

SAPPORO HOLDINGS LTD.
SEMIANNUAL REPORT

For the six months ended June 30, 2004



MESSAGE FROM THE PRESIDENT

On July 1, 2003, the Sapporo Group adopted a holding company structure. Since then, in our four main businesses—Alcoholic Beverages, Soft Drinks, Restaurants, and Real Estate—we have instituted reforms to enable each to hold its own in its respective industry, as we continue our quest to devise new business models.

During the first half of 2004, ended June 30, 2004, consolidated net sales rose ¥8,718 million, or 4.0%, year on year, to ¥224,302 million. Operating income increased by ¥11,235 million to ¥6,107 million, and ordinary income was up ¥12,110 million to ¥3,300 million. Net income, meanwhile, climbed ¥16,211 million to ¥2,850 million. In addition to increased sales volume in the Alcoholic Beverages segment, these results reflected cost savings and other benefits stemming from ongoing efforts to improve the operating base of each operating company, and represent a substantial improvement over the same period a year earlier.

• ALCOHOLIC BEVERAGES

In beer operations, amid a decline in overall demand caused by a tax hike on *Happo-shu* (low-malt beer), we promoted strategies for four products in four price ranges, as discussed below.

Weak demand for beer pulled sales volume of *Sapporo Black Label* 9% lower year on year, despite efforts to expand sales, particularly to the foodservice sector.

Sales volume of the *Yebisu* brand grew 9% year on year due to steps to bolster this brand's unique value and synergies with *Yebisu Black*.

In *Happo-shu*, despite the effect on sales of new product *Draft One*, the decline in overall sales volume was limited to 19%. This was the result of a strong marketing campaign to position *Hokkaido Namashibori* as the flagship *Happo-shu* brand, under a corporate brand strategy calling for 100% cultivation of malt and hops under collaborative growing contracts in 2006.

Following its debut across Japan in February 2004, *Draft One* has become a runaway success, selling 8 million cases (101,280kl) in the first half of the fiscal year. An innovative manufacturing process that uses pea protein is the secret to the crisp, refreshing taste that has won over consumers.

As a result, overall sales volume for beer, *Happo-shu* and *Draft One* rose 9% year on year, substantially boosting Sapporo's market share as overall market demand declined 2%.

In wine operations, as we appealed to customers with the quality of our flagship domestic brand, *Grand Polaire*, two lower-priced domestic labels—*Ureshii Wine* and *Clear Dry*—claimed the leading share of the wine category. In imported wines, the French wine *La Cuvee Mythique* and other “power” brands stimulated sales growth in mid- to high-priced products.

The above factors culminated in operating revenues of ¥162,793 million in the Alcoholic Beverages segment, up ¥6,990 million, or 4.5%, from the same period a year earlier. Operating income increased ¥7,226 million to ¥4,266 million.

• SOFT DRINKS

We took steps to further strengthen this segment's business base by enhancing key brands, which included revamping the *Gyokuro-Iri O-Cha* brand of green tea, and drumming up demand by expanding sales of new value-added products.

Along with aggressive marketing activities in step with these efforts, we worked to use selling expenses more efficiently. The result was operating revenues in the Soft Drinks segment of ¥31,252 million, ¥1,026 million, or 3.4%, higher year on year. The segment recorded an operating loss of ¥284 million, an improvement of ¥1,172 million.

• RESTAURANTS

In the Restaurants segment, reinvigorating beer halls was an underlying theme at existing outlets. To this end, we seized opportunities to distinguish our operations from competitors by improving menu quality and offering high-quality dishes made from the freshest ingredients. The result was a noticeable recovery in performance, particularly among large-scale outlets in prime locations, which halted a year-on-year decline in same-store sales.

In the first half of the fiscal year, we opened 4 new outlets and closed 10, for a total of 217 outlets as of June 30, 2004.

All told, operating revenues in the Restaurants segment edged ¥127 million, or 1.0%, lower to ¥12,883 million, while the segment recorded an operating loss of ¥118 million, a year-on-year improvement of ¥509 million.

• REAL ESTATE

In Real Estate operations, as central Tokyo's oversupply of office buildings grows less acute, Yebisu Garden Place is set to celebrate its 10th anniversary this year. Yebisu Garden Place is a core operation of this business segment. Since first opening its doors in 1994, this location's diverse functionality as a commercial complex, abundant greenery, and property management emphasizing safety and comfort, have earned it praise on all fronts. At Sapporo Factory, our multifaceted commercial complex in Hokkaido, we are staging a variety of events to increase customer footfall. We are also seeing healthy performance in leasing operations for other properties.

