

A Message From New Group President Naoki Izumiya

# Our Strategies

Fiscal 2009 marked the final year of our Third Medium-Term Management Plan. Amid an increasingly challenging business environment marred by weak consumer spending, we moved to strengthen our Group management base with the goal of establishing a growth and earnings base for our next phase as a company. These efforts resulted in record-high net income for a ninth consecutive term.

From 2010, we embarked on the Medium-Term Management Plan 2012. In the plan we give highest priority to improving the profitability of existing businesses, while also further enhancing business and capital alliances in Japan and overseas. Our success here will be vital to realizing our Long-Term Vision.



**Naoki Izumiya**

President

## Overview of the Third Medium-Term Management Plan

### Greater-than-expected profit structure reform and successful global network expansion

From 2001 to 2009, the Asahi Breweries Group pursued a series of three medium-term management plans. We implemented management reforms and strengthened our financial standing in order to improve Group competitiveness, and conducted M&As to enable us to shift to a profit structure that relies less on the alcoholic beverages business and more on other areas.

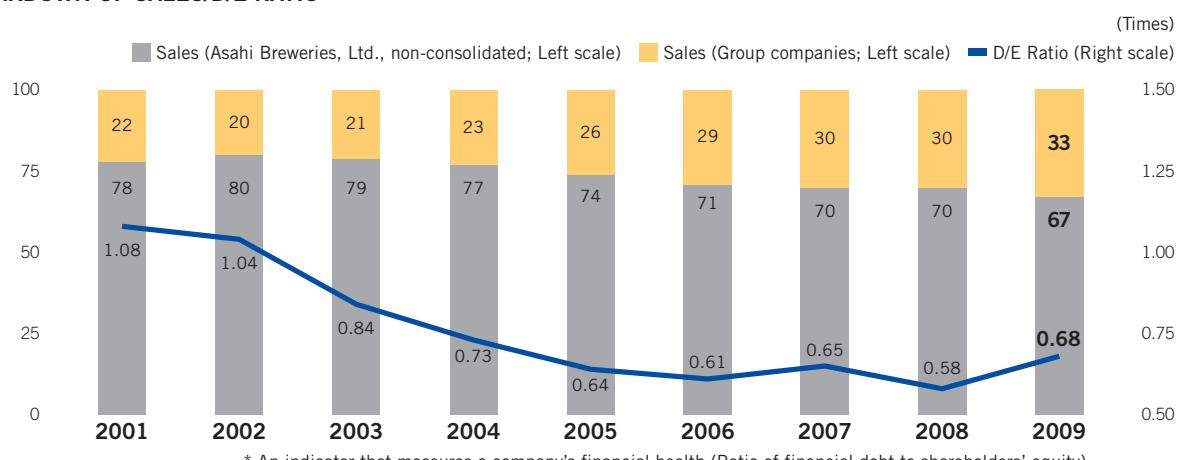
In particular, we adhered to two main business policies under the Third Medium-Term Management Plan as we strove to carve out a new growth path for the Group. The first was to generate stable and

long-term cash flows by restructuring our brand base and carrying out profit structure reform in the domestic alcoholic beverages business. The second policy was to use that cash to promote growth in existing Group businesses and for investment in new businesses.

Unquestionably, our biggest success was that the profit structure reforms we enacted were far greater than initially planned. Despite facing escalating costs for raw materials, we sought to create optimal production and distribution frameworks, which included the hybridization of our Ibaraki Brewery. We also used fixed costs more efficiently, particularly advertising and sales promotion expenses. In addition, we made huge strides in developing and cultivating new beer-type beverage brands, among them *Clear Asahi* and *Asahi Style Free*.

