SAPPORO HOLDINGS LIMITED

Semiannual Report 2006

For the six months ended June 30, 2006

Efficiency

Investment

The Keys to Growth

Reach

Innovation

MESSAGE FROM THE PRESIDENT

Japan's economy continued to stage a modest recovery in the first half of 2006 on the back of continued high corporate earnings, increasing capital expenditures, an improved employment picture and stronger consumer spending. On the other hand, concerns over the effect of soaring energy prices on raw materials and other products, among other factors, continued to cloud the economic outlook.

Against this backdrop, in February the Sapporo Group embarked on a new three-year medium-term management plan that ends in December 2008.

In terms of its performance during the six months under review, the Sapporo Group's consolidated net sales dipped ¥8.6 billion, or 4%, to ¥200.1 billion, as lower year-on-year sales volumes in the Alcoholic Beverages and Soft Drinks segments outweighed strength in the Real Estate segment. On the earnings front, although we executed cost reductions according to plan, the Group posted an operating loss of ¥1.8 billion, ¥1.1 billion more than a year earlier. The Group recorded a net loss of ¥3.9 billion, which was an improvement of ¥1.4 billion on the previous year's interim period.

• THE EFFECT OF SEASONAL FACTORS

Demand in the Alcoholic Beverages, Soft Drinks and Restaurants segments is concentrated particularly in the summer months, meaning there are major changes in the Group's performance between seasons. First-half sales and earnings tend to be lower than in the second half.

• ALCOHOLIC BEVERAGES

In beer operations, total demand for beer, *Happo-shu* and new product genres in Japan is estimated to have risen by 1% year on year in the first half of 2006. Amid this market, we enacted the following marketing initiatives.

With *Sapporo Black Label*, we conducted public relations activities for this flagship product that promoted the appeal of our Collaborative Contract Farming System (CCFS), highlighting the emphasis we place on the quality of ingredients. Notwithstanding these efforts, sales volume was down 3% year on year.

Yebisu beer saw sales volume rise 5% as this brand maintained its strong appeal. Overall sales volume for *Yebisu* brand products, however, edged down 1% from 2005 when the Sapporo Group launched *Yebisu Cho-choki-jukusei*, a product sold in limited quantities.

Imported *Guinness* beer reported a 13% year-on-year increase in sales volume as it remained popular with consumers.

In *Happo-shu*, mainstay *Hokkaido Namashibori* was affected by sales of new product genres. There was a strong market response, however, for *Shizuku*, which went on sale in May this year. Overall, *Happo-shu* sales volume was down 8%, but this fall was not as large as the decline in the market overall.

In new product genres, which the Sapporo Group pioneered with *Draft One*, competition is intensifying. In the six months under review, sales volume in this sector dropped 23% year on year, with sales affected by consumers trying out the new products rolled out by other companies.

As a result of the above and other factors, overall sales volume for beer, *Happo-shu* and new product genres declined 9% year on year.

In ready-to-drink, low-alcohol beverages, in March 2006 the Sapporo Group added a new flavor, white grape, to *The Fruit Sparkling*, a product launched in September 2005 that represents a departure from existing canned *shochu*-based beverages such as *Chu-hi*. The lineup was further augmented with the June launch of *Tropical Spark*.

In wine operations, in March we launched a wine naturally rich in polyphenols and organic acids with positive benefits for people's health in the rapidly expanding market in Japan for products containing no added antioxidants. We are striving to grow this wine into a pillar of our domestic wine operations. In imported wines, we worked to strengthen brands such as *Yellow Tail*, *Beringer* and *La Cuvee Mythique*. Due to these activities, combined sales volumes of domestic and imported wines were the same as in the previous year's interim period.

In April, Sapporo Breweries entered the *shochu* (Japanese distilled spirits) business. Centered on mainstay products *Triangle* and *Triangle Indigo*, this business is running smoothly according to plan.