Operating revenues in the Real Estate segment rose ¥337 million, or 3.2%, to ¥10,919 million, and operating income jumped ¥858 million, or 38.4%, to ¥3,093 million.

For the year ending December 31, 2006, Sapporo Holdings has set two major business targets—a return on invested capital of 5.0% and financial liabilities of ¥290,000 million. In the first half, we made a good start towards achieving those goals. By maintaining this strong momentum, we intend to put ourselves in a position to achieve these goals.

September 2004

Tatsushi Iwama

Tatsushi Iwama

President and Representative Director

CONSOLIDATED BALANCE SHEETS

June 30, 2004 and 2003

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-------------------|---------------------------------------|
| | 2004 | 2003 | 2004 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 21,977 | ¥ 375,109 | \$ 202,681 |
| Notes and accounts receivable—trade | 68,061 | 65,520 | 627,698 |
| Less: Allowance for doubtful receivables | (261) | (154) | (2,404) |
| Inventories | 27,690 | 30,732 | 255,373 |
| Other current assets | 18,642 | 16,952 | 171,924 |
| Total current assets | <u>136,109</u> | <u>488,159</u> | <u>1,255,272</u> |
| | | | |
| Investments and long-term loans: | | | |
| Investments and long-term loans | 67,900 | 69,539 | 626,214 |
| Less: Allowance for doubtful receivables | (2,648) | (2,864) | (24,417) |
| | <u>65,252</u> | <u>66,675</u> | <u>601,797</u> |
| | | | |
| Property, plant and equipment: | | | |
| Land | 91,169 | 100,312 | 840,804 |
| Buildings and structures | 268,905 | 304,460 | 2,479,989 |
| Machinery and automobiles | 54,834 | 67,201 | 505,708 |
| Other | 6,398 | 6,773 | 59,009 |
| | <u>421,306</u> | <u>478,746</u> | <u>3,885,510</u> |
| | | | |
| Intangibles | 2,838 | 3,202 | 26,170 |
| | <u>¥625,505</u> | <u>¥1,036,782</u> | <u>\$5,768,749</u> |

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-------------------|---------------------------------------|
| | 2004 | 2003 | 2004 |
| Current liabilities: | | | |
| Short-term bank loans | ¥ 9,805 | ¥ 406,256 | \$ 90,426 |
| Current portion of long-term debt | 57,455 | 64,459 | 529,881 |
| Notes and accounts payable: | | | |
| Trade | 35,621 | 35,230 | 328,512 |
| Construction | 4,286 | 5,070 | 39,525 |
| Liquor taxes payable | 28,254 | 29,969 | 260,578 |
| Other current liabilities | 59,517 | 60,944 | 548,901 |
| Total current liabilities | <u>194,938</u> | <u>601,928</u> | <u>1,797,823</u> |
| Long-term debt | 269,644 | 268,622 | 2,486,801 |
| Dealers' deposits for guarantees | 36,975 | 37,883 | 341,006 |
| Employees' retirement benefits | 16,621 | 16,237 | 153,285 |
| Directors' and corporate auditors' severance benefits | 222 | 412 | 2,047 |
| Other long-term liabilities | 15,990 | 14,765 | 147,475 |
| Minority interests in consolidated subsidiaries | — | 4,377 | — |
| Shareholders' equity: | | | |
| Common stock | | | |
| Authorized — 1,000,000,000 shares | | | |
| Issued — at June 30, 2004 356,179,485 shares | 43,832 | — | 404,239 |
| — at June 30, 2003 338,833,597 shares | — | 43,832 | — |
| Capital surplus | 36,241 | 32,242 | 334,230 |
| Retained earnings | 6,315 | 15,255 | 58,236 |
| Unrealized holding gain on securities | 5,302 | 1,529 | 48,903 |
| Foreign currency translation adjustments | (334) | (206) | (3,075) |
| Treasury stock, at cost | (241) | (94) | (2,221) |
| Total shareholders' equity | <u>91,115</u> | <u>92,558</u> | <u>840,312</u> |
| | <u>¥625,505</u> | <u>¥1,036,782</u> | <u>\$5,768,749</u> |

CONSOLIDATED STATEMENTS OF INCOME

Six months ended June 30, 2004 and 2003

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------------|---------------------------------------|
| | 2004 | 2003 | 2004 |
| Net sales | ¥224,302 | ¥215,584 | \$2,068,636 |
| Operating cost and expenses: | | | |
| Cost of sales | 155,400 | 156,974 | 1,433,182 |
| Selling, general and administrative expenses | 62,795 | 63,738 | 579,131 |
| Operating income | 6,107 | (5,128) | 56,323 |
| Other income (expenses): | | | |
| Interest and dividend income | 404 | 433 | 3,729 |
| Interest expense | (2,580) | (3,019) | (23,792) |
| Other, net | (670) | (5,225) | (6,186) |
| Income (loss) before income taxes and minority interests | 3,261 | (12,939) | 30,074 |
| Income taxes: | | | |
| Current | 481 | 254 | 4,439 |
| Deferred | (47) | 736 | (435) |
| | 434 | 990 | 4,004 |
| Minority interests | 23 | 567 | 211 |
| Net income | ¥ 2,850 | ¥ (13,362) | \$ 26,281 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2004 and 2003