### BREAKDOWN OF SALES/D/E RATIO\*

(%)



\* An indicator that measures a company's financial health (Ratio of financial debt to shareholders' equity)

## Overview of the 1st through 3rd Medium-Term Management Plans

### 2001–2003

Implement management reforms and enhance financial standing to improve Group competitiveness

#### Accomplishments

- Reformed corporate governance
- Enhanced financial standing, including by reducing financial debt
- Strengthened base for Group growth, including in the shochu, RTD beverages, whisky and spirits, and wine business

### 2004–2006

Reform business and profit structure to achieve growth with profits

#### Accomplishments

- Expanded base for next-generation growth through M&As
- Improved efficiency by optimizing production and distribution frameworks

### 2007–2009

Generate stable cash flows in the alcoholic beverages business, and establish a new growth track for the Group

#### Accomplishments

- Achieved greater-than-expected reforms of profit structure, including efficiencies in fixed costs
- Expanded global network in alcoholic beverages and soft drinks businesses
- Strengthened base for domestic soft drinks and food and pharmaceuticals businesses and achieved dramatic growth in Chinese soft drinks business

Roadmap of the Group's Medium-Term Management Plans

# Our Strategies

At the same time, we enhanced and expanded our global network during these three years. Along with the acquisition of Schweppes Australia, a company poised for stable growth that has the second-leading share of Australia's soft drinks market, our success came from investment in Tsingtao Brewery Company Limited (Tsingtao Brewery). This company ranks second in terms of scale of production and sales in China's rapidly growing beer market.

In existing Group businesses as well, we managed to expand the base for our next phase of growth. Not only did growth at Asahi Soft Drinks Co., Ltd. surpass the industry average, but in food and pharmaceuticals, we entered a capital and business alliance with Amano Jitsugyo Co., Ltd., which possesses some of the best technological capabilities and manufacturing scale in Japan in the field of freeze-dried foods. Meanwhile Tingyi-Asahi Beverages Holding Co., Ltd. (Tingyi-Asahi Beverages), a soft drinks business based in China that the Group has invested in since 2004, is seeing growth far outpace the market growth rate thanks to production technology, quality assurance and financial support provided by the Asahi Breweries Group.

At the same time, however, we fell short overall in achieving our quantitative targets. A main reason was that our response in the domestic alcoholic beverages business was insufficient to address the shift in demand to new genre beverages triggered by economic weakness. Our income performance also fell short in the domestic soft drinks business and overseas operations as competition heightened beyond expectations.

## About Medium-Term Management Plan 2012 (2010–2012) OVERVIEW

**Under Medium-Term Management Plan 2012, we are targeting an improvement in the operating income ratio to around 8% (12% excluding alcohol tax), and net income of ¥65.0 billion (around ¥75.0 billion excluding goodwill and other depreciation costs).**

Building on the issues and successes of the Third Medium-Term Management Plan, we formulated Long-Term Vision 2015 and Medium-Term Management Plan 2012. The former is our vision

## Medium-Term Management Plan 2012

### SALES GUIDELINES FOR EXISTING BUSINESSES

	2009 Results	2012 (Guidelines)	Compound Annual Growth Rate (¥ billion)
Alcoholic beverages business	985.5	975.0	±0% level
Soft drinks business	296.9	335.0	4% level
Food business	96.3	115.0	6% level
Overseas operations	78.5	105.0	10% level
<b>Total Sales</b>	<b>1,472.5</b>	<b>1,560.0</b>	<b>2% level</b>



We will pursue aggressive investment in Japan and overseas in order to achieve our sales targets for 2015 (¥2–¥2.5 trillion)

### PROFIT TARGETS FOR EXISTING BUSINESSES (¥ billion)

	2009 Results	2012 (Guidelines)	Operating income ratio target
Alcoholic beverages business	78.5	100.0	10% or higher
(excl. alcohol tax)	—	—	18% or higher
Soft drinks business	8.0	17.0	5% or higher
Food business	3.7	6.0	5% or higher
Overseas operations	(2.8)	6.0	5% or higher
(Goodwill and other depreciation costs)	(7.1)	(7.7)	—
<b>Total operating income</b>	<b>82.8</b>	<b>123.0</b>	<b>8% level</b>
(before goodwill and other depreciation costs)	89.9	130.7	8% or higher
(excl. alcohol tax)	—	—	12% level

#### Aim for operating income ratio of around 8% (excl. alcohol tax, 12%).

- Aim for operating income ratio of 10% or higher for alcoholic beverages business (excl. alcohol tax, 18%).
- Achieve one of the highest levels of profitability for this business in the world.
- Aim for operating income ratio of 5% or higher for soft drinks business, food business, and overseas operations.