During the interim period, sales volumes of many of our products, including beer and *Happo-shu*, were largely in line with, if not above, our initial plans. However, the sales volume of new product genres was below plan, resulting in a ¥5.8 billion, or 4%, decline in operating revenues in this segment to ¥149.7 billion. Although we cut sales promotion expenses and took steps to reduce production and other costs, the segment still recorded an operating loss of ¥3.1 billion, ¥1.5 billion more than the operating loss in 2005.

• SOFT DRINKS

The soft drinks market in Japan in the interim period is estimated to have contracted 1% year on year due to the combined effects of a downturn in demand for sugar-free teas and unfavorable weather conditions. These effects negated continued growth in mineral water, including carbonated products.

We took proactive steps to strengthen our key established brands such as *Gyokuro-Iri O-Cha*, the epitome of a luxury tea; the *Gabunomi Milk Coffee* series, which is popular with the younger set; and the *Ribbon* series, well-known for the mascot character Ribbon-chan. These steps included running TV commercials and updating websites.

In the sugar-free tea category, we worked to raise the profile mainly of our pivotal brand *Yebisu Sabo Gyokuro-Iri O-Cha*, such as with the launch of *Yebisu Sabo Green Tea Water*, a new sensation in green tea drinks. However, a substantial drop in oolong tea, which accounts for a high share of sales, that mirrored the decline in the market as a whole, meant that our efforts fell short of producing satisfactory results in the sugar-free tea category.

In carbonated drinks and juices, we completely revamped *Ribbon Citron* and *Ribbon Napolin*, while also launching a series of low-juice drinks bearing the *Ribbon* brand: *Ribbon Soukai Orange*, *Ribbon Maroyaka Apple* and *Ribbon Assari Grapefruit*. However, these efforts failed to compensate for an overall decline in sales in the carbonated drinks and juices category.

A year-on-year drop in sales volumes resulted in a ¥3.1 billion, or 10%, decline in operating revenues in the Soft Drinks segment to ¥26.8 billion. While the segment also recorded an operating loss of ¥0.8 billion, this was ¥0.2 billion less than in the previous year, the result of cost-cutting actions.

• RESTAURANTS

An increase in the amount spent per customer, growth in sales of higher-priced products and other trends in the restaurants sector during the first six months reflected the recovery in the Japanese economy. However, in formats with relatively high alcoholic beverage sales, there was once again stiffer competition in the opening of new outlets.

In these market conditions, we endeavored to expand sales by actively opening new stores, and to reinvigorate existing outlets by changing formats and through remodeling.

With regards to new stores, we opened a total of six outlets during the interim period, including *Beer Dining Shiodome* inside the former Shinbashi railroad depot at Shiodome Shio-site, Tokyo. Furthermore, we converted the *Lion* beer hall in Sendai into a Japanese-style establishment, as well as remodeled the brasserie on the first floor of the Shinjuku outlet to enhance its ambience. At the same time, we closed 12 outlets for various reasons such as the rebuilding of tenanted buildings. As a result, we had 196 outlets at the end of June 2006.

Operating revenues in the Restaurants segment rose ¥0.1 billion, or 1%, to ¥12.6 billion. However, expenses associated with the concentration of new store openings at the end of June and other factors resulted in a segment operating loss of ¥79 million, a reversal of ¥102 million from the operating income recorded in the corresponding period of the previous year.

• REAL ESTATE

Occupancy rates continued to increase for office buildings, most notably in the Tokyo metropolitan area, and rents also rose, centered on large buildings in central Tokyo.

Against this backdrop, we continued to aggressively advance our real estate business with a focus on development and creation to promote new value. In specific terms, since the start of this year we have been extending *Sapporo Factory* in Sapporo, Hokkaido; constructing rental apartments for students in the cities of Sendai and Fukuoka; and expanding sporting facilities in Sapporo, among other activities.

In leased office buildings, including *Yebisu Garden Place*, we worked to maintain and raise high operating rates by making investments to strengthen the functions of buildings and aggressively attracting tenants.