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|------------|---------------------------------------|
| | 2004 | 2003 | 2004 |
| Cash flows from operating activities: | | | |
| Income (loss) before income taxes and minority interests | ¥ 3,261 | ¥ (12,939) | \$ 30,074 |
| Depreciation and amortization | 12,924 | 14,651 | 119,188 |
| (Decrease) increase in employees' retirement benefits | (41) | 270 | (379) |
| Increase (decrease) in allowance for doubtful receivables | 14 | (315) | 125 |
| Interest and dividend income | (404) | (433) | (3,729) |
| Interest expense | 2,580 | 3,017 | 23,791 |
| Gain on sales of property, plant and equipment | (283) | (1,738) | (2,611) |
| Loss on sales and disposal of property, plant and equipment | 537 | 5,488 | 4,950 |
| Gain on sales of investment securities | (388) | (213) | (3,576) |
| Devaluation of investment securities | 347 | 102 | 3,204 |
| Write-off of deposit for trade | - | 438 | - |
| Decrease in notes and account receivables | 5,449 | 9,264 | 50,260 |
| Increase in inventories | (2,716) | (1,691) | (25,045) |
| Increase (decrease) in notes and accounts payable | 4,025 | (2,235) | 37,129 |
| Decrease in liquor taxes payable | (15,438) | (13,655) | (142,380) |
| Other | (565) | 1,104 | (5,208) |
| Subtotal | 9,302 | 1,115 | 85,793 |
| Interest and dividends received | 526 | 624 | 4,849 |
| Interest paid | (2,589) | (4,261) | (23,878) |
| Income taxes paid | (1,482) | (378) | (13,668) |
| Net cash provided by (used in) operating activities | 5,757 | (2,900) | 53,096 |
| Cash flows from investing activities: | | | |
| Purchases of investment securities | (46) | (2,258) | (426) |
| Proceeds from sales of investment securities | 1,068 | 760 | 9,850 |
| Purchases of property, plant and equipment | (4,730) | (5,055) | (43,623) |
| Proceeds from sales of property, plant and equipment | 1,242 | 2,193 | 11,456 |
| Purchases of intangibles | (420) | (262) | (3,872) |
| Increase in long-term loans receivable | (579) | (148) | (5,338) |
| Collection of long-term loans receivable | 161 | 398 | 1,482 |
| Other | (866) | (859) | (7,983) |
| Net cash used in investing activities | (4,170) | (5,231) | (38,454) |
| Cash flows from financing activities: | | | |
| Net increase in short-term bank loans | 4,519 | 386,390 | 41,676 |
| Proceeds from long-term debt | 6,107 | 26,050 | 56,319 |
| Repayment of long-term debt | (12,095) | (9,406) | (111,548) |
| Proceeds from issuance of bonds | 20,100 | - | 185,373 |
| Redemption of bonds | - | (40,000) | - |
| Refund of deposit for redemption of bonds | - | 20,000 | - |
| Cash dividends paid | (1,760) | (1,685) | (16,236) |
| Cash dividends paid to minority interests | - | (32) | - |
| Other | (5,102) | (8,010) | (47,051) |
| Net cash provided by financing activities | 11,769 | 373,307 | 108,533 |
| Effect of exchange rate changes on cash and cash equivalents | 16 | (2) | 147 |
| Net increase in cash and cash equivalents | 13,372 | 365,174 | 123,322 |
| Cash and cash equivalents at beginning of year | 8,455 | 9,934 | 77,980 |
| Cash and cash equivalents of an additional consolidated subsidiary | 126 | 1 | 1,158 |
| Change of fiscal year-end of an consolidated subsidiary | 24 | - | 221 |
| Cash and cash equivalents at end of the six months | ¥ 21,977 | ¥375,109 | \$ 202,681 |

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 and practices generally accepted and applied in Japan, and its consolidated foreign subsidiary in conformity with that of its country of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Prime Minister as required by the Securities and Exchange Law of Japan.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the six months ended June 30, 2004 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥108.43 = \$1.00, the exchange rate prevailing on June 30, 2004.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and 17 of its significant subsidiaries. All significant intercompany balances, transactions and profit have been eliminated in consolidation.