#### Aim for compound annual growth of 15% or more for income from investments in equity-method affiliates.

- Proactively support above-market growth at Tingyi-Asahi Beverages and Tsingtao Brewery.

#### Aim for net income of ¥65.0 billion

(Around ¥75.0 billion before goodwill and other depreciation costs)

for the Asahi Breweries Group by 2015, taking into account a maturing domestic market, growth in newly emerging markets, global realignment among food companies, and other major changes in the business environment. The new plan, for its part, sets milestones on the road to achieving that vision in light of those environmental changes. Under the new plan, improving the profitability of existing businesses and strengthening business and capital alliances in Japan and around the world are top priority concerns, which we think will form a direct link to realizing Long-Term Vision 2015.

In terms of quantitative targets, we do not anticipate growth in the Japanese alcoholic beverages market, which is already mature. Therefore, by aiming for steady growth in sales in each company, we will work to achieve around 2% average growth overall. With this in mind, we are aiming to raise the operating income ratio for the domestic alcoholic beverages industry to one of the highest levels of profitability for this business in the world. We will pursue similar increases in profitability in all Group businesses, aiming for an overall operating income ratio\* of around 8% (excl.



alcohol tax, 12%). We will also actively seek income from investments in equity-method affiliates, which includes income from Tingyi-Asahi Beverages and Tsingtao Brewery, targeting compound annual growth of 15% or higher.

By adhering to these initiatives, we are looking to post ¥65.0 billion in net income in 2012 (around ¥75.0 billion excluding goodwill and other depreciation costs).

\* Target operating income ratio for each business assume the adoption of International Financial Reporting Standards and exclude goodwill and other depreciation costs.

## Financial and Cash Flow Policies

Operating Cash Flows + Asset Liquidation (Cumulative Total, 2010–2012)		¥360.0 billion or higher
<b>Cash Flow Allocation Guidelines → Allocate flexibly taking into account management and operating conditions</b>		
<b>Investments to strengthen the base for growth</b>	<b>Capital investments to strengthen the base for growth and enhance efficiency: approx. ¥100.0 billion</b> <ul style="list-style-type: none"> <li>Investments for constructing optimal production and distribution frameworks and increasing efficiencies in the soft drinks and food businesses</li> <li>Environmental investments for a low-carbon society</li> </ul> <b>Aggressively promote capital and business alliances</b> <ul style="list-style-type: none"> <li>Make use of financial debt for capital demands in excess of internal funds (The Asahi Breweries Group considers an appropriate D/E ratio level to be about 0.7, with temporary increases acceptable)</li> </ul>	
<b>Shareholder returns</b>	<b>Consolidated payout ratio: Continue payment of stable dividends with a consolidated payout ratio of 20% or more</b> <b>Purchase of treasury stock: Consider purchase of treasury stock as capital demands and financial soundness permit</b> <ul style="list-style-type: none"> <li>→ Prioritize business investment and aim for shareholder returns through higher share prices</li> </ul>	

ROE target: Maintain current level of around 9%

# Our Strategies



## FINANCIAL AND CASH FLOW STRATEGIES AND CAPITAL-BUSINESS ALLIANCES

### Allocating cash flows to business investments for growth and improving profitability are our highest priorities.

One objective under Medium-Term Management Plan 2012 is to generate cash flows of at least ¥360.0 billion from a combination of operating cash flows and asset securitization. As with the Third

Medium-Term Management Plan, our allocation policy will give highest priority to business investments that strengthen our base for growth. In terms of specifics, we will allot around ¥100.0 billion to capital investments. These will consist mainly of investments to enhance efficiency in existing businesses and environmental investments. We hope to use additional funds to promote capital and business alliances both domestically and overseas in order to stake claim to new growth bases. We intend to also explore the option of making flexible use of financial debt.\* This will allow us to cope with any temporary capital demands or other large-scale investment needs that may arise as we prioritize investments. As for ROE, given the current instability in the economic environment, we will strive to maintain our current level of around 9%, recognizing the importance of balancing improved profitability with robust shareholders' equity.

