sapporo brand products and sales of domestic brands), stretching its growth streak to seven years. Sapporo USA recorded a 5% year-on-year increase in sales volumes of Sapporo brand beers. Silver Springs Citrus, in which we hold a 51% equity stake, also continued to steadily increase sales volumes.

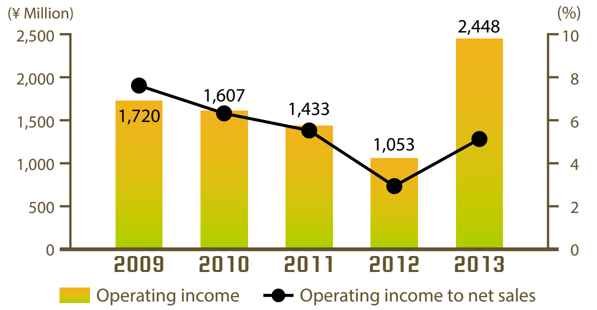
### Asia and Oceania Market

In Vietnam, we continued the full-fledged marketing offensive as part of efforts to build market recognition for the Sapporo brand. These efforts produced a solid increase in sales in 2013, with sales particularly strong during the traditional *Tet* (New Year's holiday) sales campaign. In South Korea, the continued efforts of the Maeil Dairies' subsidiary are expanding sales of Sapporo brand beers in Korea's household and commercial markets. In Oceania, we continued to bolster sales via our brewing and sales licensing agreement with Australia's Coopers Brewery, and in Singapore we worked with our local subsidiary to expand sales channels in the local household market. The efforts outlined above enabled the International Business to achieve a 43% year-on-year increase in beer volume sales in Asia and other overseas markets outside North America in 2013.

### Net sales




### Operating income and Operating income to net sales




Note: Figures are before goodwill amortization.

■ 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.

## ★ 2014 Targets

[Net sales]

**¥57.2 billion**

[Operating income]

**¥1.1 billion**

### Outlook for 2014

In North America, the economic outlook remains uncertain, and we therefore assume that total demand in the North American beer market will be the same level as the previous year. In Canada, SLEEMAN BREWERIES will continue to spend aggressively on marketing for its core premium brands. In the United States, while continuing to target the Japanese-American market segment, Sapporo USA will redouble its efforts to strengthen its presence in the wider Asian-American and general population segments of the US beer market. Both companies aim for unit sales growth in excess of total demand growth.

In Vietnam, we are continuing full-scale marketing efforts to quickly establish our Sapporo brand in that market. In South Korea, we are accelerating sales of Sapporo brand beers in the household and commercial markets via the Maeil Dairies' subsidiary. In Singapore, we will continue to expand sales channels into the household beer market in a cooperative effort with our local subsidiary. In Oceania, we will continue efforts to expand sales via our brewing and sales licensing agreement with Australia's Coopers Brewery.

## [ Key Strategies under the Medium-Term Management Plan 2014-2016 ]

- We will promote market penetration of the Sapporo brand chiefly in North America and Southeast Asia.
- In Canada and the U.S. markets, we will seek better performance in the beer and soft drinks businesses for which we have enjoyed favorable results.
- In Southeast Asia, we will continue to pursue the beer business according to plan in Vietnam to improve operating income and achieve profitability.

## Topic

### Sapporo Brand is Spreading in Vietnam

Sapporo is expanding its marketing in Vietnam, one of Asia's leading beer consuming nations, and now has more than 2,600 outlets in Ho Chi Minh City that sell SAPPORO PREMIUM-brand beers. Its draft beer from kegs is also highly acclaimed. Sapporo is marketing not only in Vietnam, but has begun exporting SAPPORO PREMIUM-brand beers brewed in Vietnam to Singapore, where a POKKA CORPORATION subsidiary has been built, as well as Thailand, Malaysia, and other countries. In total, Sapporo is operating in eight of the 10 ASEAN countries.

# Food & Soft Drinks


## ★ 2013 Result

[Net sales]

**¥130.7 billion**

[Operating income]

**¥–1.5 billion**

### Fiscal 2013 Overview

Demand for soft drinks in Japan is estimated to have increased by about 3% over 2012, boosted by the summer heat wave in Japan. We estimate that domestic demand for lemon-based products declined 2% year on year, while demand for instant soups appears to have been about even with the 2012 level. In this overall demand environment, the Sapporo Group's Food & Soft Drinks business began integrated operations in January as POKKA SAPPORO Food & Beverage Ltd., and new investments were concentrated on core brands as the new subsidiary seeks to strengthen and nurture its various brands. As a result of the above, the Food & Soft Drinks segment recorded sales of ¥130.7 billion in 2013, an increase of ¥1.7 billion, or 1.3%, with the consolidation of POKKA ACE (M) SDN. BHD. from January helping to offset the decline in sales at the domestic Food & Soft Drinks business. However, business integration expenses weighed on the segment's profits, resulting in an operating loss of ¥1.5 billion, a deterioration of ¥1.8 billion from 2012.

### Domestic Food and Soft Drinks Business

Our domestic food and soft drinks business saw a decline in sales of its soft drinks as business integration led to consolidation of product lineups in our core drink offerings, including canned coffee, tea, and water drinks. On the other hand, the *Gabunomi* series and the *Fujiya* brand made strong showings. In the lemon and natural foods category, we launched a new version of *Kireto Lemon Sparkling* packaged in a 410ml PET bottle, which together with our core *Pokka Lemon 100* brand posted solid sales. Among our overseas brands, *Gerolsteiner* naturally carbonated water from Germany enjoyed steady sales growth as we expanded its sales channel to vending machines.

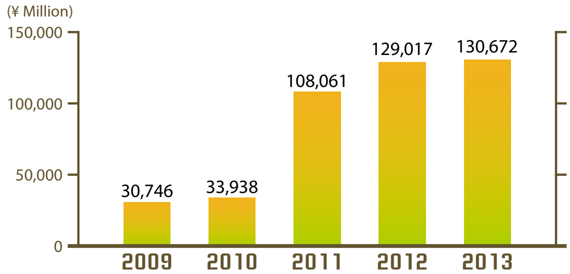
### Domestic Restaurants Business

In the domestic restaurants business, the *Café de Crié* coffee shop chain posted strong sales, reflecting strategies such as regular introductions of new menu items and renovations of existing outlets. As of the end of 2013, the chain had 170 outlets in operation.

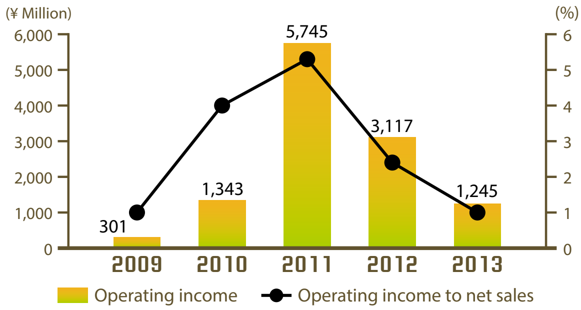
### Overseas Food & Soft Drinks Business

The overseas Food & Soft Drinks business saw profitability affected by stiff competition in Singapore but was able to expand its exports to the Middle East and other markets.

Net sales




Operating income and Operating income to net sales




Note: Figures are before goodwill amortization.

- POKKA SAPPORO FOOD & BEVERAGE LTD.
- STELLA BEVERAGE SERVICE CO., LTD.
- STAR BEVERAGE SERVICE CO., LTD.
- SUN POKKA CO., LTD.
- PS BEVERAGE LTD.
- POKKA CREATE CO., LTD.
- POKKA CORPORATION (SINGAPORE) PTE. LTD.

## ★ 2014 Targets

[Net sales]

**¥140.0 billion**

[Operating income]

**¥0.1 billion**

### Outlook for 2014

In Japan's soft drinks industry, the outlook for an increase in industry wide demand in 2014 is not very favorable, largely due to strong consumer price consciousness and the consumption tax increase. Faced with this less than favorable external environment, our food and soft drinks business plans to offset costs to the maximum degree possible by thoroughly promoting low-cost operations in each link of the value chain.

In the domestic food and soft drinks segment, the soft drinks business plans to focus its marketing spending and activities on its core domestic brands, such as *Ribbon* and *Gabunomi*. In the lemon and natural foods category, we will continue to solidify our unique market position centering on *Kireto Lemon*. The overseas soft drinks business plans to maintain its leading share of the Singapore market for tea drinks and expand sales in new product categories.

## [ Key Strategies under the Medium-Term Management Plan 2014-2016 ]

- In the domestic food and soft drinks business, we will seek to attain growth in 2015 and thereafter through focused efforts to establish the core brands of POKKA SAPPORO, enhance marketing power in terms of the quality of proposals and pioneering ideas as well as the number of activities, and reduce costs.
- In the overseas soft drinks business, based on the increased capacity of manufacturing due to the completion of a Malaysian factory, we will maintain the top share of the tea beverages market in Singapore and further expand their sales, while accelerating the growth of sales in other countries as well.

## Topic

### POKKA Malaysia Factory

In recent years, Singapore's domestic and export sales of beverages in PET bottles have been very successful. To cope with this success, POKKA CORPORATION (Singapore) has built a new factory in neighboring Malaysia that is slated to begin operation in July 2014. The POKKA Malaysia Factory will be fully environmentally-friendly, with a cutting-edge aseptic bottling line for bottling juice and tea and other beverages in 500ml and 1.5 liter PET bottles, LED lighting, and a water and energy recycling system.

# Restaurants

- SAPPORO LION LIMITED
- SAPPORO LION (SINGAPORE) PTE. LTD.

## ★ 2013 Result

[Net sales] **¥26.8 billion**

[Operating income] **¥0.4 billion**

### Fiscal 2013 Overview

Japan's restaurant industry began to see some signs of improvement in consumer sentiment amid growing expectations of an economic recovery in Japan. However, the operating environment remained severe with increased competition for customers from prepared food manufacturers and retail outlets. In this environment, our Restaurants Business endeavored to raise customer satisfaction and enhance core menu offerings, including by conducting aggressive sales campaigns. As a result of its efforts outlined above, the Restaurants Business achieved sales of ¥26.8 billion in 2013, ¥0.2 billion, or 0.8%, more than in 2012. Segment operating income, however, amounted to ¥0.4 billion, some ¥0.1 billion, or 22.9%, less than in the previous year.

### Japan

In Japan, we opened 13 restaurants in 2013, focusing on formats with strong growth potential, such as our *YEBISU BAR* chain and small *GINZA LION* outlets. In line with our efforts to improve profit structure, we closed 16 outlets, bringing the total number of restaurants open in Japan at the end of the year to 190.

### Overseas

Overseas, we opened our first *GINZA LION BEER HALL* in Singapore, the first step in our plan to spread the beer hall culture we have nurtured in Japan to the rest of the world. Going forward, we plan to further promote the *GINZA LION* brand in the Singapore market. We also opened two Rive Gauche cake and patisserie shops in Singapore, bringing the Restaurants Business' total number of overseas outlets to 13.

## ★ 2014 Targets

[Net sales] **¥28.1 billion**

[Operating income] **¥1.0 billion**

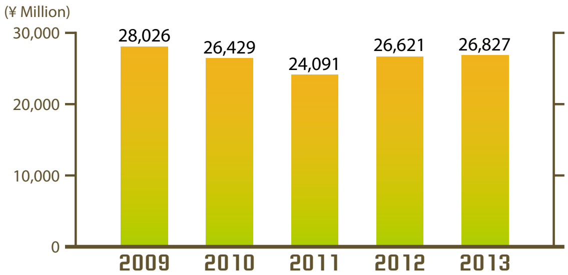
### Outlook for 2014

We expect the operating environment for restaurants in Japan to remain challenging mainly due to the impact of the consumption tax increase on consumer spending. In this difficult environment, our Restaurants Business plans to continue creating outlets that customers love to frequent in line with its guiding principle of providing 100% satisfaction. New store openings will focus on territorial expansion for our core formats with high growth potential. At the same time, we will continue measures to improve the business' profit structure, including the closing of unprofitable outlets. Overseas, we will work to enhance the appeal of our *GINZA LION* outlet brand in Singapore.

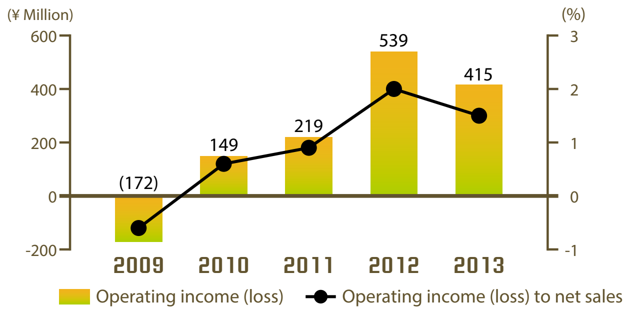
### Key Strategies under the Medium-Term Management Plan 2014-2016

- By supplying hospitable services and safe and delicious food menus, we will seek to offer "Japan's No.1 enjoyable stores," continuously loved and appreciated by customers.
- In the domestic market, we will strengthen the core *GINZA LION* and *YEBISU BAR* brands. Overseas, we will promote the expansion of the *GINZA LION BEER HALL* restaurant format, the first store of which was opened in Singapore and has been operating favorably.

### Net sales




### Operating income (loss) and Operating income (loss) to net sales




Note: Figures are before goodwill amortization.

# Real Estate

- 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.

## ★ 2013 Result

[Net sales] **¥22.8 billion**

[Operating income] **¥8.7 billion**

### Fiscal 2013 Overview

In the real estate industry, vacancy rates in the Greater Tokyo office leasing market continued to decline in 2013, but rent levels remained weak. Our real estate leasing business maintained high occupancy rates at its properties in the Tokyo Metropolitan area, including its core property, Yebisu Garden Place. However, the Real Estate Business posted sales of ¥22.8 billion, down ¥0.4 billion, or 1.9%, year on year. Operating income declined ¥0.7 billion, or 7.6%, to ¥8.7 billion, largely due to a decline in rental income associated with the redevelopment of the Sapporo Ebisu Building (tentative name).

### Yebisu Garden Place

In preparation for Yebisu Garden Place's 20th anniversary in 2014, we stepped up efforts to enhance the property's value, including carrying out a major renovation of the restaurant floor on the second basement level in preparation for the opening of a new large, upscale restaurant tenant and renovating a dedicated cafeteria serving office workers. We also began the installation of additional emergency power-generating systems that will help ensure our tenants' business continuity in the event of a disaster that cuts off power from the grid. The installation is scheduled for completion in April 2014.

### Real Estate Development

The real estate development business began redevelopment of the Sapporo Ebisu Building (tentative name) in Tokyo's Ebisu district in March 2013, and the project is running on schedule for completion in autumn 2014. We also continue to consider redevelopment of the Sapporo Ginza Building located at the Ginza 4-chome intersection and have been engaged in consultations with concerned parties.