At our two main commercial complexes, *Yebisu Garden Place* and *Sapporo Factory*, we focused on setting these complexes apart from rivals and enhancing our ability to attract customers by upgrading services for customers and through promotions. Actions in this regard included holding a variety of events and fairs, and refurbishing stores.

In the sports business, *Sapporo Sports Plaza PAL Kawaguchi*, one of the largest facilities of its type in the Tokyo metropolitan area, is performing well. Located in Kawaguchi City, this facility began operating in August 2005.

Operating revenues in the Real Estate segment rose ¥0.4 billion, or 4%, to ¥11.0 billion on the back of higher operating rates in real estate leasing operations and other factors. The segment recorded operating income of ¥3.2 billion, up ¥0.3 billion, or 12%, year on year.

On August 4, when we released our interim results, we also announced forecasts for the full fiscal year. We are projecting consolidated net sales of ¥444.0 billion, down ¥9.6 billion, or 2%. Our earnings projections call for operating income of ¥10.2 billion, a decrease of ¥0.1 billion, or 1%, and net income of ¥2.0 billion, down ¥1.6 billion, or 45%, year on year.

On a non-consolidated basis, we are projecting operating revenues of ¥5.1 billion, operating income of ¥2.2 billion and net income of ¥2.3 billion. We plan to pay a full-year dividend applicable to the year of ¥5.0 per share, the same as the 2005 dividend.

August 2006

T. Murakami

Takao Murakami
President and Representative Director, Group CEO

CONSOLIDATED BALANCE SHEETS

June 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and cash equivalents	**¥ 8,140**	¥ 17,653	**$ 70,638**
Notes and accounts receivable—trade	**61,368**	65,225	**532,525**
Less: Allowance for doubtful receivables	**(168)**	(292)	**(1,461)**
Inventories	**24,294**	26,462	**210,814**
Other current assets	**16,566**	31,865	**143,752**
Total current assets	**110,200**	140,913	**956,268**
Investments and long-term loans:			
Investment securities	**46,530**	34,291	**403,764**
Other investments	**32,123**	34,492	**278,743**
Less: Allowance for doubtful receivables	**(2,707)**	(3,278)	**(23,486)**
	75,946	65,505	**659,021**
Property, plant and equipment:			
Land	**72,146**	70,248	**626,051**
Buildings and structures	**216,464**	220,164	**1,878,368**
Machinery and automobiles	**45,364**	48,791	**393,653**
Other	**10,676**	7,275	**92,641**
	344,650	346,478	**2,990,713**
Intangibles	**2,690**	2,109	**23,345**
	¥533,486	¥555,005	**$4,629,347**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans	**¥ 22,300**	¥ 9,650	**$ 193,509**
Current portion of long-term debt	**82,683**	74,299	**717,488**
Notes and accounts payable:			
Trade	**29,891**	34,865	**259,379**
Construction	**8,827**	6,648	**76,598**
Liquor taxes payable	**26,173**	26,087	**227,121**
Other current liabilities	**71,904**	66,499	**623,944**
Total current liabilities	**241,778**	218,048	**2,098,039**
Long-term debt	**116,311**	181,845	**1,009,296**
Dealers' deposits for guarantees	**34,025**	34,019	**295,249**
Employees' retirement benefits	**16,566**	16,838	**143,756**
Directors' and corporate auditors' severance benefits	**117**	197	**1,013**
Other long-term liabilities	**21,971**	17,034	**190,651**
Minority interests in consolidated subsidiaries	**–**	–	**–**
Shareholders' equity:			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — at June 30, 2006 366,571,406 shares	**46,596**	–	**404,338**
— at June 30, 2005 356,179,485 shares	**–**	43,832	**–**
Capital surplus	**39,013**	36,245	**338,534**
Retained earnings	**4,208**	1,045	**36,515**
Unrealized holding gain on securities	**13,643**	6,606	**118,392**
Foreign currency translation adjustments	**(239)**	(299)	**(2,072)**
Treasury stock, at cost	**(503)**	(405)	**(4,364)**
Total shareholders' equity	**102,718**	87,024	**891,343**
	¥533,486	¥555,005	**$4,629,347**