Where shareholder returns are concerned, as in previous years, we remain committed to the payment of a stable dividend, with a consolidated payout ratio of 20% or more. Also, as our capital demands and financial soundness permit, we will consider additional purchases of treasury stock. However, since business investment for growth is our top-priority policy during the medium-term plan, we want to meet shareholder expectations by delivering improved performance enabled through business investment.

## Net Income and Total Dividends



Regarding capital and business alliances, on the domestic side, our priority is the soft drinks and food businesses. Here, we are seeking alliances that will enhance competitiveness by, for example, complementing brands and sales channels. Outside Japan, our focus is on both the alcoholic beverages and soft drinks businesses, specifically in the Asia and Oceania region. Our ambitions there are to develop alliances with long-term business partners, and to take opportunities to expand our global network.

\* The Asahi Breweries Group considers an appropriate D/E ratio level to be about 0.7.

## STRATEGIES BY BUSINESS

### Improving profitability is our most pressing concern for all Group businesses.

#### (Alcoholic Beverages Business)

Assuming the shift towards new genre beverages continues, by 2012, the total scale of Japan's beer-type beverages market is likely to contract by around 3 to 4% compared to 2009. In this climate, Asahi Breweries will continue building on its biggest advantage, the *Asahi Super Dry* brand, while concentrating on channeling management resources into strengthening its new genre beverage brands, for which demand is growing rapidly. In this way, we will focus on cultivating powerful brands in this category.

Similarly, in the shochu, RTD beverages, whisky and spirits, and wine category, we will work to develop and cultivate brands offering distinct value and strengths in each beverage category and genre.

We will also continue taking steps to reform the profit structure in our alcoholic beverages business. We achieved greater-than-expected efficiencies of roughly ¥25.0 billion under the Third Medium-Term Management Plan. We will accelerate this trend during the three-year duration of Medium-Term Management Plan 2012, when we look to translate an improved marginal profit ratio and more efficient use of fixed costs into an operating income ratio of 10% or more (excluding the alcohol tax, 18% or more).

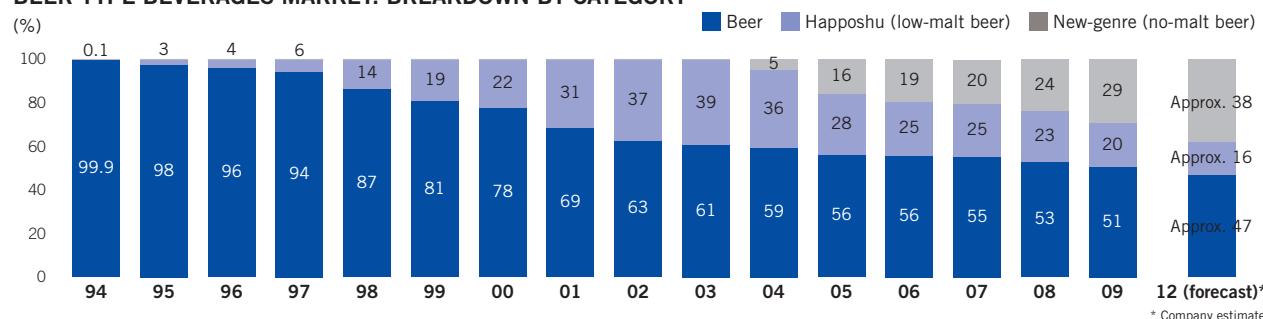
More specifically, we will push forward with lowering the cost for raw materials by, for instance, reviewing our procurement frameworks for the entire Group. Scaling back capital investments, meanwhile, will enable us to pare down depreciation costs. Other initiatives will include more efficient use of selling costs by enhancing our human asset potential and restructuring sales frameworks across the Group.

By following through with these measures, we are aiming for efficiencies of around ¥25.0 to ¥30.0 billion by 2012.

### 2012 Sales Volume Guidelines for Beer-Type Beverages (vs. 2009)

	Asahi Breweries	Market forecast
Beer	-8% level	-10% level
Happoshu (low-malt beer)	-50% level	-25% level
New-genre (no-malt beer)	+70% level	+20 – 25% level
Beer (cumulative total)	0 – +1% level	-3 – 4% level

#### BEER-TYPE BEVERAGES MARKET: BREAKDOWN BY CATEGORY



# Our Strategies

## (Soft Drinks Business)

In the soft drinks business in Japan, with many industry players and an increasingly severe competitive environment, the struggle for who will emerge on top is expected to only intensify going forward.