## ★ 2014 Targets

[Net sales] **¥22.3 billion**

[Operating income] **¥7.2 billion**

### Outlook for 2014

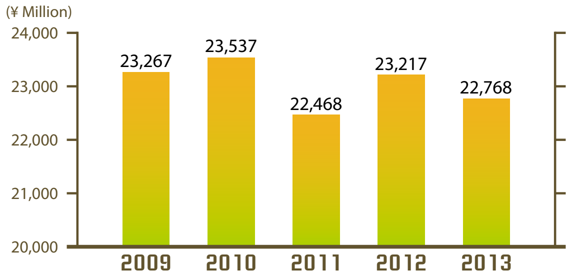
Japan's real estate industry broadly expects to see improvement in vacancy rates and rent levels in the Greater Tokyo office leasing market as the domestic economy strengthens. In this improving environment, our Real Estate business will seek to maintain or raise occupancy rates and rent levels at its leasing operations. It also plans to further strengthen the brand power of its flagship property, Yebisu Garden Place, and to enhance the property's convenience and thereby raise its asset value.

The segment's real estate development business is on track to complete construction work on the Sapporo Ebisu Building (tentative name) in September 2014. The business is also planning to launch an aggressive leasing campaign to ensure a high occupancy rate from the building's opening. The redevelopment of the Sapporo Ginza Building at the Ginza 4-chome intersection is still in its planning stages, including the preparation of a design that will increase the property's floor space and provide an external appearance suitable for a Ginza landmark. We look forward to starting reconstruction work in the near future.

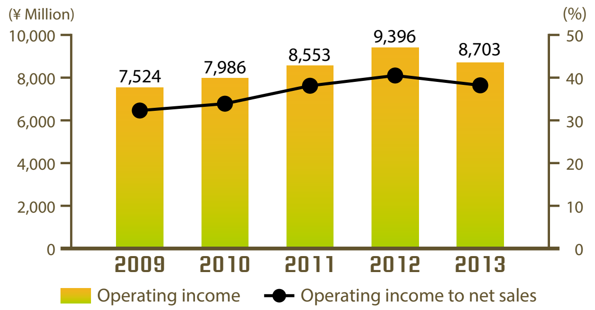
### Key Strategies under the Medium-Term Management Plan 2014-2016

- We will enhance the value of the properties we hold in Ebisu, Ginza and Sapporo to contribute to enhancement of the Group's branding strength.
- Through Sapporo Ebisu Building (tentative name) and Sapporo Ginza Building, and enhancement of the value of Yebisu Garden Place, we aim for a significant increase in profit during the 2015–2016 period.

### Net sales




### Operating income and Operating income to net sales




Note: Figures are before goodwill amortization.

# CSR Initiatives

The Sapporo Group positions CSR-focused management as one of the "key strategies for realizing the sustained growth of the Group," and will promote initiatives in areas such as "Quality of food and space," "Conservation of the global environment," "Harmonious coexistence with society" and "Fair and just dealings."

## Sapporo Group's Basic CSR Policy

**"We are determined to remain a group that is trusted by society by conducting business in a way that keeps our customers happy."**

Since the Sapporo Group's founding in 1876, we have existed in harmony with society and have been sustained by the happiness of our customers as we forged our path to the present. From here on, the Sapporo Group will aim to grow as a company and contribute to sustainable social development by remaining an honest group that makes customers happy based on our management philosophy: "To make people's lives richer and more enjoyable."

## CSR Activity Fields

We will promote CSR initiatives with a focus on the following activity fields.

1. **Quality of food and space** (provision of safe and reliable products/ pursuit of quality)
2. **Conservation of the global environment**
3. **Harmonious coexistence with society** (contribution to local communities/educational activities to promote appropriate drinking habits)
4. **Fair and just dealings**
5. **Development of human resources and enhancement of the working environment**
6. **Sound corporate management** (promotion of internal controls, information disclosure and compliance)

Activity fields 1 4

# Sapporo Breweries' Collaborative Contract Farming System

## Sapporo's Satisfying Beer Produced through "Collaboration" between Field Workers and Producers

The Sapporo Group promotes the "Collaborative Contract Farming System" to provide customers with satisfying beer using safe, high quality ingredients. The "Collaborative Contract Farming System" is Sapporo Breweries' unique and unprecedented raw material procurement system that is based on the three pillars of 1) specifying the production area and the producer, 2) specifying the production method, and 3) contact between the producer and Sapporo Breweries. Raw material specialists, called Field Workers (FWs), from Sapporo Breweries directly visit the production areas of producers who cultivate by exclusive contract for Sapporo at around 3,000 locations in nine countries throughout the world. By maintaining constant and close communication with producers, they ensure that high quality raw materials are produced. As of January 2006, all of our Beer's barley and hops were cultivated by exclusively contracted producers. As a result of efforts in this area, we were awarded Germany's "National Honor in the world" (the Bundesehrenpreis in Gold) for producers of quality spirits in 2008.

The specific activities of FWs are to inspect all production areas each year prior to sowing, cultivation, and harvesting as well as after harvesting and to repeatedly meet with producers. FWs ensure that producers understand the raw material quality that we demand, and work together with producers in all areas from plant breeding to cultivation methods, the use of fertilizers and pesticides, and storehouse management.


## Aiming for Sustainable Agriculture - All Field Workers Hold JGAP Trainer Qualification

Sapporo Breweries has all the barley and hops for its beer cultivated by exclusively contracted producers and its raw materials specialists known as FWs meet directly with raw material manufacturers and producers throughout the world each year to ensure the reliable supply of safe, high quality ingredients through collaboration. In 2013, all 14 FWs gained trainer qualifications accredited by the Japan Good Agricultural Practice Association (JGAP)*, and also incorporated some of the GAP requirements into the Collaborative Contract Farming System. Moving forward, the Sapporo Group aims to establish sustainable agriculture models with high consideration not only for the safety and quality of raw materials but also for process hygiene management and environmental conservation.

*JGAP is an accreditation awarded to farms working on food safety and environmental conservation, and is a method of managing agricultural production processes that the Ministry of Agriculture, Forestry and Fisheries encourages farms to use.

## Participation in the United Nations Global Compact

Activity fields 2 4 6

In October 2013, Sapporo Holdings became a participant in the United Nations Global Compact (UNGC), a cooperative framework between the United Nations and worldwide corporations to realize sustainable growth that is advocated by the United Nations. With ten principles in the four areas of human rights, labor, the environment and anti-corruption, the UNGC asks companies to conduct responsible business activities. Under the Sapporo Group's Basic CSR Policy, the Sapporo Group's Important CSR Issues, and other internal directives, Sapporo Holdings has striven to promote CSR-focused management. Seizing the momentum of this opportunity to join the UNGC, we will take further initiatives to contribute to realizing a sustainable global society.

THE GLOBAL COMPACT
Network Japan
WE SUPPORT

## CDP Selects Sapporo Holdings for "CDP's Japan 500 Climate Disclosure Leadership Index" for a Second Year

Activity fields 2


The CDP is a non-profit organization focused on global environmental disclosure. Sapporo Holdings took part in CDP's climate change program designed to enable management of greenhouse gas emissions and the risks and opportunities associated with climate change.

In 2013, we were recognized for Group-wide environmental conservation initiatives and our approach to disclosing climate change information to stakeholders by being included in the CDP's Japan 500 Climate Disclosure Leadership Index (CDLI). We were the only company in the food industry to be included in CDLI for two consecutive years.

The Sapporo Group will continue striving to disclose CSR information in the future.

## Establishment of the Sapporo Group's Basic Purchasing Policy

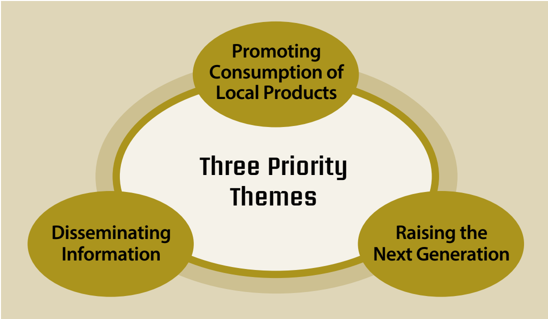
Activity fields 4

The Sapporo Group set up the Group Purchasing Department as part of the Sapporo Group's management in 2012, to optimize procurement activities across the Group. In 2013, we established the Sapporo Group's Basic Purchasing Policy, which we shared with all our operating companies and also communicated to all our suppliers in Japan. This policy applies not only to the purchasing sections of each operating company but also to all employees working for the Sapporo Group.

Activity fields 3

## Supporting Tohoku Reconstruction under Three Priority Themes

The Sapporo Group has been providing support for disaster areas since right after the occurrence of the Great East Japan Earthquake on March 11, 2011. In 2012, Sapporo Breweries set up the "Tohoku Future Project" inside its Tohoku Headquarters and has since been engaged in support activities to meet the needs of the affected areas under three priority themes: (1) promoting consumption of local products, (2) disseminating information, and (3) raising the next generation.




### Sapporo's Approach to Supporting Tohoku Reconstruction

Our approach to supporting Tohoku reconstruction is to visit disaster-affected areas and listen to what people have to say to find out what support they truly need. At the moment, we believe our priorities are support for the affected areas in redeveloping industry and becoming independent, and support for the children who will lead the future of the Tohoku region. We are leveraging the information transmission capacity of Yebisu Garden Place to promote Tohoku's tourism and products far and wide, and focusing on activities to create places where children can study normally. The revitalization of the local economy in disaster-affected areas and support activities that put smiles on children's faces will continue to be our focus in the future.

Toshihiko Umezato
*General Manager in charge of the "Tohoku Future Project"*
*Tohoku Regional Sales and Marketing Division, Sapporo Breweries Ltd.*

Activity fields 5

## Training in Japan for Local Overseas Staff

Sapporo International is concentrating its efforts on educating the local staff of overseas subsidiaries and sends a wide range of employees, from sales staff to engineers, to Japan for training. In 2013, we welcomed five employees from SLEEMAN in Canada and two from Sapporo Vietnam, and organized training and meetings for them in the manufacturing divisions, quality control divisions and plants of Sapporo Breweries. We will continue to organize training and meetings in Japan for a wide range of staff to spread the word about the satisfying flavor of Sapporo products.

# Corporate Governance

Interview

## Amid diversification of Sapporo Holdings' business portfolio and the external business environment, outside director Shigehiko Hattori gives his assessment of corporate governance at Sapporo Holdings.

Corporate governance is a mechanism for monitoring business management with the goal of clearly defining a system of checks to monitor. The outside director and outside corporate auditor are one personification of this system. Sapporo Holdings has appointed three outside directors, including myself, and two outside Audit & Supervisory Board Members and we constantly debate a variety of issues including management transparency and accountability to stakeholders at the board of directors meeting. We also serve as members of the Nominating Committee and directors' Compensation Committee where we have a lively exchange of views. The board of directors as a whole constantly works to increase transparency in its conduct. In that respect, Sapporo Holdings' governance system is firmly structured and managed.

Taking a look at the Sapporo Group's overall governance, the three policies of total optimization, autonomy, and mutual cooperation have been clearly defined and rigorously carried out. One challenge I think it faces is its existence as a holding company. This is not a challenge unique to Sapporo Holdings, but is shared by many companies similar in type. Future challenges to be addressed are: 1) to what extent should the holding company solely make a management decision with Group companies conducting a wide range of activities and, therefore, 2) what should be the function of outside directors. With that, I think greater unity of purpose and increased communication within the entire Sapporo Group will be required.

Amid further business integration and overseas expansion, stakeholders are also becoming much more diverse. How to rigorously enforce governance in reaction to this diversification is another major challenge for the future, in my view. With changes occurring within the Company and in the external business environment, it is difficult for each person in the Group to comprehend everything that is happening. I just believe it is important that we rigorously enforce the Code of Business Conduct and everything that forms the Company's foundation, and that we constantly decide, discuss, and make clear to others what is required for governance.

Let me touch upon the issue of "food." Sapporo employs the highly acclaimed Collaborative Contract Farming System, a superior system that enables the clear traceability of raw materials. In recent years, issues such as food fraud and agrichemical-laced food have become key challenges in terms of risk management. Standing by the principle of putting customers first, the Company should not simply work to meet regulations and standards, but should go a step further by providing the added-values of security and health and initiate an aggressive management that stands upon its marketing strategy. Customers and the business environment will constantly change. I believe our future business challenge is this: How do we establish a foundation and rigorously reinforce it amid this change.

Shigehiko Hattori

*Chairman of the Board, Shimadzu Corporation*
*Outside Director since fiscal 2012*

## 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.

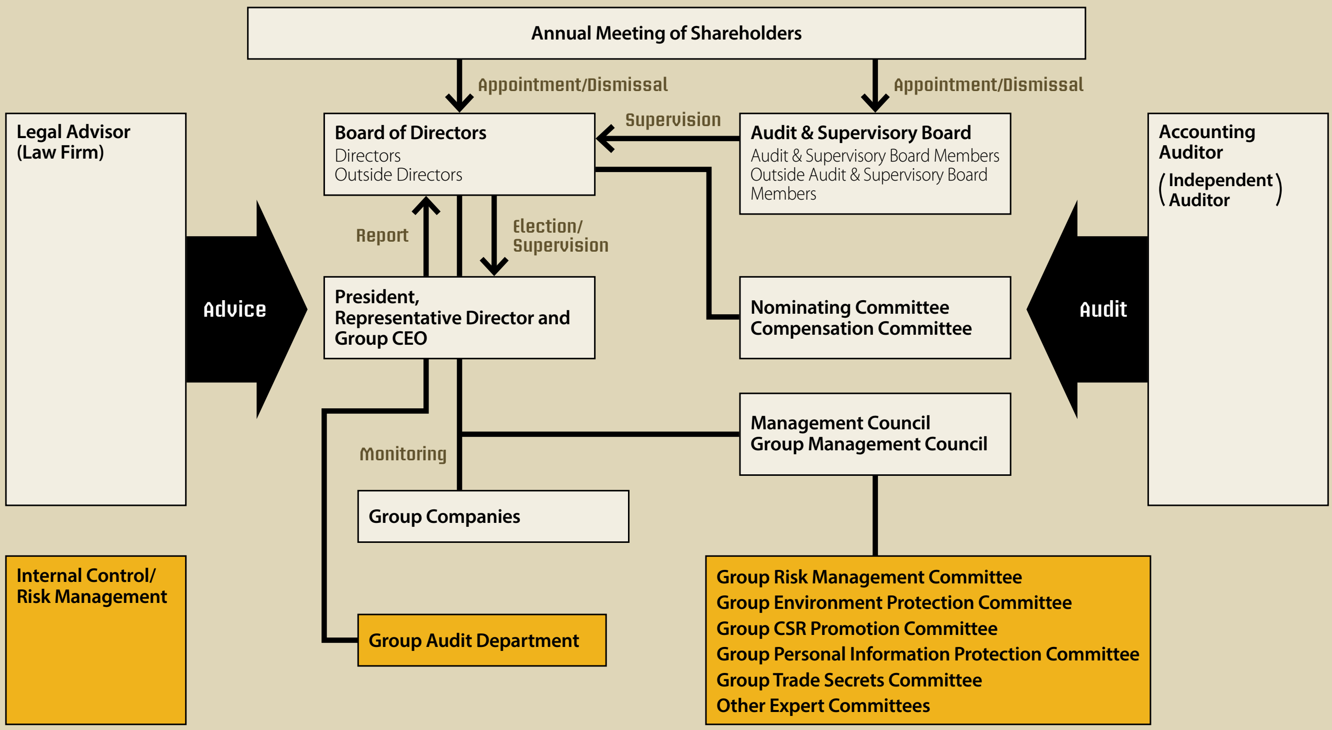
### About Outside Directors

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 12 meetings of the Board of Directors held in 2013.