CONSOLIDATED STATEMENTS OF INCOME

Six months ended June 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales	**¥200,133**	¥208,688	**$1,736,665**
Operating cost and expenses:			
Cost of sales	**138,930**	143,656	**1,205,574**
Selling, general and administrative expenses	**63,003**	65,772	**546,704**
Operating loss	**(1,800)**	(740)	**(15,613)**
Other income (expenses):			
Interest and dividend income	**509**	480	**4,414**
Interest expense	**(1,454)**	(1,900)	**(12,618)**
Other, net	**(1,097)**	(1,720)	**(9,528)**
Loss before income taxes and minority interests	**(3,842)**	(3,880)	**(33,345)**
Income taxes:			
Current	**391**	432	**3,393**
Deferred	**(305)**	976	**(2,651)**
	86	1,408	**742**
Minority interests	**–**	–	**–**
Net loss	**¥ (3,928)**	¥ (5,288)	**$ (34,087)**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash flows from operating activities:			
Loss before income taxes and minority interests	**¥ (3,842)**	¥ (3,880)	**$ (33,345)**
Depreciation and amortization	**10,687**	10,974	**92,736**
Loss on impairment of property, plant and equipment	**226**	23	**1,961**
(Decrease) increase in employees' retirement benefits	**(629)**	181	**(5,455)**
(Decrease) increase in allowance for doubtful receivables	**(288)**	427	**(2,498)**
Interest and dividends income	**(508)**	(480)	**(4,413)**
Interest expense	**1,454**	1,900	**12,618**
Gain on sales of property, plant and equipment	**(4)**	(857)	**(35)**
Loss on sales and disposal of property, plant and equipment	**667**	1,759	**5,791**
Gain on sales of investment securities	**(33)**	(391)	**(286)**
Devaluation of investment securities	**261**	330	**2,261**
Gain on sales of a subsidiary	**(102)**	–	**(883)**
Loss on provision for cost reduction of property, plant and equipment	**–**	279	**–**
Decrease in notes and account receivables	**10,316**	14,619	**89,516**
Increase in inventories	**(2,309)**	(3,408)	**(20,038)**
(Decrease) increase in notes and accounts payable	**(2,678)**	60	**(23,235)**
Decrease in liquor taxes payable	**(12,087)**	(17,293)	**(104,884)**
Other	**(3,470)**	2,392	**(30,106)**
Subtotal	**(2,339)**	6,635	**(20,295)**
Interest and dividends received	**634**	612	**5,499**
Interest paid	**(1,481)**	(1,969)	**(12,846)**
Income taxes paid	**2,078**	(2,172)	**18,031**
Net cash (used in) provided by operating activities	**(1,108)**	3,106	**(9,611)**
Cash flows from investing activities:			
Increase in time deposits	**(599)**	(15,466)	**(5,200)**
Decrease in time deposits	**599**	–	**5,200**
Purchases of investment securities	**(946)**	(225)	**(8,207)**
Proceeds from sales of investment securities	**61**	652	**524**
Purchases of property, plant and equipment	**(9,655)**	(4,315)	**(83,778)**
Proceeds from sales of property, plant and equipment	**64**	2,617	**549**
Purchases of intangibles	**(2,018)**	(80)	**(17,508)**
Increase in long-term loans receivable	**(27)**	(590)	**(231)**
Collection of long-term loans receivable	**342**	250	**2,969**
Other	**(1,500)**	(1,192)	**(13,020)**
Net cash used in investing activities	**(13,679)**	(18,349)	**(118,702)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**17,076**	5,000	**148,178**
Proceeds from long-term debt	**6,700**	6,500	**58,140**
Repayment of long-term debt	**(23,779)**	(15,561)	**(206,340)**
Proceeds from issuance of bonds	**9,960**	–	**86,428**
Redemption of bonds	**(10,000)**	(20,000)	**(86,776)**
Cash dividends paid	**(1,811)**	(1,765)	**(15,720)**
Other	**53**	(65)	**460**
Net cash used in financing activities	**(1,801)**	(25,891)	**(15,630)**
Effect of exchange rate changes on cash and cash equivalents	**(20)**	80	**(176)**
Net decrease in cash and cash equivalents	**(16,608)**	(41,054)	**(144,119)**
Cash and cash equivalents at beginning of year	**24,749**	58,706	**214,757**
Cash and cash equivalents at end of the six months	**¥ 8,141**	¥ 17,652	**$ 70,638**