Our policy in this environment is to promote business and capital alliances that spur industry realignment. The growth strategies and improved profitability of Asahi Soft Drinks, as the core driver of these efforts, will be vital to realizing this goal.

With the market scale in 2012 projected to be virtually at the same level as today, Asahi Soft Drinks Co., Ltd. will strengthen core brands, develop new ones, and expand the number of vending machines in operation, to achieve compound annual growth of around 4%.

As for profit structure reform, our sights are on an operating income ratio of 5% or more in 2012, by continuing to raise the percentage of PET bottles produced in-house and using sales promotion expenses more efficiently.

## (Food Business\*)

In the food business, Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Amano Jitsugyo Co., Ltd. are the Group's key operating

companies. Each company, while striving to strengthen brands in the categories where each has a respective advantage, will capitalize on Group synergies to propose high-added-value products to customers across a broad spectrum of age ranges.

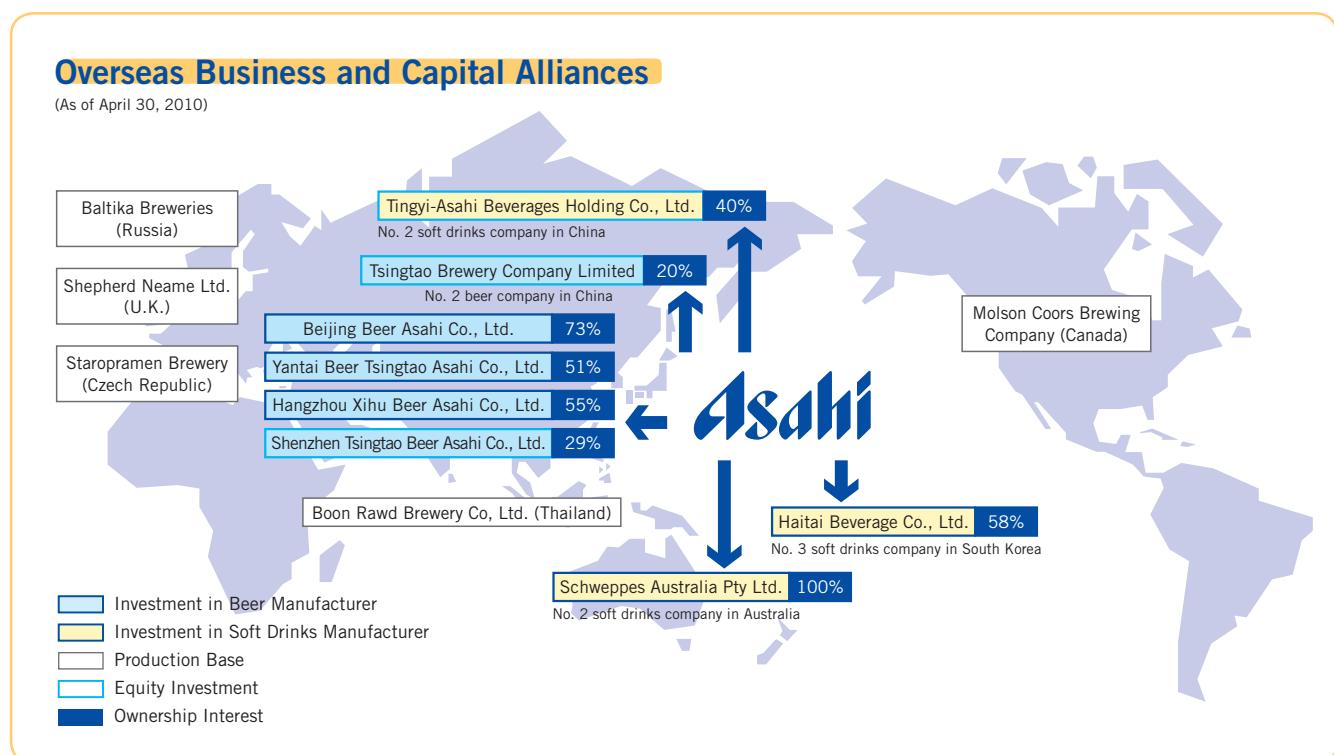
Furthermore, by promoting greater efficiency in total SCM for the entire Group, our goal is achieve an overall operating income ratio of 5% or more for this business in 2012.