## President, Representative Director and Group CEO, and Group Operating Officers

The President, Representative Director and 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, Representative Director and Group CEO, control business execution in the main business segments.

## Corporate Functions and Internal Control Relationships



## Audits by the Audit & Supervisory Board Members

Sapporo Holdings Ltd. uses the Audit & Supervisory Board Member system, in which Audit & Supervisory Board Members, 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 Audit & Supervisory Board. In accordance with audit policy and allocated auditing duties decided by the Audit & Supervisory Board, each Audit & Supervisory Board Member 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 Audit & Supervisory Board Members also receive an explanation of the audit plan from the independent auditors and the independent auditors' report. This system allows proper auditing of the execution of duties by directors.

### About Outside Audit & Supervisory Board Members

Sapporo Holdings has four Audit & Supervisory Board Members, two of whom are outside Audit & Supervisory Board Members. Both outside Audit & Supervisory Board Members 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 12 meetings of the Board of Directors held in 2013, the outside Audit & Supervisory Board Members offered input where fitting to preserve the propriety and appropriateness of decisions by the directors. Similarly, the outside Audit & Supervisory Board Members provided input where needed on the screening and selection of agenda items and other matters at the 13 meetings of the Audit & Supervisory Board held during the year.

## Nominating and Compensation Committees

Although Sapporo Holdings uses the Audit & Supervisory Board Member 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 Audit & Supervisory Board Members are added as members when deciding compensation for Audit & Supervisory Board Members, and when recommending candidates for Audit & Supervisory Board Member). The committee chair is selected by the outside directors.

## Compensation for Directors and Audit & Supervisory Board Members

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 Audit & Supervisory Board Members is also decided within remuneration limits set by the Annual Meeting of Shareholders, and consists of a base salary for each Audit & Supervisory Board Member calculated in accordance with standards decided by the Audit & Supervisory Board.

No bonuses for directors or Audit & Supervisory Board Members were paid in 2013, nor were any retirement benefits, stock options or other noncash remuneration.

Compensation amounts in 2013 were as follows.

| Executive classification | Total amount of compensation (¥ Million) | Total compensation by type (¥ Million) | | | Number of eligible directors and Audit & Supervisory Board Members |
|---|---|---|---|---|---|
| | | Base salary | Bonuses | Retirement benefits | |
| Directors (Excluding outside directors) | 113 | 113 | — | — | 9 |
| Outside directors | 24 | 24 | — | — | 3 |
| Audit & Supervisory Board Members (Excluding outside Audit & Supervisory Board Members) | 37 | 37 | — | — | 2 |
| Outside Audit & Supervisory Board Members | 13 | 13 | — | — | 3 |
| Total | 188 | 188 | — | — | 17 |

Notes:
1. Compensation of ¥121 million was paid by consolidated subsidiaries to 5 directors (excluding outside directors). The directors' base salary was not paid.
2. Salary of ¥11 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 Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members) 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 Audit & Supervisory Board Members include 1 Audit & Supervisory Board Member who retired as of the 89th Annual Meeting of Shareholders held on March 28, 2013.
4. 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 Audit & Supervisory Board Members.
5. The Company abolished its retirement benefit system plan for directors and Audit & Supervisory Board Members at the close of the 80th Annual Meeting of Shareholders held on March 30, 2004.
6. The Company does not provide non-cash remuneration, such as stock options.

## Internal Audits

Under instructions from the President, Representative Director and 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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members 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/news_release/pdf/14021202.pdf

# Board of Directors and Audit & Supervisory Board Members

(As of March, 2014)

## ★ Board of Directors

Note: Mr. Hiroshi Tanaka, Mr. Shigehiko Hattori and Mr. Teruhiko Ikeda are outside directors.

### 1. TSUTOMU KAMIJO
(January 6, 1954)

*President, Representative Director and Group CEO*

■ **April 1976**
Joined the Company

■ **March 2001**
Director (Member of the Board), Director of Sales Planning Department, of Sapporo Beverage Co., Ltd.

■ **March 2007**
Director (Member of the Board), Director of Corporate Planning Department of the Company

■ **March 2009**
Managing Director (Member of the Board) of the Company

■ **March 2011**
President of Sapporo Beverage Co., Ltd.
President of the Company and CEO of the Group (up to the present)

### 2. HIDENORI TANAKA
(April 16, 1955)

*Representative Director and Executive Managing Director*

■ **April 1978**
Joined the Company

■ **March 2007**
Director (Member of the Board), Director of Accounting & Finance Department, of Sapporo Breweries Limited

■ **March 2008**
Director (Member of the Board) of the Company

■ **March 2012**
Managing Director (Member of the Board) of the Company

■ **March 2014**
Representative Director and Executive Managing Director of the Company (up to the present)

### 3. YOUICH KATO
(July 21, 1954)

*Managing Director*

■ **April 1978**
Joined the Company

■ **September 2003**
Director (Member of the Board), Senior Officer, Director of Sales Administration Division, of Yebisu Garden Place Co., Ltd. (currently Sapporo Real Estate Co., Ltd.)

■ **March 2009**
Director (Member of the Board), Director of Corporate Planning Department of the Company

■ **March 2014**
President of Sapporo Group Management Ltd.(up to the present)
Managing Director (Member of the Board) and Group Operating Officer of the Company (up to the present)

### 4. JUNJI WATARI
(December 2, 1955)

*Director*

■ **April 1980**
Joined the Company

■ **March 2008**
Director (Member of the Board) and Managing Officer,
Deputy Director of Marketing Department, and Director of New Value Development Department,
of Sapporo Breweries Limited

■ **March 2014**
Director (Member of the Board) of the Company (up to the present)

### 5. TOSHIO MIZOKAMI
(April 16, 1959)

*Director*

■ **April 1984**
Joined the Company

■ **March 2012**
Director (Member of the Board), Director of Group Accounting & Finance Department, of Sapporo Group Management Ltd.

■ **March 2014**
Director (Member of the Board), Director of Corporate Finance and Business Management Department of the Company (up to the present)

### 6. MASAKI OGA
(December 2, 1958)

*Director*

■ **April 1982**
Joined the Company

■ **March 2010**
Director (Member of the Board) and Senior Officer, Director of Marketing Headquarters, of Sapporo Breweries Limited (up to the present)

■ **March 2013**
President and Representative Director of Sapporo Breweries Ltd. (up to the present)
Director (Member of the Board), and Group Operating Officer of the Company (up to the present)

## 7. YOSHIHIRO IWATA
(August 21, 1961)

*Director*

- **April 1984**
  Joined the Company
- **March 2011**
  Director (Member of the Board) of Sapporo International Inc.
- **March 2014**
  President of Sapporo International Inc. (up to the present)
  Director (Member of the Board) and Group Operating Officer 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)
- **June 2003**
  President & Chief Executive Officer of Kureha Corporation
- **April 2007**
  Chairman of the Board of Directors of Kureha Corporation
- **March 2008**
  Director (Member of the Board), 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 1993**
  Director (Member of the Board), of Shimadzu Corporation (seconded to the United States of America)
- **June 2003**
  President and CEO of Shimadzu Corporation
- **June 2009**
  Chairman of the Board of Director of Shimadzu Corporation (up to the present)
- **March 2012**
  Director (Member of the Board), 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.)
- **April 2002**
  Deputy President of Mizuho Corporate Bank, Ltd.
- **June 2004**
  President and Chief Executive Officer of Mizuho Trust & Banking Co., Ltd.
- **June 2010**
  Advisor of Mizuho Trust & Banking Co., Ltd. (up to the present)
- **March 2012**
  Director (Member of the Board) of the Company (up to the present)

# ★ Audit & Supervisory Board Members

Note: Mr. Junya Sato and Mr. Kazuo Sugie are outside Audit & Supervisory Board Members.

## RYOICHI YAMADA
(January 28, 1953)

*Standing Audit & Supervisory Board Member*

- **April 1975**
  Joined the Company
- **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 2011**
  Standing Audit & Supervisory Board Member of the Company (up to the present)

## KEIJI IIDA
(July 20, 1954)

*Audit & Supervisory Board Member*

- **March 1977**
  Joined POKKA Lemon Co., Ltd. (currently POKKA SAPPORO Food & Beverage Ltd.)
- **June 2011**
  Director and General Manager of Corporate Strategic Division of POKKA Corporation (currently POKKA SAPPORO Food & Beverage Ltd.) (Member of the Board)
- **March 2012**
  Audit & Supervisory Board Member of the Company (up to the present)

## JUNYA SATO
(May 4, 1953)

*Audit & Supervisory Board Member*

- **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 in the state of New York
- **April 2011**
  Vice Chairman of Daiichi Tokyo Bar Association
- **March 2012**
  Audit & Supervisory Board Member of the Company (up to the present)

## KAZUO SUGIE
(October 5, 1945)

*Audit & Supervisory Board Member*

- **August 1970**
  Joined Dainippon Ink and Chemicals, Inc. (currently DIC Corporation)
- **June 2001**
  Director of Dainippon Ink and Chemicals, Inc.
- **April 2009**
  Representative Director, President and CEO of DIC Corporation
- **April 2012**
  Chairman of the Board of DIC Corporation (up to the present)
- **March 2013**
  Audit & Supervisory Board Member of the Company (up to the present)

# Five-Year Summary

SAPPORO HOLDINGS LIMITED and consolidated subsidiaries

| Years ended December 31 | Millions of yen 2009 | 2010 | 2011 | 2012 | 2013 | Thousands of U.S. dollars 2013 |
|---|---|---|---|---|---|---|
| Net sales | ¥387,534 | ¥389,245 | ¥449,453 | ¥492,491 | **¥509,835** | **$4,837,141** |
| Japanese Alcoholic Beverages | 282,914 | 279,329 | 268,189 | 269,948 | **274,909** | **2,608,247** |
| International | 22,582 | 25,386 | 25,888 | 36,121 | **48,216** | **457,456** |
| Food & Soft Drinks | 30,746 | 33,938 | 108,061 | 129,017 | **130,672** | **1,239,770** |
| Restaurants | 28,026 | 26,429 | 24,091 | 26,621 | **26,827** | **254,528** |
| Real Estate | 23,267 | 23,537 | 22,468 | 23,217 | **22,768** | **216,013** |
| Other | — | 625 | 755 | 7,566 | **6,443** | **61,128** |
| | | | | | | |
| Operating cost and expenses | 374,638 | 373,842 | 430,569 | 478,076 | **494,490** | **4,691,559** |
| Operating income | 12,896 | 15,403 | 18,884 | 14,415 | **15,344** | **145,582** |
| Income before income taxes and minority interests | 8,874 | 17,762 | 5,841 | 10,512 | **16,562** | **157,138** |
| Net income | 4,535 | 10,773 | 3,165 | 5,394 | **9,452** | **89,677** |
| | Yen | | | | | U.S. dollars |
| Per share: | | | | | | |
| Net income: | | | | | | |
| Primary | ¥ 11.57 | ¥ 27.50 | ¥ 8.08 | ¥ 13.77 | **¥24.20** | **$0.23** |
| Diluted | 11.05 | 26.44 | — | — | **—** | **—** |
| Net assets | 302.16 | 319.32 | 314.87 | 336.60 | **388.77** | **3.69** |
| Cash dividends | 7.00 | 7.00 | 7.00 | 7.00 | **7.00** | **—** |
| | Millions of yen | | | | | Thousands of U.S. dollars |
| Year-end data: | | | | | | |
| Net assets | ¥118,591 | ¥126,645 | ¥124,775 | ¥134,947 | **¥155,367** | **$1,474,067** |
| Total assets | 506,875 | 494,798 | 550,784 | 597,636 | **616,753** | **5,851,544** |
| Financial liabilities | 196,794 | 181,335 | 219,168 | 257,647 | **247,828** | **2,351,311** |
| ROE (%) | 3.9 | 8.9 | 2.5 | 4.2 | **6.7** | **—** |
| Increase in property, plant and equipment and intangible fixed assets | 23,485 | 22,571 | 20,672 | 57,072 | **19,465** | **184,681** |
| Depreciation and amortization | 22,547 | 22,504 | 24,482 | 25,805 | **25,059** | **237,747** |

Notes: 1. Yen amounts have been translated into U.S. dollar amounts at the rate of ¥105.40=U.S.$1.00, the exchange rate prevailing on December 31, 2013.
2. Segment sales results for FY2012 have been restated to reflect changes in the company's segment structure, which took effect in FY2013. For details, refer to "Note 18. Segment Information."
3. In the fiscal years ended December 31, 2011, 2012 and 2013 there were no latent shares with dilutive effect, therefore information concerning diluted net income per share is omitted.

# Management's Discussion and Analysis

## Sapporo Holdings Limited and the Sapporo Group

The Group began implementing its Medium-Term Management Plan 2013–2014, which envisions these two years as "a crucial period for establishing the foundations for realizing a new Group management framework." The new plan sets out three strategies for achieving dynamic growth, namely to "Accept challenges leading to growth in all businesses," "Steadfastly implement growth measures," and "Create new growth opportunities."

With regard to the first of these three strategies, "Accept challenges leading to growth in all businesses," our businesses are leveraging the strengths of each business' brands and management resources while accepting new challenges to enable us to stay ahead of the competition.

Regarding our second strategy, "Steadfastly implement growth measures," our Real Estate business continued to implement its plans for raising the value of its core property, Yebisu Garden Place, which celebrates its 20th anniversary in 2014. During 2013, these efforts included the installation of additional emergency power-generating systems. Meanwhile, our Food & Soft Drinks business began integrated operations in January 2013 as Pokka Sapporo Food & Beverage Ltd. During 2013, we continued to grow our international business by strengthening our alcoholic beverage and soft drink operations in Southeast Asia. The alcoholic beverage business is using its base in Vietnam as a bridgehead for expansion into neighboring countries, while the soft drink business built a new plant in Malaysia as part of its plan to increase production capacity in the region.

Finally, with regard to our third strategy, to "Create new growth opportunities," our International Business is working to strengthen its foothold in the North American beer market to ensure a platform for further growth. To this end, the business began outsourcing production in the United States and restructured its existing production network in that country so as to meet growing demand. The Restaurants Business, meanwhile, is introducing its beer halls to other countries. In October, it opened a Ginza Lion outlet in Singapore, marking its entry into that Southeast Asian country.

In terms of the scope of consolidation, the Company had 51 consolidated subsidiaries and three equity-method affiliates in the year ended December 31, 2013.

## Operational Overview

In 2013, the Japanese economy saw the emergence of positive developments from the beginning of the year amid a backdrop of monetary easing and economic stimulus measures. However, the consumer-spending environment remained clouded in uncertainty. More specifically, conditions in the industries in which Sapporo Group companies operate were as follows.

The soft drinks industry enjoyed rising demand supported by favorable weather conditions, including another hot summer in Japan. The alcoholic beverage and restaurant industries, however, did not see demand rebound as much as expected despite signs of a recovery in consumer spending. In the real estate industry, vacancy rates in the Greater Tokyo office leasing market continued to decline but rent levels remained weak.