3. Amounts Per Share

| Six months ended June 30, | Yen | | U.S. dollars (Note 1) |
|------------------------------|--------------|----------|-----------------------|
| | 2004 | 2003 | 2004 |
| Net income | ¥8.02 | ¥(39.47) | \$0.07 |
| Diluted net income | ¥7.63 | — | \$0.07 |

| As of June 30, | Yen | | U.S. dollars (Note 1) |
|----------------------|----------------|---------|-----------------------|
| | 2004 | 2003 | 2004 |
| Net assets | ¥256.42 | ¥273.46 | \$2.36 |

4. Segment Information

Financial information by business segment is summarized as follows:

| Millions of yen | | | | | | | | |
|---|---------------------|-------------|-------------|-------------|---------|----------|--|--------------|
| Six months ended June 30, 2004 | Alcoholic beverages | Soft drinks | Restaurants | Real estate | Others | Total | General, corporate and intercompany eliminations | Consolidated |
| Operating revenues | ¥162,793 | ¥31,252 | ¥12,883 | ¥10,919 | ¥6,455 | ¥224,302 | ¥ - | ¥224,302 |
| Intra-group sales and transfers | 2,405 | 111 | - | 2,565 | 14 | 5,095 | (5,095) | - |
| Total | 165,198 | 31,363 | 12,883 | 13,484 | 6,469 | 229,397 | (5,095) | 224,302 |
| Operating expenses | 160,932 | 31,647 | 13,001 | 10,391 | 6,602 | 222,573 | (4,378) | 218,195 |
| Operating income (loss) . . . | ¥ 4,266 | ¥ (284) | ¥ (118) | ¥ 3,093 | ¥ (133) | ¥ 6,824 | ¥ (717) | ¥ 6,107 |

| Thousands of U.S. dollars | | | | | | | | |
|---|---------------------|-------------|-------------|-------------|------------|-------------|--|--------------|
| Six months ended June 30, 2004 | Alcoholic beverages | Soft drinks | Restaurants | Real estate | Others | Total | General, corporate and intercompany eliminations | Consolidated |
| Operating revenues | \$1,501,365 | \$288,227 | \$118,810 | \$100,697 | \$59,537 | \$2,068,636 | \$ - | \$2,068,636 |
| Intra-group sales and transfers | 22,184 | 1,020 | - | 23,660 | 131 | 46,995 | (46,995) | - |
| Total | 1,523,549 | 289,247 | 118,810 | 124,357 | 59,668 | 2,115,631 | (46,995) | 2,068,636 |
| Operating expenses | 1,484,201 | 291,870 | 119,902 | 95,825 | 60,894 | 2,052,692 | (40,379) | 2,012,313 |
| Operating income (loss) . . . | \$ 39,348 | \$ (2,623) | \$ (1,092) | \$ 28,532 | \$ (1,226) | \$ 62,939 | \$ (6,616) | \$ 56,323 |

| Millions of yen | | | | | | | | |
|---|---------------------|-------------|-------------|-------------|---------|-----------|--|--------------|
| Six months ended June 30, 2003 | Alcoholic beverages | Soft drinks | Restaurants | Real estate | Others | Total | General, corporate and intercompany eliminations | Consolidated |
| Operating revenues | ¥155,803 | ¥30,227 | ¥13,009 | ¥10,582 | ¥5,963 | ¥215,584 | ¥ - | ¥215,584 |
| Intra-group sales and transfers | 2,305 | 71 | - | 1,974 | 13 | 4,363 | (4,363) | - |
| Total | 158,108 | 30,298 | 13,009 | 12,556 | 5,976 | 219,947 | (4,363) | 215,584 |
| Operating expenses | 161,068 | 31,754 | 13,637 | 10,321 | 6,334 | 223,114 | (2,402) | 220,712 |
| Operating income (loss) . . . | ¥ (2,960) | ¥ (1,456) | ¥ (628) | ¥ 2,235 | ¥ (358) | ¥ (3,167) | ¥(1,961) | ¥ (5,128) |

CORPORATE DATA

June 30, 2004

Company Name

Sapporo Holdings Ltd.

Business

Holding company

Date of Establishment

September 1949

Capital

¥43,832 million

Number of Shares Issued

356,179,485

Fiscal Year-end

December 31

Head Office

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

Number of Employees

4,680

(Consolidated)

28

(Parent company)

Main Banks

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

Securities Traded: Common Stock

Tokyo Stock Exchange, First Section

Annual Meeting of Shareholders

The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Auditors

Shin Nihon & Co.



SAPPORO

SAPPORO HOLDINGS LTD.

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

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