We will look to expand the base for our next stage of growth by aggressively tackling new business domains, including a natural seasonings business utilizing yeast extracts and other ingredients, and overseas expansion in baby foods, one of our strong categories in this business.

\* As part of the formulation "Long-Term Vision 2015" and "Medium-Term Management Plan 2012," the Group's food and pharmaceuticals operation was renamed the "food business."

## (Overseas Operations)

Turning to overseas operations, in our beer business in China, we acquired a stake in and concluded a capital and business alliance with Tsingtao Brewery. Last year marked a decade of trust building between our companies, and in Tsingtao Brewery we have now gained a powerful partner in the Chinese market. One outcome of



this change is improved earnings for existing businesses thanks to production- and sales-side alliances with this partner. At the same time, the ability to support the growth of Tsingtao Brewery itself in a wide variety of ways will allow the Group to incorporate ongoing growth in the Chinese market.

One goal for the future is to leverage Tsingtao Brewery's network of production and sales bases to promote the Asahi brand across China. In regions beyond China, too, we are looking to raise the value of the Asahi brand through alliances and production licensing with powerful partners in each market. Our ambition here is clear—to become the No. 1 Asian premium brand.

In the overseas soft drinks business, Schweppes Australia, which we acquired in April 2009, was off to a great start in its first year of consolidation. Through brand cultivation and development of new channels going forward, we are aiming for a compound annual growth rate of 5%. This is in addition to an operating income ratio for 2012 of around 8% from improved efficiency gained by leveraging expertise possessed by the Group.

Turning to Haitai Beverage Co., Ltd. in South Korea, while profit structure reform is proceeding apace, sales recovery in mainstay brands has been slow. Together with enacting additional profit structure reform, we hope to stage a recovery in sales through more vigorous marketing investment in core brands, to mount a return to profitability as quickly as possible.

Tingyi-Asahi Beverages, meanwhile, continues to perform strongly amid increasingly bold attacks from major competitors. This resilience owes to a level of cost competitiveness that is second to none. Bolstering our support structure will remain a focus going forward, to help Tingyi-Asahi Beverages continue striving to be China's No. 1 soft drinks company.

As these proposed measures suggest, we remain committed in overseas operations to building a rock-solid network in Asia and Oceania. Once this network is developed, we intend to take full advantage of it to further enhance profitability.

## CSR

### We are moving proactively to create social value.

In closing, let me say a few words about CSR. Under Medium-Term Management Plan 2012, the activities that the Asahi Breweries Group should pursue in terms of CSR are divided into three stages. In Stage 1, "Foundations as a Company," our task is to lay the foundations that become the basis for corporate activities. Stage 2 is "Meet Expectations" and Stage 3, "Create Value," exhorts us to create social value.



Going forward, Asahi Breweries Group activities will increasingly take place on a global stage. As such, the stakeholders with whom we are connected with will also grow dramatically. As one might imagine, in this situation, we will continue to reinforce our "Foundations as a Company," particularly highly transparent governance, proper information disclosure, and compliance. From this firm foundation, every Group officer and employee will proactively address themes vital to our society. These range from contributions to the creation of local culture, to CSR procurement and efforts to stamp out problem drinking.

The business of the Asahi Breweries Group revolves around harnessing water, grains, and other natural resources. In March, we established the Environmental Vision 2020 and the Statement on Biodiversity, plans for coexisting with the global environment so that we can pass it along in good condition to the next generation. The Group as a whole is also working on a number of environmental initiatives. (For more details on Environmental Vision 2020 and the Statement on Biodiversity, please refer to page 47.)

Without question, the environment in which the Asahi Breweries Group finds itself is a challenging one. With that said, however, I am sure that we have accurately assessed the environment, and based on that assessment we will pursue measures that play to the Group's capabilities. In the process, input from our shareholders, investors and other stakeholders will always be more than welcome, since we believe that reflecting this feedback in how we manage will be critical to achieving real growth.