## Consolidated Operating Results

### Net Sales

Net sales increased ¥17,344 million, or 3.5%, year on year, to ¥509,835 million.

By business segment, Japanese Alcoholic Beverages saw a 1.8% year-on-year increase in net sales to ¥274,909 million. This was primarily due to a year-over-year increase in sales volumes of beer and beer-type beverages and steady sales growth in wine, Western spirits and *shochu*, laying the foundations for the multilayering of products.

The International Business saw a 33.5% year-on-year increase in net sales to ¥48,216 million. The main factors behind this were continued growth from sales in North America and Vietnam and the positive impact of yen depreciation.

The Food & Soft Drinks segment saw a 1.3% year-on-year increase in net sales to ¥130,672 million. This rise can be attributed mainly to the net increase in income of a newly consolidated subsidiary, which offset decreased sales of domestic food & soft drinks following consolidation of the product line-up associated with integration.

The Restaurants segment saw a 0.8% year-on-year increase in net sales to ¥26,827 million. This was mainly attributable to favorable sales at existing restaurants and new restaurants.

The Real Estate segment posted sales of ¥22,768 million, down 1.9% year over year. This fall was primarily due to a decline in rental income associated with the redevelopment of Sapporo Ebisu Building (tentative name).

### Cost of Sales

Cost of sales increased ¥16,488 million, or 5.3%, year on year to ¥329,606 million.

The cost of sales ratio increased 1.1 percentage points to 64.7%, primarily due to a fall in the component ratio of the Food & Soft Drinks business, which has a low cost of sales ratio.

### Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased ¥74 million year on year to ¥164,885 million. This fall was chiefly due to cost reductions in the Japanese alcoholic beverages business.

### Operating Income

Operating income increased ¥929 million, or 6.5%, year on year to ¥15,344 million.

Profit growth was supported by higher sales at the Japanese Alcoholic Beverage business coupled with reduced marketing expenses. The International Business' sales growth in North American and Vietnam also contributed to higher profits. The Real Estate business, however, saw profit decline owing to a decline in rental income caused by redevelopment of Seiwa Yebisu Building, which is scheduled to reopen in September 2014 as the Sapporo Ebisu Building (tentative name). Profits were also lower at the Food & Soft Drinks business, mainly owing to the reduction in its product lineup in line with business integration.

## Other Income (Expenses)

Other income was ¥1,218 million, compared with other expense of ¥3,903 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 ¥1,661 million in fiscal 2013. Net financial expenses improved from the previous year due to a decrease in financial liabilities and a lower interest rate.

The Company recorded a foreign exchange gain from the depreciating yen of ¥849 million and a gain on sales of investment securities of ¥3,492 million. A loss on disposal of property, plant and equipment of ¥1,158 million was recorded mainly due to the demolition of a beer production facility and soft drinks production facility.

An impairment loss of ¥426 million was recorded due to a decrease in the profitability of beer manufacturing facilities as a result of a review of the manufacturing system in the International business and the closure of unprofitable restaurants in the Food & Soft Drinks business and the Restaurants business.

Business structure improvement expenses of ¥253 million were recorded due to expenses for the review of the manufacturing system in the International business and expenses for the reorganization of the Food & Soft Drinks business.

## Income before Income Taxes and Minority Interests

As a result of the aforementioned and other factors, income before income taxes and minority interests increased ¥6,050 million to ¥16,562 million.

## Income Taxes and Net Income

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥7,143 million.

Income taxes accounted for 43.1% of income before income taxes and minority interests. The difference between this percentage and the statutory effective tax rate of 38.0% mainly reflected the recording of a valuation allowance.

As a result, net income increased ¥4,058 million, or 75.2%, year on year to ¥9,452 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 | ¥274,909 | ¥9,902 | ¥8,684 | ¥2,124 |
| International | 48,216 | 1208 | 1,856 | 2,219 |
| Food & Soft Drinks | 130,672 | (1,483) | 6,777 | 8,517 |
| Restaurants | 26,827 | 415 | 643 | 813 |
| Real Estate | 22,768 | 8,686 | 4,412 | 4,467 |

## 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, 2013 stood at ¥616,753 million, up ¥19,116 million, or 3.2%, from a year ago.

The increase mainly reflected an increase in notes and account receivable—trade, investment securities, and other factors, which more than offset a decrease in intangible fixed assets related to the amortization of goodwill.

## Liabilities

Financial liabilities decreased ¥9,818 million to ¥247,828 million.

Due to a decrease in commercial paper and deposits received, which were partially offset by an increase in short-term bank loans, total liabilities decreased ¥1,303 million, or 0.3%, to ¥461,386 million.

### Net Assets

Retained earnings increased ¥6,016 million to ¥37,409 million.

Asset growth was supported by an increase in unrealized gains on securities and in the foreign currency translation adjustment account, as well as posting of net income for fiscal 2013.

As a result, net assets increased ¥20,420 million from a year earlier to ¥155,367 million.

### Cash Flows

Consolidated cash and cash equivalents as of December 31, 2013 were ¥11,519 million, an increase of ¥1,793 million, or 18.4%, from the previous fiscal year-end. Factors behind this increase were as follows.

### Cash Flows from Operating Activities

Net cash provided by operating activities was ¥32,862 million, ¥3,244 million, or 11.0%, higher than in the previous fiscal year.

The main contributors were income before income taxes and minority interests of ¥16,562 million and depreciation and amortization of ¥25,059 million. These were partially offset by a ¥2,315 million increase in notes and accounts receivable, a ¥1,653 million decrease in deposits received, a ¥7,915 million paid income taxes.

### Cash Flows from Investing Activities

Investing activities used net cash of ¥13,268 million, a decrease of ¥46,218 million from the net cash used in the previous fiscal year.

This change mainly reflected a ¥12,244 million for purchases of property, plant and equipment, a ¥1,525 million for purchases of intangibles and other factors. These were partially offset by ¥4,436 million in proceeds from sales of investment securities.

### Cash Flows from Financing Activities

Financing activities used net cash of ¥19,147 million, a change of ¥49,307 million from the net cash provided by in the previous fiscal year.

This change mainly reflected a net decrease in commercial paper of ¥22,000 million, a ¥21,964 million repayment of long-term debt and a payment of ¥10,000 million for redemption of bonds. These were partially offset by ¥32,250 million in proceeds from long-term debt and ¥19,920 million in proceeds from the issuance 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 rose 7.9 percentage points from 56.9% to 64.8%. This was the combined result of a ¥9,078 million increase in total current assets, which mainly reflected the increase in notes and account receivable, and a ¥15,838 million decrease in current liabilities, which mainly reflected the redemption of commercial paper.

The equity ratio rose from 22.1% a year earlier to 24.6%, mainly reflecting increases in retained earnings and unrealized gains on securities holdings.

Return on equity (ROE) increased from 4.2% to 6.7%, due to the year-on-year increase in net income.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, decreased from 1.9 to 1.6 in line with the increase in net assets.

## Outlook for 2014

The Group will continue to work toward the goals for 2016 outlined in the Sapporo Group's New Management Framework by accelerating the implementation of its four growth strategies—"Create high-value-added products and services," "Form strategic alliances," "Promote international expansion," and "Expand group synergies." In 2014 and the following two years, we will strive to realize our goals for 2016 by accelerating growth strategies as a "manufacturer of food products" and realizing sustainable growth. In 2014, we will undertake investments targeted at higher profits in 2015 and beyond and strive for higher levels of consolidated sales.

Consequently, the Company is forecasting consolidated net sales of ¥537,700 million, (up 5.5% year on year), operating income of ¥15,000 million (down 2.2% year on year), and net income of ¥5,000 million (down 47.1% year on year). Please see pages 20 to 27, Management Plan 2014–2016 Key Points for details on targets for sales and operating income by segment, and strategies.

For 2014, 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, 2013.

### Economic Conditions

Because net sales of the Sapporo Group are mainly affected by domestic economic trends, the unit price of key products could decline due to fluctuating shipments of key products and deflationary trends as a result of economic deterioration caused by changing economic conditions. Moreover, deteriorating economic conditions could also lead to a decrease in the value of asset holdings.

### High Dependency on Specific Business Areas

In 2013, Japanese Alcoholic Beverages, one of the Sapporo Group's core business segments, accounted for 54% of consolidated net sales.

To break away from its high dependency on the Japanese Alcoholic Beverages business and further increase profitability, the Group will expand its business activities in overseas markets.

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 its business activities in overseas markets. In particular, it is expanding the alcoholic beverages business in the U.S. and Canada.

In Asia, the Group is conducting business in the beverage and restaurant fields, mainly in Singapore. Also, in Vietnam, it is manufacturing and selling locally produced beer at its Long An factory.

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

The Sapporo Group is stepping up efforts to establish quality assurance systems. However, beyond quality issues originating solely at the Group, quality problems relating to generally available products and/or raw materials could result in product recalls or defective shipments. In the Restaurants business, food poisoning could result in an order to temporarily suspend operations or may otherwise 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 effect on operating results.

For example, should demand decline due to liquor and consumption tax increases, or should regulations pertaining to liquor advertising, selling hours of liquor at liquor stores, or liquor sales locations spread, factors including expenses required for dealing with decreased demand and responding to new regulations could have a negative effect on business performance.

## Risk of Litigation

The Sapporo Group strives to reduce violations and infringements of laws and regulations in its business operations by instilling a strong compliance culture through employee training and education. However, there is a risk of litigation brought against the Group in respect of a problem under product liability or intellectual property laws, irrespective of any violation of laws and regulations by Group companies or their employees in business operations in Japan or overseas. The instigation of a suit against the Group or its outcome could have a negative impact on the Group's 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 could adversely affect Sapporo Holdings' business performance.

# Consolidated Balance Sheets

(December 31, 2013 and 2012)

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2013** | **2012** | **2013** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 11,519** | ¥ 9,725 | **$ 109,285** |
| Time deposits | **34** | 30 | **321** |
| Notes and accounts receivable—trade | **87,148** | 83,581 | **826,834** |
| Inventories (Note 5) | **34,385** | 32,445 | **326,232** |
| Allowance for doubtful receivables | **(228)** | (287) | **(2,165)** |
| Deferred tax assets (Note 16) | **4,172** | 3,737 | **39,585** |
| Other current assets | **10,307** | 9,027 | **97,788** |
| Total current assets | **147,337** | 138,258 | **1,397,881** |
| **Investments and long-term loans:** | | | |
| Investment securities (Notes 12 and 14) | **51,221** | 35,670 | **485,972** |
| Long-term loans receivable | **9,544** | 9,784 | **90,551** |
| Allowance for doubtful receivables | **(1,326)** | (1,387) | **(12,582)** |
| Deferred tax assets (Note 16) | **931** | 2,041 | **8,836** |
| Other investments | **14,178** | 15,223 | **134,514** |
| | **74,548** | 61,330 | **707,290** |
| **Property, plant and equipment** (Notes 6 and 14)**:** | | | |
| Land | **115,056** | 115,413 | **1,091,613** |
| Buildings and structures | **390,327** | 384,996 | **3,703,288** |
| Accumulated depreciation | **(212,741)** | (205,156) | **(2,018,418)** |
| Machinery and vehicles | **218,275** | 210,465 | **2,070,924** |
| Accumulated depreciation | **(176,692)** | (170,804) | **(1,676,392)** |
| Lease assets | **18,243** | 19,256 | **173,080** |
| Accumulated depreciation | **(8,922)** | (9,470) | **(84,647)** |
| Construction in progress | **5,668** | 4,425 | **53,779** |
| Other | **19,515** | 19,987 | **185,152** |
| Accumulated depreciation | **(15,847)** | (16,051) | **(150,353)** |
| Property, plant and equipment, net | **352,882** | 353,062 | **3,348,028** |
| **Intangibles:** | | | |
| Goodwill | **34,419** | 37,542 | **326,554** |
| Other | **7,567** | 7,444 | **71,791** |
| | **41,986** | 44,986 | **398,345** |
| | **¥616,753** | ¥597,636 | **$5,851,544** |

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

| LIABILITIES AND NET ASSETS | Millions of yen 2013 | 2012 | Thousands of U.S. dollars (Note 1) 2013 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 14) | ¥ 25,259 | ¥ 34,010 | $ 239,647 |
| Commercial paper | 25,000 | 47,000 | 237,192 |
| Current portion of bonds (Note 14) | — | 10,000 | — |
| Current portion of long-term debt (Note 14) | 38,384 | 21,261 | 364,174 |
| Current portion of lease obligations | 3,384 | 3,860 | 32,109 |
| Notes and accounts payable—trade | 35,903 | 32,986 | 340,633 |
| Liquor taxes payable | 33,700 | 33,397 | 319,738 |
| Income taxes payable (Note 16) | 3,838 | 3,831 | 36,413 |
| Accrued bonuses (Note 2 (k)) | 2,090 | 1,860 | 19,832 |
| Deposits received | 10,825 | 12,358 | 102,700 |
| Other current liabilities | 48,925 | 42,584 | 464,186 |
| Total current liabilities | 227,308 | 243,146 | 2,156,624 |
| | | | |
| **Bonds** (Note 14) | 52,000 | 32,000 | 493,359 |
| **Long-term debt** (Note 14) | 107,185 | 113,376 | 1,016,939 |
| **Lease obligations** | 6,299 | 7,346 | 59,760 |
| **Dealers' deposits for guarantees** | 32,424 | 32,914 | 307,626 |
| **Employees' retirement benefits** (Note 15) | 5,907 | 7,385 | 56,045 |
| **Deferred tax liabilities** (Note 16) | 17,806 | 13,002 | 168,933 |
| **Other long-term liabilities** | 12,457 | 13,519 | 118,191 |
| | | | |
| **Contingent liabilities** (Note 9) | | | |
| | | | |
| Total liabilities | 461,386 | 462,690 | 4,377,477 |
| | | | |
| **Net assets** | | | |
| **Shareholders' equity:** | | | |
| Common stock (Note 19): | | | |
| Authorized — 1,000,000,000 shares | | | |
| Issued — at December 31, 2013 393,971,493 shares | 53,887 | — | 511,259 |
| — at December 31, 2012 393,971,493 shares | — | 53,887 | — |
| Capital surplus | 45,912 | 46,308 | 435,594 |
| Retained earnings (Note 7) | 37,409 | 31,394 | 354,926 |
| Treasury stock, at cost | (1,311) | (1,199) | (12,438) |
| Total shareholders' equity | 135,896 | 130,389 | 1,289,340 |
| **Accumulated other comprehensive income:** | | | |
| Unrealized holding gain on securities | 15,467 | 5,123 | 146,749 |
| Deferred hedge gains | 5 | 10 | 44 |
| Foreign currency translation adjustments | 315 | (3,726) | 2,987 |
| Total accumulated other comprehensive income | 15,787 | 1,407 | 149,780 |
| **Minority interests** | 3,683 | 3,151 | 34,948 |
| Total net assets | 155,367 | 134,947 | 1,474,067 |
| | ¥616,753 | ¥597,636 | $5,851,544 |

# Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

## Consolidated Statements of Income
(Three years ended December 31)

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| **Net sales** | ¥509,835 | ¥492,491 | ¥449,453 | $4,837,141 |
| **Operating cost and expenses:** | | | | |
| Cost of sales | 329,606 | 313,117 | 286,679 | 3,127,188 |
| Selling, general and administrative expenses | 164,885 | 164,959 | 143,890 | 1,564,371 |
| | | | | |
| Operating income | 15,344 | 14,415 | 18,884 | 145,582 |
| | | | | |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 1,043 | 997 | 940 | 9,896 |
| Interest expense | (2,704) | (3,449) | (3,558) | (25,658) |
| Other, net (Notes 6 and 8) | 2,879 | (1,451) | (10,425) | 27,317 |
| | 1,218 | (3,903) | (13,043) | 11,555 |
| | | | | |
| **Income before income taxes and minority interests** | 16,562 | 10,512 | 5,841 | 157,138 |
| | | | | |
| **Income taxes** (Note 16)**:** | | | | |
| Current | 7,678 | 5,669 | 4,115 | 72,844 |
| Deferred | (535) | (318) | (1,316) | (5,073) |
| | 7,143 | 5,351 | 2,798 | 67,772 |
| | | | | |
| **Minority interests** | 33 | 232 | 123 | 311 |
| | | | | |
| **Net income** (Note 19) | ¥ 9,452 | ¥ 5,394 | ¥ 3,165 | $ 89,677 |

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

## Consolidated Statements of Comprehensive Income
(Three years ended December 31)

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| Income before minority interests | ¥ 9,419 | ¥ 5,162 | ¥3,042 | $ 89,366 |
| **Other comprehensive income** | | | | |
| Unrealized holding gain on securities | 10,344 | 3,131 | (960) | 98,145 |
| Deferred hedge gains (losses) | 8 | 9 | (0) | 76 |
| Foreign currency translation adjustments | 4,568 | 2,739 | (1,140) | 43,336 |
| Share of other comprehensive income of associates accounted for using equity method | — | 50 | (130) | — |
| Total other comprehensive income | 14,920 | 5,929 | (2,230) | 141,557 |
| | | | | |
| **Comprehensive income** | ¥24,339 | ¥11,090 | ¥ 812 | $230,922 |
| | | | | |
| **Total comprehensive income attributable to** | | | | |
| Owners of the parent | ¥23,832 | ¥11,248 | ¥ 998 | $226,111 |
| Minority interests | 507 | (158) | (186) | 4,812 |

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) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| **Shareholders' equity** | | | | |
| **Common stock:** | | | | |
| Balance at beginning of year | ¥53,887 | ¥53,887 | ¥53,887 | $511,259 |
| Changes during the year | — | — | — | — |
| Balance at end of year | ¥53,887 | ¥53,887 | ¥53,887 | $511,259 |
| | | | | |
| **Capital surplus:** | | | | |
| Balance at beginning of year | ¥46,308 | ¥46,311 | ¥46,316 | $439,356 |
| Disposition of treasury stock | (397) | (3) | (5) | (3,762) |
| Balance at end of year | ¥45,912 | ¥46,308 | ¥46,311 | $435,594 |
| | | | | |
| **Retained earnings** (Note 7)**:** | | | | |
| Balance at beginning of year | ¥31,394 | ¥28,741 | ¥28,317 | $297,852 |
| Net income | 9,452 | 5,394 | 3,165 | 89,677 |
| Cash dividends | (2,741) | (2,741) | (2,741) | (26,004) |
| Changes in scope of consolidation/Changes in scope of application of the equity method | (696) | — | — | (6,599) |
| Balance at end of year | ¥37,409 | ¥31,394 | ¥28,741 | $354,926 |
| | | | | |
| **Treasury stock, at cost:** | | | | |
| Balance at beginning of year | ¥ (1,199) | ¥ (1,197) | ¥ (1,190) | $ (11,379) |
| Purchase of treasury stock | (1,024) | (7) | (19) | (9,718) |
| Disposition of treasury stock | 913 | 5 | 12 | 8,659 |
| Balance at end of year | ¥ (1,311) | ¥ (1,199) | ¥ (1,197) | $ (12,438) |
| | | | | |
| **Accumulated other comprehensive income** | | | | |
| **Unrealized holding gain on securities:** | | | | |
| Balance at beginning of year | ¥ 5,123 | ¥ 1,993 | ¥ 2,985 | $ 48,604 |
| Net change during the year | 10,344 | 3,130 | (992) | 98,145 |
| Balance at end of year | ¥15,467 | ¥ 5,123 | ¥ 1,993 | $146,749 |
| | | | | |
| **Deferred hedge gains:** | | | | |
| Balance at beginning of year | ¥ 10 | ¥ (8) | ¥ (8) | $ 90 |
| Net change during the year | (5) | 18 | 0 | (47) |
| Balance at end of year | ¥ 5 | ¥ 10 | ¥ (8) | $ 44 |
| | | | | |
| **Foreign currency translation adjustments** (Note 2 (m))**:** | | | | |
| Balance at beginning of year | ¥ (3,726) | ¥ (6,433) | ¥ (5,259) | $ (35,349) |
| Net change during the year | 4,041 | 2,707 | (1,174) | 38,336 |
| Balance at end of year | ¥ 315 | ¥ (3,726) | ¥ (6,433) | $ 2,987 |
| | | | | |
| **Minority interests:** | | | | |
| Balance at beginning of year | ¥ 3,151 | ¥ 1,482 | ¥ 1,598 | $ 29,896 |
| Net change during the year | 532 | 1,669 | (115) | 5,052 |
| Balance at end of year | ¥ 3,683 | ¥ 3,151 | ¥ 1,482 | $ 34,948 |

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) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | ¥16,562 | ¥10,512 | ¥ 5,841 | $157,138 |
| Depreciation and amortization | 25,059 | 25,805 | 24,482 | 237,747 |
| Loss on impairment of property, plant and equipment and leased assets | 426 | 188 | 1,670 | 4,041 |
| Goodwill amortization | 3,985 | 3,879 | 3,109 | 37,812 |
| Decrease in employees' retirement benefits | (1,474) | (82) | (205) | (13,986) |
| Decrease in allowance for doubtful receivables | (114) | (132) | (109) | (1,084) |
| Interest and dividend income | (1,043) | (997) | (940) | (9,896) |
| Interest expense | 2,751 | 3,480 | 3,580 | 26,104 |
| Gain on sales of property, plant and equipment | (62) | (83) | (316) | (584) |
| Loss on sales and disposal of property, plant and equipment | 1,379 | 2,100 | 1,021 | 13,084 |
| (Gain) loss on sales of investment securities | (3,488) | 43 | (2) | (33,093) |
| Loss on devaluation of investment securities | 59 | 582 | 1,261 | 563 |
| Effect of adoption of new accounting standards for asset retirement obligations | — | — | 1,085 | — |
| Increase in notes and accounts receivable | (2,315) | (2,015) | (4,705) | (21,961) |
| (Increase) decrease in inventories | 108 | (1,827) | (1,580) | 1,025 |
| Increase (decrease) in notes and accounts payable | 2,225 | (697) | (702) | 21,113 |
| Increase (decrease) in liquor taxes payable | 194 | 769 | (1,676) | 1,842 |
| Decrease in deposits received | (1,653) | (2,955) | (4,130) | (15,684) |
| Increase (decrease) in other current liabilities | 2,488 | (927) | (541) | 23,605 |
| Other | (2,595) | (723) | 1,369 | (24,619) |
| Subtotal | 42,494 | 36,920 | 28,512 | 403,168 |
| Interest and dividends received | 1,056 | 1,046 | 956 | 10,016 |
| Interest paid | (2,773) | (3,516) | (3,605) | (26,307) |
| Income taxes paid | (7,915) | (4,832) | (3,556) | (75,096) |
| Income taxes refundable | — | — | 7 | — |
| Net cash provided by operating activities | 32,862 | 29,618 | 22,313 | 311,781 |
| | | | | |
| **Cash flows from investing activities:** | | | | |
| Purchases of investment securities | (347) | (1,187) | (2,155) | (3,292) |
| Proceeds from redemption and sales of investment securities | 4,436 | 419 | 263 | 42,083 |
| Purchases of affiliates securities | (265) | (88) | (16,142) | (2,509) |
| Purchases of newly consolidated subsidiaries | — | (1,611) | (18,663) | — |
| Payments for acquisition of associates accounted for using equity method | (286) | — | — | (2,713) |
| Purchases of property, plant and equipment | (12,244) | (51,133) | (11,608) | (116,165) |
| Proceeds from sales of property, plant and equipment | 172 | 178 | 769 | 1,630 |
| Purchases of intangibles | (1,525) | (2,737) | (1,814) | (14,470) |
| Increase in long-term loans receivable | (232) | (26) | (26) | (2,205) |
| Collection of long-term loans receivable | 440 | 94 | 328 | 4,178 |
| Other | (3,417) | (3,396) | (1,844) | (32,420) |
| Net cash provided by (used in) investing activities | (13,268) | (59,486) | (50,892) | (125,883) |
| | | | | |
| **Cash flows from financing activities:** | | | | |
| Net increase (decrease) in short-term bank loans | (9,363) | 6,475 | 13,194 | (88,831) |
| Proceeds from long-term debt | 32,250 | 27,879 | 38,613 | 305,977 |
| Repayment of long-term debt | (21,964) | (31,489) | (24,927) | (208,391) |
| Proceeds from issuance of bonds | 19,920 | 9,960 | 9,960 | 188,994 |
| Redemption of bonds | (10,000) | (10,000) | (20,000) | (94,877) |
| Net increase (decrease) in commercial paper | (22,000) | 34,000 | 13,000 | (208,729) |
| Cash dividends paid | (2,738) | (2,738) | (2,735) | (25,973) |
| Cash dividends paid to minority shareholders | (17) | — | — | (160) |
| Proceeds from minority shareholders | — | — | 181 | — |
| Repayment of finance lease obligations | (4,218) | (3,924) | (3,029) | (40,014) |
| Purchase of treasury stock | (1,024) | (7) | (19) | (9,718) |
| Proceeds form sales of treasury stock | 6 | 3 | 7 | 57 |
| Net cash provided by (used in) financing activities | (19,147) | 30,159 | 24,245 | (181,665) |
| | | | | |
| Effect of exchange rate changes on cash and cash equivalents | 607 | 254 | 121 | 5,761 |
| Net increase (decrease) in cash and cash equivalents | 1,053 | 545 | (4,212) | 9,994 |
| Cash and cash equivalents at beginning of year | 9,725 | 9,058 | 13,270 | 92,270 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 740 | 122 | — | 7,021 |
| Cash and cash equivalents at end of year | ¥11,519 | ¥ 9,725 | ¥ 9,058 | $109,285 |

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

# Notes to Consolidated Financial Statements

## 1. Basis of Presentation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in accordance 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. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the years ended December 31, 2011 and 2012 to the 2013 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2013 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥105.40=U.S.$1.00, the exchange rate prevailing on December 31, 2013.

## 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, 2013, the Company established two new subsidiaries, gained one subsidiary on the basis of influence, and lost five subsidiaries that ceased to exist after merger, and dropped five subsidiaries due to a decrease in materiality. Accordingly, the number of consolidated subsidiaries was 51 as of December 31, 2013.

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.

Regarding the fiscal years of consolidated subsidiaries, the fiscal year of SILVER SPRINGS CITRUS, INC. ends on September 30. When preparing consolidated financial statements, said account settlement date is used as the date of the financial statements. However, important transactions that occur up to the consolidated account settlement date are adjusted as required.

*(b) Investments in unconsolidated subsidiaries and affiliates*

During the year ended December 31, 2013, the Company removed one subsidiary from the scope of affiliation as a result of consolidation. Two subsidiaries were removed due to a decrease in materiality. As a result, the Company had made investments in three affiliates accounted for by the equity method as of December 31, 2013.

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 gross 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 two to 65 years for buildings and structures, and from two 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 when 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 15 years by the straight line method. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (ten years through 14 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (ten years through 14 years).

Further, beginning from the consolidated financial statements for the fiscal year ending December 31, 2014, the Company will apply Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17). However, the amendment relating to the method of attributing expected benefit to periods will be applied from the beginning of the fiscal year ending December 31, 2015. In addition, because a transitional arrangement is prescribed in said accounting standard, it will not be applied retroactively to past financial statements. The application of said accounting standards is now being evaluated to determine its effect on the consolidated financial statements.

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

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, on the other hand, 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.

*(n) 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 of forward foreign exchange contract meets certain conditions, the interest expense is computed at a combined rate and recognized.

*(o) 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

**(Method of accounting for sales)**

Sapporo Beverage Co., Ltd., and POKKA CORPORATION, both subsidiaries of the Company, were merged on January 1, 2013.

In line with this merger, the reportable segments for Soft Drinks and POKKA Group presented in the consolidated accounts for the year ended December 31, 2011 have been integrated into a single segment called "Food & Soft Drinks" from the first quarter of the year ended December 31, 2012. In addition, a portion of the sales incentives paid to business partners (wholesalers and retail outlets) on the sales price of flavored-water drinks and food products, which to date have been accounted for under selling, general and administrative expenses, are excluded from reported sales from the year ended December 31, 2012.

These changes to accounting methods are applied retroactively to the Company's financial statements for the fiscal year ending December 31, 2011, and the consolidated financial statements for the full year ending on the same date.

As a result, sales, gross profit, and selling, general and administrative expenses on the revised financial statements for the fiscal year ending on December 31, 2011, have each been reduced by ¥4,647 million from the amounts reported before the retroactive application of the new accounting method. Operating income is unaffected by the change.

**(Changes in depreciation method)**

In response to Japan's corporate tax law amendments and effective from the year ended December 31, 2012, the method which some domestic consolidated Group subsidiaries use for depreciation of property, plant, and equipment acquired on or after April 1, 2012 is adjusted to reflect the revised corporate tax code. The impact of this change on the Group's fiscal year consolidated operating loss, ordinary loss, and the loss before income taxes is immaterial.

**(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, 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 lower, and income before income taxes and minority interests was ¥1,178 million lower than would have been reported previously.

## 4. Changes in Presentation Method

**(Consolidated balance sheets)**

Effective the year ended December 31, 2013, "Directors' and audit & supervisory board members' severance benefits" under "Long-term liabilities," which was previously presented independently, is included in "Other long-term liabilities" because of its decreased importance in monetary terms. Accordingly, the consolidated financial statements of all fiscal years have been retroactively adjusted to reflect the change. As a result, ¥27 million presented as "Directors' and audit & supervisory board members' severance benefits" under "Long-term liabilities" in the consolidated balance sheets for the year ended December 31, 2012 has been reclassified as "Other long-term liabilities."