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. But certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the six months ended June 30, 2006 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥115.24 = $1.00, the exchange rate prevailing on June 30, 2006.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and 14 of its significant subsidiaries. All significant intercompany balances, transactions and profit have been eliminated in consolidation.

3. Amounts Per Share

	Yen		U.S. dollars (Note 1)
Six months ended June 30,	**2006**	2005	**2006**
Net income	**¥(10.75)**	¥(14.89)	**$(0.09)**
Diluted net income	**¥ –**	¥ –	**$ –**

	Yen		U.S. dollars (Note 1)
As of June 30,	**2006**	2005	**2006**
Net assets	**¥281.25**	¥245.14	**$2.44**

4. Segment Information

Financial information by business segment is summarized as follows:

	Millions of yen							
Six months ended June 30, 2006	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Others	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues	**¥149,706**	**¥26,770**	**¥12,565**	**¥10,976**	**¥116**	**¥200,133**	**¥ –**	**¥200,133**
Intra-group sales and transfers	**2,631**	**130**	**–**	**1,301**	**7**	**4,069**	**(4,069)**	**–**
Total	**152,337**	**26,900**	**12,565**	**12,277**	**123**	**204,202**	**(4,069)**	**200,133**
Operating expenses	**155,467**	**27,716**	**12,644**	**9,101**	**118**	**205,046**	**(3,113)**	**201,933**
Operating income (loss)	**¥ (3,130)**	**¥ (816)**	**¥ (79)**	**¥ 3,176**	**¥ 5**	**¥ (844)**	**¥ (956)**	**¥ (1,800)**

	Thousands of U.S. dollars							
Six months ended June 30, 2006	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Others	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues	**$1,299,082**	**$232,299**	**$109,033**	**$ 95,243**	**$1,008**	**$1,736,665**	**$ –**	**$1,736,665**
Intra-group sales and transfers	**22,829**	**1,124**	**–**	**11,294**	**60**	**35,307**	**(35,307)**	**–**
Total	**1,321,911**	**233,423**	**109,033**	**106,537**	**1,068**	**1,771,972**	**(35,307)**	**1,736,665**
Operating expenses	**1,349,075**	**240,503**	**109,719**	**78,971**	**1,025**	**1,779,293**	**(27,015)**	**1,752,278**
Operating income (loss)	**$ (27,164)**	**$ (7,080)**	**$ (686)**	**$ 27,566**	**$ 43**	**$ (7,321)**	**$ (8,292)**	**$ (15,613)**

	Millions of yen							
Six months ended June 30, 2005	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Others	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues	¥155,550	¥29,868	¥12,446	¥10,573	¥251	¥208,688	¥ –	¥208,688
Intra-group sales and transfers	2,337	119	–	1,058	10	3,524	(3,524)	–
Total	157,887	29,987	12,446	11,631	261	212,212	(3,524)	208,688
Operating expenses	159,525	30,975	12,423	8,784	323	212,030	(2,602)	209,428
Operating income (loss)	¥ (1,638)	¥ (988)	¥ 23	¥ 2,847	¥ (62)	¥ 182	¥ (922)	¥ (740)

CORPORATE DATA

June 30, 2006

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Capital
¥46,596 million

Number of Shares Issued
366,571,406

Fiscal Year-end
December 31

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

Number of Employees
3,843
(Consolidated)
87
(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
ShinNihon & Co.

SAPPORO

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