## 5. Inventories

Inventories at December 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Finished goods and merchandise | ¥16,706 | ¥16,283 | $158,499 |
| Real estate for sale | 149 | 87 | 1,413 |
| Work in process | 3,978 | 4,004 | 37,743 |
| Raw materials | 11,970 | 10,856 | 113,568 |
| Supplies | 1,582 | 1,216 | 15,009 |
| | ¥34,385 | ¥32,445 | $326,232 |

## 6. Loss on Impairment of Property, Plant and Equipment

The Company and its consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2013:

| Location | Use | Classification | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| SLEEMAN BREWERIES LTD. (Nova Scotia, Canada) | Beer brewing facilities | Machinery | ¥221 | $2,092 |
| | | Buildings | 5 | 43 |
| | | Other | ¥ 3 | $27 |
| | | | ¥228 | $2,162 |
| Sapporo Lion Ltd. Restaurants for business (Chuo-ku, Tokyo and other) | Restaurants for operations | Buildings | ¥116 | $1,102 |
| | | Machinery | ¥ 6 | $57 |
| | | Other | 4 | 37 |
| | | | ¥126 | $1,196 |
| Pokka Create Co.,Ltd. Restaurants for business (Hamamatsu-shi, Shizuoka and other) | Restaurants for operations | Buildings | ¥ 26 | $ 250 |
| | | Other | 10 | 96 |
| | | | ¥ 36 | $ 346 |
| Sapporo Breweries Ltd. (Koshu-shi, Yamanashi) | Restaurants for operations | Buildings | ¥ 17 | $ 166 |
| | | | ¥ 17 | $ 166 |
| Sapporo Real Estate Co.,Ltd. (Shibuya-ku, Tokyo) | Offices | Buildings | ¥ 16 | $ 153 |
| | | | ¥ 16 | $ 153 |
| Pokka Sapporo Food & Beverage Ltd. (Aichi-gun, Aichi and other) | Idle real estate | Land | ¥ 2 | $ 18 |
| | | | ¥ 2 | $ 18 |
| | | | ¥426 | $4,041 |

The Company and its consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2012:

| Location | Use | Classification | Millions of yen |
|---|---|---|---|
| Sapporo Lion Ltd. Restaurants for business (Toshima-ku, Tokyo and other) | Restaurants for operations | Buildings | ¥ 98 |
| | | Machinery | 28 |
| | | | ¥125 |
| Pokka Create Co., Ltd. Restaurants for business (Minato-ku, Tokyo and other) | Restaurants for operations | Buildings | ¥ 23 |
| | | Machinery | 0 |
| | | Other | 18 |
| | | | ¥ 40 |
| Sapporo Fine Foods Co., Ltd. (Oota-shi, Gunma) | Food manufacturing | Buildings | ¥ 0 |
| | | Machinery | 8 |
| | | Other | 4 |
| | | | ¥ 13 |
| Sun Pokka Co., Ltd. (Hatori-gun, Gifu and other) | Idle real estate | Land | ¥ 9 |
| | | | ¥ 9 |
| | | | ¥188 |

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

| Location | Use | Classification | Millions of yen |
|---|---|---|---|
| Sapporo Breweries Ltd. (Kitakanbara-gun, Niigata) | Idle real estate | Land | ¥ 309 |
| | | | ¥ 309 |
| | | | |
| Sapporo Lion Ltd.<br>Restaurants for business (Chiyoda-ku, Tokyo and other) | Restaurants for operations | Buildings | ¥ 239 |
| | | Machinery | 22 |
| | | Other | 54 |
| | | | ¥ 315 |
| | | | |
| POKKA Corporation and its subsidiary<br>Restaurants for business (Shibuya-ku, Tokyo and other) | Restaurants for operations | Buildings | ¥ 66 |
| | | Other | 4 |
| | | | ¥ 70 |
| | | | |
| Sapporo Real Estate Co., Ltd. (Sapporo-shi, Hokkaido) | Real estate for lease | Buildings | ¥ 9 |
| | | | ¥ 9 |
| | | | |
| Sapporo Fine Foods Co., Ltd. (Oota-shi, Gunma) | Food manufacturing facilities | Buildings | ¥ 227 |
| | | Machinery | 40 |
| | | Lease | 628 |
| | | Other | 72 |
| | | | ¥ 966 |
| | | | ¥1,670 |

The Company and its consolidated subsidiaries decided the asset group in consideration of the division in management accounting. Idle real estate and real estate for lease and offices are grouped with each real estate, and the restaurants are mainly grouped with each store. The asset groups for food manufacturing facilities are for each respective business.

Real estate for lease 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 poor 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.

Offices have been written down to the recoverable amount as it is expected to be difficult to recover the investment due to declining profitability as a result of office relocation. An impairment loss has been booked for the amount of the write-off.

Idle real estate has been written down to the recoverable amount as it is expected to be difficult to recover the investment due to falling land prices. An impairment loss has been booked for the amount of the write-off.

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 6.4-7.2% in 2013, 6.5% in 2012, 6.3% in 2011.

## 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, 2013 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| Gain on gift voucher redemptions | ¥ — | ¥ 570 | ¥ 511 | $ — |
| Equity in income of affiliates | 99 | 181 | 33 | 942 |
| Foreign exchange gain | 849 | 536 | — | 8,059 |
| Gain on sales of property, plant and equipment | 62 | 83 | 316 | 584 |
| Gain on sales of investment securities | 3,492 | 21 | 25 | 33,126 |
| Settlement received | — | — | 262 | — |
| Loss on disposal of property, plant and equipment | (1,158) | (2,088) | (998) | (10,991) |
| Loss on sales of property, plant and equipment | (221) | (12) | (23) | (2,093) |
| Loss on impairment of property, plant and equipment | (426) | (188) | (1,670) | (4,041) |
| Devaluation of marketable securities and investments | (59) | (582) | (1,261) | (563) |
| Loss on sales of investment securities | (4) | (65) | (24) | (33) |
| Business structure improvement expenses | (253) | (346) | — | (2,401) |
| Effect of adoption of new accounting standards for asset retirement obligations | — | — | (1,085) | — |
| Compensation expenses | — | — | (268) | — |
| Loss on phased acquisition | — | — | (567) | — |
| Loss on change in equity | — | — | (244) | — |
| Disaster losses | — | — | (5,431) | — |
| Other | 498 | 439 | (3) | 4,728 |
| | ¥2,879 | ¥(1,451) | ¥(10,425) | $27,317 |

Note: Business structure improvement expenses are mainly expenses for the review of the manufacturing system of SLEEMAN BREWERIES LTD. and expenses for the reorganization of the Food & Soft Drinks business in 2013, and expenses for the integration of Sapporo Beverage and POKKA CORPORATION in 2012.

## 9. Contingent Liabilities

Contingent liabilities at December 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Guarantee of loans, principally loans for employees' housing | ¥514 | ¥667 | $4,877 |
| Other | 148 | 165 | 1,408 |
| | ¥662 | ¥832 | $6,285 |

## 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) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Acquisition costs: | | | |
| Machinery and vehicles | ¥ 95 | ¥ 282 | $902 |
| Other | 4 | 1,237 | 40 |
| | ¥ 99 | ¥1,520 | $941 |
| | | | |
| Accumulated depreciation: | | | |
| Machinery and vehicles | ¥ 82 | ¥ 251 | $777 |
| Other | 3 | 1,046 | 25 |
| | ¥ 85 | ¥1,297 | $802 |
| | | | |
| Accumulated loss on impairment: | | | |
| Machinery and vehicles | ¥ — | ¥ — | $ — |
| Other | — | — | — |
| | ¥ — | ¥ — | $ — |
| | | | |
| Net book value: | | | |
| Machinery and vehicles | ¥ 13 | ¥ 32 | $125 |
| Other | 2 | 191 | 14 |
| | ¥ 15 | ¥ 223 | $139 |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥119 million ($1,132 thousand) and ¥450 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, 2013 and 2012, respectively. There was no recorded loss on impairment of leased assets for the years ended December 31, 2013 and 2012.

Reversals of allowance for impairment loss on leased properties was 6 million ($54 thousand) and ¥85 million for the year ended December 31, 2013 and 2012.

The amount of depreciation equivalents was ¥114 million ($1,078 thousand) and ¥365 million for the years ended December 31, 2013 and 2012.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2013 and 2012 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, | 2013 | 2012 | 2013 |
| Due within one year | ¥12 | ¥200 | $112 |
| Due after one year | 3 | 23 | 27 |
| Total | ¥15 | ¥223 | $139 |

*(b) Operating leases*

Future minimum lease payments subsequent to December 31, 2013 and 2012 for operating leases are summarized as follows:

i) Lessee

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| Year ended December 31, | 2013 | 2012 | 2013 |
| Due within one year | ¥2,651 | ¥2,416 | $25,155 |
| Due after one year | 6,150 | 6,205 | 58,345 |
| Total | ¥8,801 | ¥8,621 | $83,499 |

ii) Lessor

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| Year ended December 31, | 2013 | 2012 | 2013 |
| Due within one year | ¥ 4,407 | ¥ 3,625 | $ 41,812 |
| Due after one year | 12,858 | 14,546 | 121,995 |
| Total | ¥17,265 | ¥18,172 | $163,807 |

## 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 and commercial paper 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 and foreign exchange volatility. For certain long-term debt, the Sapporo Group uses derivative transactions (interest-rate swaps and currency swaps) as a hedge against risks stemming from interest-rate volatility.

Currency-related derivative transactions consist of foreign exchange contracts and currency swap transactions. Interest rate derivative transactions are interest rate swaps. Derivative financial instruments consist of commodity futures and commodity option transactions.

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 into 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.

To mitigate risks associated with foreign currency transactions, currency swap transactions are used. Commodity futures and commodity option transactions are used to hedge against the risk of fluctuating raw material purchase prices to limit such risk within a specified range.

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 major 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, 2013 and 2012 are as follows:

Items for which the assessment of market value is not feasible were omitted.

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| (1) Cash and cash equivalents | ¥ 11,553 | ¥ 11,553 | ¥ — |
| (2) Notes and accounts receivable—trade | 87,148 | | |
| Allowance for doubtful receivables | (133) | | |
| Sub total | 87,015 | 87,015 | — |
| (3) Marketable securities and investment securities | | | |
| ① Held-to-maturity debt securities | 200 | 203 | 3 |
| ② Other securities | 41,527 | 41,527 | — |
| (4) Long-term loans receivable | 9,934 | | |
| Allowance for doubtful receivables | (103) | | |
| Sub total | 9,831 | 9,834 | 3 |
| Total assets | ¥150,126 | ¥150,132 | ¥ 6 |
| (1) Notes and accounts payable—trade | ¥ 35,903 | ¥ 35,903 | ¥ — |
| (2) Short-term bank loans | 25,259 | 25,259 | — |
| (3) Commercial paper | 25,000 | 25,000 | — |
| (4) Liquor taxes payable | 33,700 | 33,700 | — |
| (5) Income taxes payable | 3,838 | 3,838 | — |
| (6) Bonds | 52,000 | 52,283 | 283 |
| (7) Long-term bank debt | 145,569 | 148,678 | 3,108 |
| Total liabilities | ¥321,269 | ¥324,660 | ¥3,391 |
| Derivative transactions to which | | | |
| ① Hedge accounting is not applied | ¥ 44 | ¥ 44 | ¥ — |
| ② Hedge accounting is applied | 15 | 15 | — |
| Total derivative transactions | ¥ 59 | ¥ 59 | ¥ — |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| (1) Cash and cash equivalents | ¥ 9,755 | ¥ 9,755 | ¥ — |
| (2) Notes and accounts receivable—trade | 83,581 | | |
| Allowance for doubtful receivables | (101) | | |
| Sub total | 83,480 | 83,480 | — |
| (3) Marketable securities and investment securities | | | |
| ① Held-to-maturity debt securities | 200 | 203 | 3 |
| ② Other securities | 25,987 | 25,987 | — |
| (4) Long-term loans receivable | 10,133 | | |
| Allowance for doubtful receivables | (101) | | |
| Sub total | 10,032 | 10,035 | 3 |
| Total assets | ¥129,453 | ¥129,459 | ¥ 5 |
| (1) Notes and accounts payable—trade | ¥ 32,986 | ¥ 32,986 | ¥ — |
| (2) Short-term bank loans | 34,010 | 34,010 | — |
| (3) Commercial paper | 47,000 | 47,000 | — |
| (4) Liquor taxes payable | 33,397 | 33,397 | — |
| (5) Income taxes payable | 3,831 | 3,831 | — |
| (6) Bonds | 42,000 | 42,472 | 472 |
| (7) Long-term bank debt | 134,637 | 136,739 | 2,102 |
| Total liabilities | ¥327,860 | ¥330,435 | ¥2,575 |
| Derivative transactions to which | | | |
| ① Hedge accounting is not applied | ¥ 12 | ¥ 12 | ¥ — |
| ② Hedge accounting is applied | 20 | 20 | — |
| Total derivative transactions | ¥ 32 | ¥ 32 | ¥ — |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| (1) Cash and cash equivalents | $ 109,607 | $ 109,607 | $ — |
| (2) Notes and accounts receivable—trade | 826,834 | | |
| Allowance for doubtful receivables | (1,265) | | |
| Sub total | 825,570 | 825,570 | — |
| (3) Marketable securities and investment securities | | | |
| ① Held-to-maturity debt securities | 1,898 | 1,928 | 30 |
| ② Other securities | 393,996 | 393,996 | — |
| (4) Long-term loans receivable | 94,254 | | |
| Allowance for doubtful receivables | (980) | | |
| Sub total | 93,275 | 93,303 | 28 |
| Total assets | $1,424,345 | $1,424,404 | $ 59 |
| (1) Notes and accounts payable—trade | $ 340,633 | $ 340,633 | $ — |
| (2) Short-term bank loans | 239,647 | 239,647 | — |
| (3) Commercial paper | 237,192 | 237,192 | — |
| (4) Liquor taxes payable | 319,738 | 319,738 | — |
| (5) Income taxes payable | 36,413 | 36,413 | — |
| (6) Bonds | 493,359 | 496,042 | 2,683 |
| (7) Long-term bank debt | 1,381,114 | 1,410,605 | 29,491 |
| Total liabilities | $3,048,095 | $3,080,270 | $32,174 |
| Derivative transactions to which | | | |
| ① Hedge accounting is not applied | $ 416 | $ 416 | $ — |
| ② Hedge accounting is applied | 144 | 144 | — |
| Total derivative transactions | $ 559 | $ 559 | $ — |

**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 the 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 the 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) Commercial paper, (4) Liquor taxes payable, and (5) 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.

(6) Corporate bonds

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

(7) 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.

Long-term bank loans based on variable interest rates are subject to special procedures for interest rate swaps and allocation procedures for currency swaps. This is calculated by discounting the sum total amount of principal and interest, with said interest rate swaps and currency swaps treated as one, at a reasonably estimated interest rate that applies when refinancing.

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| | Carrying value | Carrying value | Carrying value |
| Unlisted stocks, etc. | ¥ 9,712 | ¥ 9,803 | $ 92,140 |
| Dealers' deposits for guarantees | 32,424 | 32,914 | 307,626 |

**iii) Estimate of monetary claims and maturing marketable securities due for redemption after the consolidated account settlement**

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Inside one year | After one year and inside five years | After five years and inside ten years | After ten years |
| Cash and cash equivalents | ¥ 9,001 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable—trade | 87,148 | — | — | — |
| Marketable securities and investment securities | | | | |
| Held-to-maturity debt securities | — | 200 | — | — |
| Long-term loans receivable | 390 | 1,234 | 205 | 8,105 |
| Total | ¥96,540 | ¥1,434 | ¥205 | ¥8,105 |

| | Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Inside one year | After one year and inside five years | After five years and inside ten years | After ten years |
| Cash and cash equivalents | $ 85,402 | $ — | $ — | $ — |
| Notes and accounts receivable—trade | 826,834 | — | — | — |
| Marketable securities and investment securities | | | | |
| Held-to-maturity debt securities | — | 1,898 | — | — |
| Long-term loans receivable | 3,704 | 11,707 | 1,942 | 76,901 |
| Total | $915,940 | $13,605 | $1,942 | $76,901 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Inside one year | After one year and inside five years | After five years and inside ten years | After ten years |
| Cash and cash equivalents | ¥ 7,354 | ¥ — | ¥ — | ¥— |
| Notes and accounts receivable—trade | 83,581 | — | — | — |
| Marketable securities and investment securities | | | | |
| Held-to-maturity debt securities | 100 | 100 | — | — |
| Long-term loans receivable | 349 | 9,356 | 410 | 18 |
| Total | ¥91,384 | ¥9,456 | ¥410 | ¥18 |

## 12. Marketable Securities and Investment Securities

*(a) Trading securities*

No relevant items as of December 31, 2013 and 2012.

*(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, 2013 and 2012 are summarized as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government and municipal bonds | ¥ — | ¥ — | ¥— |
| Corporate bonds | 200 | 203 | 3 |
| Other | — | — | — |
| Subtotal | ¥200 | ¥203 | ¥ 3 |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government and municipal bonds | $ — | $ — | $— |
| Corporate bonds | 1,898 | 1,928 | 30 |
| Other | — | — | — |
| Subtotal | $1,898 | $1,928 | $30 |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Carrying value | Fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government and municipal bonds | ¥ — | ¥ — | ¥— |
| Corporate bonds | 200 | 203 | 3 |
| Other | — | — | — |
| Subtotal | ¥200 | ¥203 | ¥ 3 |

*(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, 2013 and 2012 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 | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥38,058 | ¥14,135 | ¥23,923 |
| Debt securities | — | — | — |
| Other | — | — | — |
| Subtotal | ¥38,058 | ¥14,135 | ¥23,923 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | ¥ 3,469 | ¥ 3,866 | ¥ (397) |
| Debt securities | — | — | — |
| Other | — | — | — |
| Subtotal | ¥ 3,469 | ¥ 3,866 | ¥ (397) |
| Total | ¥41,527 | ¥18,001 | ¥23,527 |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | 2013 | | |
| | Carrying value | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | $361,084 | $134,107 | $226,977 |
| Debt securities | — | — | — |
| Other | — | — | — |
| Subtotal | $361,084 | $134,107 | $226,977 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | $ 32,912 | $ 36,677 | $ (3,766) |
| Debt securities | — | — | — |
| Other | — | — | — |
| Subtotal | $ 32,912 | $ 36,677 | $ (3,766) |
| Total | $393,996 | $170,785 | $223,212 |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Carrying value | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥20,637 | ¥10,943 | ¥ 9,693 |
| Debt securities | 16 | 16 | 0 |
| Other | — | — | — |
| Subtotal | ¥20,653 | ¥10,959 | ¥ 9,693 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | ¥ 5,334 | ¥ 7,582 | ¥(2,248) |
| Debt securities | — | — | — |
| Other | — | — | — |
| Subtotal | ¥ 5,334 | ¥ 7,582 | ¥(2,248) |
| Total | ¥25,987 | ¥18,541 | ¥ 7,446 |

*(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, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Sales | ¥4,316 | ¥412 | $40,951 |
| Gain on sales of securities | 3,492 | 21 | 33,130 |
| Loss on sales of securities | 4 | 65 | 33 |

*(e) Marketable securities that have been written down*

The Company recorded write-downs of ¥20 million ($193 thousand) and ¥582 million in other securities in the years ended December 31, 2013 and 2012, 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, 2013

| | | | 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 |
| Principle method | Forward foreign exchange contract Sell denomination; CAN$ | Accounts receivable | ¥ 514 | ¥ — | ¥15 | $ 4,877 | $ — | $144 |
| Currency swap allocation procedures | Received in USD, paid in JPY | Long-term debt | 10,000 | 10,000 | * | 94,875 | 94,875 | * |
| Total | | | ¥10,514 | ¥10,000 | ¥15 | $99,753 | $94,875 | $144 |

December 31, 2012

| | | | Millions of yen | | |
|---|---|---|---|---|---|
| Hedge accounting method | Hedging instrument | Main hedged item | Contract amount | Contract amount payable after one year | Fair value |
| Designation applied to forward exchange contracts | Forward foreign exchange contract Purchase denomination; euro | Accounts payable | ¥ 266 | ¥ — | ¥31 |
| Principle method | Forward foreign exchange contract Sell denomination; CAN$ | Accounts receivable | 937 | — | (11) |
| Currency swap allocation procedures | Received in USD, paid in JPY | Long-term debt | 5,000 | 5,000 | * |
| Total | | | ¥6,203 | ¥5,000 | ¥20 |

Note: Because those based on currency swap allocation procedures are treated together with long-term loans, which are regarded as hedged items, their market value is shown inclusive of the market value of long-term loans.

ii) Interest rate-related

December 31, 2013

| Hedge accounting method | Hedging instrument | Main hedged item | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value | Thousands of U.S. dollars (Note 1): Contract amount | Thousands of U.S. dollars (Note 1): Contract amount payable after one year | Thousands of U.S. dollars (Note 1): Fair value |
|---|---|---|---|---|---|---|---|---|
| Special treatment for interest rate swaps | Interest rate swaps Receive variable rate, pay fixed rate | Long-term debt | ¥59,855 | ¥37,309 | * | $567,882 | $353,973 | * |
| Total | | | ¥59,855 | ¥37,309 | * | $567,882 | $353,973 | * |

December 31, 2012

| Hedge accounting method | Hedging instrument | Main hedged item | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value |
|---|---|---|---|---|---|
| Special treatment for interest rate swaps | Interest rate swaps Receive variable rate, pay fixed rate | Long-term debt | ¥43,278 | ¥42,867 | * |
| Total | | | ¥43,278 | ¥42,867 | ¥— |

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, 2013

| Hedge accounting method | Hedging instrument | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value | Millions of yen: Unrealized gain (loss) | Thousands of U.S. dollars (Note 1): Contract amount | Thousands of U.S. dollars (Note 1): Contract amount payable after one year | Thousands of U.S. dollars (Note 1): Fair value | Thousands of U.S. dollars (Note 1): Unrealized gain (loss) |
|---|---|---|---|---|---|---|---|---|---|
| Transactions other than market transactions | Forward foreign exchange contract Purchase denomination; US$ | ¥798 | ¥— | ¥45 | ¥45 | $7,571 | $— | $424 | $424 |
| Total | | ¥798 | ¥— | ¥45 | ¥45 | $7,571 | $— | $424 | $424 |

December 31, 2012

| Hedge accounting method | Hedging instrument | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value | Millions of yen: Unrealized gain (loss) |
|---|---|---|---|---|---|
| Transactions other than market transactions | Forward foreign exchange contract Purchase denomination; US$ | ¥706 | ¥706 | ¥1 | ¥1 |
| | Forward foreign exchange contract Sell denomination; US$ | 173 | — | 1 | 1 |
| Total | | ¥879 | ¥706 | ¥2 | ¥2 |

ii) Commodity-related

December 31, 2013

| Hedge accounting method | Hedging instrument | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value | Millions of yen: Unrealized gain (loss) | Thousands of U.S. dollars (Note 1): Contract amount | Thousands of U.S. dollars (Note 1): Contract amount payable after one year | Thousands of U.S. dollars (Note 1): Fair value | Thousands of U.S. dollars (Note 1): Unrealized gain (loss) |
|---|---|---|---|---|---|---|---|---|---|
| Market transactions | Commodity option contract Purchase denomination; Call | ¥ 10 | ¥— | ¥(7) | ¥(7) | $ 94 | $— | $(68) | $(68) |
| | Sell denomination; Put | 7 | — | 2 | 2 | 68 | — | 15 | 15 |
| | Commodity future trading Purchase denomination | 198 | — | 5 | 5 | 1,883 | — | 44 | 44 |
| Total | | ¥216 | ¥— | ¥(1) | ¥(1) | $2,045 | $— | $ (8) | $ (8) |

December 31, 2012

| Hedge accounting method | Hedging instrument | Millions of yen: Contract amount | Millions of yen: Contract amount payable after one year | Millions of yen: Fair value | Millions of yen: Unrealized gain (loss) |
|---|---|---|---|---|---|
| Market transactions | Commodity option contract Purchase denomination; Call | ¥ 9 | ¥— | ¥ (4) | ¥ (4) |
| | Sell denomination; Put | 11 | — | 6 | 6 |
| | Commodity future trading Purchase denomination | 325 | — | 9 | 9 |
| Total | | ¥344 | ¥— | ¥10 | ¥10 |

## 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, 2013 and 2012 were 0.45% and 0.49%, respectively. Bonds at December 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| 2.26% bonds due 2013 | ¥ — | ¥10,000 | $ — |
| 0.96% bonds due 2015 | 12,000 | 12,000 | 113,852 |
| 0.62% bonds due 2016 | 10,000 | 10,000 | 94,877 |
| 0.64% bonds due 2017 | 10,000 | 10,000 | 94,877 |
| 0.39% bonds due 2018 | 10,000 | — | 94,877 |
| 0.61% bonds due 2020 | 10,000 | — | 94,877 |
| Total | 52,000 | 42,000 | 493,359 |
| Less current portion | — | 10,000 | — |
| Bonds, net of current portion | ¥52,000 | ¥32,000 | $493,359 |

The aggregate annual maturities of bonds subsequent to December 31, 2013 are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| 2014 | ¥ — | $ — |
| 2015 | 12,000 | 113,852 |
| 2016 | 10,000 | 94,877 |
| 2017 | 10,000 | 94,877 |
| 2018 | 10,000 | 94,877 |
| 2019 and thereafter | 10,000 | 94,877 |
| | ¥52,000 | $493,359 |

Long-term debt at December 31, 2013 and 2012 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Loans from banks and insurance companies maturing from 2012 to 2023 with weighted-average annual interest rates: | | | |
| 2013—0.915% | | | |
| 2012—1.10% | | | |
| Secured | ¥ 18,330 | ¥ 16,800 | $ 173,909 |
| Unsecured | 127,239 | 117,837 | 1,207,205 |
| | 145,569 | 134,637 | 1,381,114 |
| Less current portion | 38,384 | 21,261 | 364,174 |
| | ¥107,185 | ¥113,376 | $1,016,939 |

The aggregate annual maturities of long-term debt subsequent to December 31, 2013 are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| 2014 | ¥ 38,384 | $364,174 |
| 2015 | 8,826 | 83,741 |
| 2016 | 43,482 | 412,541 |
| 2017 | 9,597 | 91,057 |
| 2018 | 18,373 | 174,315 |
| 2019 and thereafter | 26,907 | 255,285 |
| | ¥145,569 | $1,381,114 |

The assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2013 and 2012 are summarized as follows:

*(a) Assets pledged as collateral*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Investment securities | ¥6,563 | ¥4,191 | $62,272 |
| Buildings and structure | 100 | 108 | 945 |
| Lands | 613 | 613 | 5,813 |
| Other investment | 80 | 80 | 759 |
| | ¥7,356 | ¥4,992 | $69,789 |

*(b) Debt relating to the above pledged assets*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Short-term bank loans | ¥ 1,500 | ¥ 3,000 | $ 14,231 |
| Long-term bank debt | 18,330 | 16,800 | 173,909 |
| | ¥19,830 | ¥19,800 | $188,140 |

In addition, total assets of Sapporo Canada Inc. in the amount of ¥43,874 million ($416,260 thousand) are pledged as collateral for long-term debt of ¥1,378 million ($13,073 thousand).

Further, cash and cash equivalents of ¥27 million ($259 thousand) of POKKA SALES & MARKETING PTE. LTD. are pledged as collateral for a credit limit of ¥897 million ($8,511 thousand). Short-term bank loans of ¥18 million ($166 thousand) have been borrowed against said credit limit.

## 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, 2013 and 2012 are analyzed as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Retirement benefit obligation | ¥(46,331) | ¥(46,210) | $(439,575) |
| Fair value of pension plan assets | 37,954 | 32,941 | 360,096 |
| Trust assets | 111 | 126 | 1,054 |
| | (8,266) | (13,143) | (78,425) |
| Unrecognized net retirement benefit obligation at transition | 3,011 | 4,515 | 28,565 |
| Unrecognized actuarial gain or loss | 3,917 | 6,282 | 37,166 |
| Unrecognized past service cost | (4,569) | (4,997) | (43,350) |
| Prepaid pension cost | — | 43 | — |
| Employees' retirement benefits | ¥ (5,907) | ¥ (7,385) | $ (56,045) |

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, 2013 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| Service cost | ¥1,288 | ¥1,439 | ¥1,343 | $12,220 |
| Interest cost | 873 | 923 | 945 | 8,287 |
| Expected return on plan assets | (779) | (759) | (737) | (7,390) |
| Amortization of net retirement benefit obligation at transition | 1,503 | 1,506 | 1,506 | 14,262 |
| Amortization of actuarial gain or loss | 991 | 1,146 | 976 | 9,400 |
| Amortization of past service cost | (679) | (678) | (675) | (6,446) |
| Other | 850 | 628 | 611 | 8,065 |
| | ¥4,047 | ¥4,204 | ¥3,971 | $38,398 |

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, 2013 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Discount rate | 1.2–1.6% | 0.9–2.1% | 0.9–2.1% |
| Expected rate of return on plan assets | 1.5–2.5% | 2.5–3.0% | 2.5–3.0% |
| Period of recognition of past service cost | 10–14 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) | 10–14 years | 9–15 years | 9–15 years |
| Period of recognition of net retirement benefit obligation | 15 years | 15 years | 15 years |

## 16. 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 38.0% in 2013 and 40.7% in 2012. 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 the year ended December 31, 2013 and 2012 differ from the corresponding statutory tax rates for the following reasons:

| | 2013 | 2012 |
|---|---|---|
| Statutory tax rates | 38.0% | 40.7% |
| Effect of: | | |
| Disallowed expenses, including entertainment expenses | 2.1 | 3.8 |
| Dividends and other income deductible for income tax purposes | (0.9) | (1.4) |
| Inhabitants' per capita taxes | 1.7 | 2.8 |
| Tax deductions | (1.3) | (2.4) |
| Changes in valuation allowance | 6.6 | 12.6 |
| The tax rate difference of overseas subsidiary company | (2.5) | (3.0) |
| Other, net | (0.5) | (2.3) |
| Effective tax rates | 43.1% | 50.9% |

The significant components of deferred tax assets and liabilities at December 31, 2013 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Deferred tax assets:** | | | |
| Property, plant and equipment | ¥ 5,584 | ¥ 5,865 | $ 52,977 |
| Investment securities | 2,747 | 2,738 | 26,065 |
| Gift coupon income | 2,693 | 2,731 | 25,551 |
| Accrued expenses | 2,631 | 2,047 | 24,962 |
| Tax loss carryforwards | 2,435 | 2,624 | 23,103 |
| Employees' retirement benefits | 2,232 | 2,659 | 21,175 |
| Accrued bonuses | 784 | 707 | 7,434 |
| Asset retirement obligations | 583 | 566 | 5,530 |
| Allowance for doubtful receivables | 545 | 521 | 5,167 |
| Other | 2,325 | 1,973 | 22,057 |
| Gross deferred tax assets | 22,558 | 22,431 | 214,020 |
| Valuation allowance | (9,552) | (10,119) | (90,622) |
| Total deferred tax assets | 13,006 | 12,312 | 123,397 |
| | | | |
| **Deferred tax liabilities:** | | | |
| Reserve for advanced depreciation deduction, etc. | 10,009 | 10,076 | 94,958 |
| Unrealized holding gain on securities | 8,369 | 3,259 | 79,405 |
| Property, plant and equipment | 6,686 | 5,660 | 63,438 |
| Gain on valuation of assets received through merger | 435 | 460 | 4,126 |
| Other | 216 | 82 | 2,053 |
| Total deferred tax liabilities | 25,715 | 19,537 | 243,980 |
| Net deferred tax liabilities | ¥ (12,709) | ¥ (7,225) | $ (120,582) |

## 17. 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, 2013 and 2012 were ¥7,087 million ($67,240 thousand) and ¥7,945 million. Significant earnings from rent are included under operating income; rental-related expenses are posted under operating expenses. In 2013 and 2012, the carrying value of this real estate for rent on the consolidated balance sheets, the change in carrying value, and the total fair value were as follows:

Year ended or as of December 31, 2013

| Millions of yen | | | |
|---|---|---|---|
| Balance at December 31, 2012 | Change during 2013 | Balance at December 31, 2013 | Fair value at December 31, 2013 |
| ¥209,925 | ¥154 | ¥210,079 | ¥337,772 |

Year ended or as of December 31, 2013

| Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|
| Balance at December 31, 2012 | Change during 2013 | Balance at December 31, 2013 | Fair value at December 31, 2013 |
| $1,991,694 | $1,461 | $1,993,155 | $3,204,666 |

Year ended or as of December 31, 2012

| Millions of yen | | | |
|---|---|---|---|
| Balance at December 31, 2011 | Change during 2012 | Balance at December 31, 2012 | Fair value at December 31, 2012 |
| ¥173,297 | ¥36,628 | ¥209,925 | ¥335,673 |

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, 2013, the main increase was the acquisition of real estate of ¥4,098 million ($38,881 thousand), while the main decreases were depreciation and amortization of ¥3,908 million ($37,076 thousand) and disposal losses of ¥34 million ($326 thousand).
In regard to the main components of changes in the year ended December 31, 2012, the main increase was the acquisition of real estate of ¥41,663 million, while the main decreases were depreciation and amortization of ¥4,123 million and disposal losses of ¥874 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.

## 18. Segment Information

*(a) Segment information by geographic area*

i) Net sales

Year ended or as of December 31, 2013

| Millions of yen | | | | | Thousands of U.S. dollars (Note 1) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Japan | North America | Asia | Others | Total | Japan | North America | Asia | Others | Total |
| ¥437,607 | ¥45,843 | ¥21,927 | ¥4,457 | ¥509,835 | $4,151,870 | $434,946 | $208,036 | $42,289 | $4,837,141 |

Year ended or as of December 31, 2012

| Millions of yen | | | | |
|---|---|---|---|---|
| Japan | North America | Asia | Others | Total |
| ¥439,114 | ¥34,658 | ¥14,836 | ¥3,883 | ¥492,491 |

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 in 2013 and 2012.

*(b) Information by major customer*

Year ended or as of December 31, 2013

| | Net Sales | | |
|---|---|---|---|
| Company name | Millions of yen | Thousands of U.S. dollars (Note 1) | Segment |
| KOKUBU & CO., LTD. | ¥63,859 | $605,871 | Japanese Alcoholic Beverages<br>Food & Soft Drinks |

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 in 2012.

### *(c) Segment information*

#### 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 five reportable segments are Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants, and Real Estate.

The Japanese Alcoholic Beverages segment produces and sells alcoholic beverages in Japan, while the international segment produces and sells alcoholic beverages and soft drinks overseas.

The Food & Soft Drinks segment produces and sells foods and soft drinks.

The Restaurants segment operates various types of restaurants.

The Real Estate segment's activities include leasing and development of real estate.

Note: Changes to reportable segments

The Sapporo Group conducted a reorganization of its logistics business on May 1, 2013. The Company's consolidated subsidiaries Sapporo Logistics Systems Co., Ltd. and Pokka Logistics Co., Ltd. were reorganized under Sapporo Group Logistics Co., Ltd., which is under the control of Sapporo Group Management LTD.

In line with this, effective the year ended December 31, 2013, Sapporo Logistics Systems Co., Ltd., which was previously included in the Japanese Alcoholic Beverages segment, and Pokka Logistics Co., Ltd., which was previously included in the Food & Soft Drinks segment, were reclassified to the Other segment.

Additionally, effective the fiscal year ended December 31, 2013, Pokka Food (Singapore) Pte. Ltd. which was previously included in the Food & Soft Drinks segment was reclassified to the Restaurants segment in conjunction with changes in organizational structure through share transfers between consolidated subsidiaries.

The segment information for the fiscal year ended December 31, 2012 has been recast to reflect the change of segmentation.

#### 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, 2013

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | Total | General corporate and intercompany eliminations | Consolidated |
| Net sales | ¥274,909 | ¥48,216 | ¥130,672 | ¥26,827 | ¥ 22,768 | ¥503,392 | ¥ 6,443 | ¥509,835 | ¥ — | ¥509,835 |
| Intra-group sales and transfers | 2,534 | 83 | 309 | 0 | 2,668 | 5,594 | 19,546 | 25,140 | (25,140) | — |
| Total | ¥277,443 | ¥48,299 | ¥130,981 | ¥26,827 | ¥ 25,436 | ¥508,986 | ¥25,989 | ¥534,975 | ¥(25,140) | ¥509,835 |
| Operating income (loss) | ¥ 9,902 | ¥ 1,208 | ¥ (1,483) | ¥ 415 | ¥ 8,686 | ¥ 18,728 | ¥ 231 | ¥ 18,959 | ¥ (3,615) | ¥ 15,344 |
| Identifiable assets | ¥212,664 | ¥54,815 | ¥102,752 | ¥11,991 | ¥215,874 | ¥598,097 | ¥ 7,467 | ¥605,564 | ¥ 11,189 | ¥616,753 |
| Depreciation and amortization | ¥ 8,684 | ¥ 1,856 | ¥ 6,777 | ¥ 643 | ¥ 4,412 | ¥ 22,371 | ¥ 85 | ¥ 22,457 | ¥ 2,602 | ¥ 25,059 |
| Increase in property, plant and equipment and intangible fixed assets | ¥ 2,124 | ¥ 2,219 | ¥ 8,517 | ¥ 813 | ¥ 4,467 | ¥ 18,140 | ¥ 156 | ¥ 18,296 | ¥ 1,169 | ¥ 19,465 |

Year ended or as of December 31, 2013

| | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | Total | General corporate and intercompany eliminations | Consolidated |
| Net sales | $2,608,247 | $457,456 | $1,239,770 | $254,528 | $ 216,013 | $4,776,013 | $ 61,128 | $4,837,141 | $ — | $4,837,141 |
| Intra-group sales and transfers | 24,040 | 788 | 2,936 | 2 | 25,313 | 53,078 | 185,445 | 238,523 | (238,523) | — |
| Total | $2,632,286 | $458,244 | $1,242,706 | $254,530 | $ 241,326 | $4,829,092 | $246,573 | $5,075,665 | $(238,523) | $4,837,141 |
| Operating income (loss) | $ 93,942 | $ 11,464 | $ (14,073) | $ 3,942 | $ 82,408 | $ 177,683 | $ 2,194 | $ 179,877 | $ (34,295) | $ 145,582 |
| Identifiable assets | $2,017,685 | $520,070 | $ 974,877 | $113,770 | $2,048,141 | $5,674,543 | $ 70,843 | $5,745,386 | $ 106,158 | $5,851,544 |
| Depreciation and amortization | $ 82,387 | $ 17,606 | $ 64,295 | $ 6,105 | $ 41,860 | $ 212,252 | $ 809 | $ 213,061 | $ 24,686 | $ 237,747 |
| Increase in property, plant and equipment and intangible fixed assets | $ 20,150 | $ 21,052 | $ 80,804 | $ 7,717 | $ 42,382 | $ 172,104 | $ 1,484 | $ 173,588 | $ 11,094 | $ 184,681 |

Year ended or as of December 31, 2012

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | Total | General corporate and intercompany eliminations | Consolidated |
| Net sales | ¥269,948 | ¥36,121 | ¥129,017 | ¥26,621 | ¥ 23,217 | ¥484,925 | ¥ 7,566 | ¥492,491 | ¥ — | ¥492,491 |
| Intra-group sales and transfers | 2,361 | 34 | 312 | — | 2,574 | 5,281 | 19,611 | 24,892 | ¥(24,892) | — |
| Total | ¥272,308 | ¥36,155 | ¥129,329 | ¥26,621 | ¥ 25,792 | ¥490,206 | ¥27,177 | ¥517,383 | ¥(24,892) | ¥492,491 |
| Operating income (loss) | ¥ 7,522 | ¥ (73) | ¥ 364 | ¥ 539 | ¥ 9,396 | ¥ 17,748 | ¥ (413) | ¥ 17,335 | ¥ (2,920) | ¥ 14,415 |
| Identifiable assets | ¥201,652 | ¥50,474 | ¥103,501 | ¥10,722 | ¥215,189 | ¥581,539 | ¥ 9,528 | ¥591,066 | ¥ 6,570 | ¥597,636 |
| Depreciation and amortization | ¥ 10,307 | ¥ 1,507 | ¥ 6,654 | ¥ 567 | ¥ 4,612 | ¥ 23,647 | ¥ 0 | ¥ 23,648 | ¥ 2,158 | ¥ 25,805 |
| Increase in property, plant and equipment and intangible fixed assets | ¥ 2,772 | ¥ 1,442 | ¥ 7,633 | ¥ 809 | ¥ 42,207 | ¥ 54,862 | ¥ 9 | ¥54,871 | ¥ 2,201 | ¥ 57,072 |

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

### iv) Impairment losses on fixed assets or goodwill by reportable segment

**Year ended or as of December 31, 2013**

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Loss on impairment | ¥17 | ¥228 | ¥38 | ¥126 | ¥16 | ¥426 | ¥— | ¥— | ¥426 |

**Year ended or as of December 31, 2013**

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Loss on impairment | $166 | $2,162 | $364 | $1,196 | $153 | $4,041 | $— | $— | $4,041 |

Year ended or as of December 31, 2012

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Loss on impairment | ¥— | ¥— | ¥50 | ¥125 | ¥— | ¥175 | ¥13 | ¥— | ¥188 |

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

**Year ended or as of December 31, 2013**

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Amortization in year ended Dec. 2013 | ¥— | ¥ 1,240 | ¥ 2,728 | ¥— | ¥17 | ¥ 3,985 | ¥— | ¥— | ¥ 3,985 |
| Unamortized balance as of Dec. 31, 2013 | ¥— | ¥11,098 | ¥23,321 | ¥— | ¥— | ¥34,419 | ¥— | ¥— | ¥34,419 |

**Year ended or as of December 31, 2013**

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Amortization in year ended Dec. 2013 | $— | $ 11,762 | $ 25,885 | $— | $166 | $ 37,812 | $— | $— | $ 37,812 |
| Unamortized balance as of Dec. 31, 2013 | $— | $105,295 | $221,259 | $— | $ — | $326,554 | $— | $— | $326,554 |

Year ended or as of December 31, 2012

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | |
| | Japanese Alcoholic Beverages | International | Food & Soft Drinks | Restaurants | Real Estate | Total | Other | General corporate and intercompany eliminations | Consolidated |
| Amortization in year ended Dec. 2012 | ¥— | ¥ 1,126 | ¥ 2,753 | ¥— | ¥— | ¥ 3,879 | ¥— | ¥— | ¥ 3,879 |
| Unamortized balance as of Dec. 31, 2012 | ¥— | ¥11,894 | ¥25,648 | ¥— | ¥— | ¥37,542 | ¥— | ¥— | ¥37,542 |

vi) Gain on negative goodwill by reportable segment

Not applicable in the year ended December 31, 2013 and 2012.

## 19. 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 years ended December 31, 2013 and 2012.

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 | 2013 | 2012 | 2011 | 2013 |
| Net income | ¥24.20 | ¥13.77 | ¥8.08 | $0.23 |
| Diluted net income | — | — | — | — |

* Information concerning diluted net income per share is omitted because there were no latent shares with a dilutive effect for each of the three year ended December 31, 2013.

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| As of December 31 | 2013 | 2012 | 2013 |
| Net assets | ¥388.77 | ¥336.60 | $3.69 |

## 20. Subsequent Events

### (Appropriation of retained earnings)

On March 28, 2014, 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 | ¥2,731 | $25,912 |

### (Extraordinary losses resulting from redevelopment of real estate)

The Company, at a meeting of its Board of Directors held on February 12, 2014, passed a resolution to redevelop Sapporo Ginza Building (8 -1, Ginza 5-chome, Chuo-ku, Tokyo (residence indication)) owned by Sapporo Real Estate Co., Ltd.

In line with this, extraordinary losses totaling ¥2,600 million for demolition of the existing building, loss on disposal, expenses related to operation, and other costs are expected to be recorded during the fiscal year ending December 31, 2014.

*1. Overview of redevelopment*

• Scale (planned): 12 floors above ground, 2 below
  Floor area: about 7,082 $m^2$

• Use (planned): commercial building complex

<Schedule>

• Demolition of the existing building: starting in Spring 2014 (planned)

• Start of construction: Spring 2015 (planned)

• Completion of the new building: during the first half of 2016 (planned)

*2. Impact on consolidated financial results*

These extraordinary losses are factored into the consolidated full-year earnings forecast.

# Corporate Data

(As of December 31, 2013)

## Company Name

SAPPORO HOLDINGS LIMITED

## Business

Holding company

## Date of Establishment

September 1949

## Head Office

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

## Capital

¥53,887 million

## Fiscal Year-end

December 31

## Number of Employees

7,434 (Consolidated)
66 (Parent company)

## Main Banks

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

## 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.

## Number of Shares Issued

393,971,493

## Number of Shareholders

60,077

## Major Shareholders

| Shareholders Name | Number of shares (thousands) | Percentage (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. | 18,695 | 4.79 |
| Japan Trustee Services Bank, Ltd. | 14,447 | 3.70 |
| Trust & Custody Services Bank, Ltd., as retirement benefit trust assets Mizuho Trust and Banking Co., Ltd. | 12,212 | 3.13 |
| Nippon Life Insurance Company | 11,732 | 3.01 |
| Meiji Yasuda Life Insurance Company | 10,434 | 2.67 |
| The Norinchukin Bank | 9,375 | 2.40 |
| Mizuho Bank, Ltd. | 9,032 | 2.32 |
| Marubeni Corporation | 8,246 | 2.11 |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | 7,970 | 2.04 |
| Taisei Corporation | 7,000 | 1.79 |

Note: Shareholding ratios are calculated after deduction of treasury stock.

SAPPORO

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