Alcoholic Beverages Business

Refer to pages 34–37 for details of activities in the overseas operations.
Refer to inside front cover for details on beer-type beverage categories (beer, happoshu, and new genre beverages).

Results of the Third Medium-Term Management Plan

- **Cultivated and enhanced brands**

Share of domestic beer category	2007 49.4%	→	2009 **50.6%**
Sales volume for *Asahi Style Free*	2007 8.3 million cases	→	2008 **11.72** **million cases**
Sales volume for *Clear Asahi*	2008 Launched	→	2009 **19.33** **million cases**

- **Advanced profit structure reform**

  Exceeded targets through optimal production and distribution frameworks and increasing efficiency of fixed costs.

Future Topics

- **Improve market position of mainstay brands**
- **Strengthen business base through further profit structure reforms**
- **Research and develop new products that provide differentiated value**
- **Restructure product portfolio**
- **Optimize manufacturing capabilities and internal structure in light of market changes**

Strengthening and Cultivating Core Brands While Striving for World-Class Profitability

Toshihiko Nagao
Director and Corporate Officer in Charge of Alcoholic Beverages Business

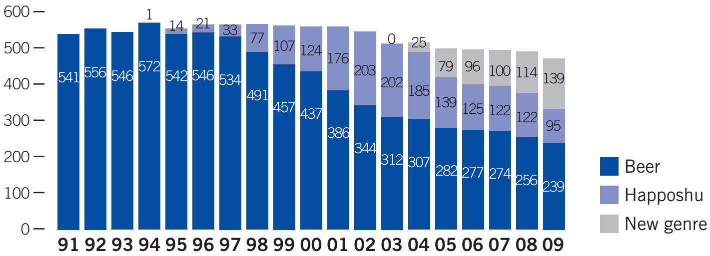
The domestic market for alcoholic beverages is maturing, and due mainly to the economic recession we are seeing a continuing shift in demand toward new genre beverages. In this environment, the alcoholic beverages business has an important role to play in generating the cash flows needed to support the growth of Asahi Breweries Group as a whole.

That is why the alcoholic beverages business will concentrate management resources on strengthening core brands such as *Asahi Super Dry* and *Clear Asahi*, while also developing products that provide new value by responding accurately to customer needs. At the same time, we will accelerate our efforts toward profit structure reform in order to achieve our goal of raising the operating income ratio to 10% or higher (excl. alcohol tax, 18%) under the Medium-Term Management Plan 2012. Through these efforts, we will aim for world-class profitability as a global beer company.

Business Environment

- **Need for low-priced products growing amid deterioration in the economic environment**
  →Growth in new genre beverages, increasing prominence of private brands
- **Diversifying preferences due to changing consumer needs and values**
- **Rising health consciousness among consumers**
- **Increasing focus on food security, quality, environmental issues, etc.**

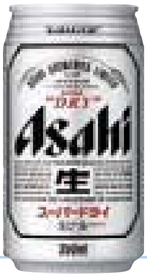
BEER-TYPE BEVERAGE MARKET (TAXABLE SHIPMENT VOLUME)
(Million cases)



Medium-Term Management Plan 2012: Targets and Strategies

- **Beer: Concentrate management resources on strengthening beer and new genre brands in order to improve market position**
- **Shochu, RTD Beverages, Whisky and Spirits, Wine: Strengthen core brands and promote efficiencies, with improving profitability as the top priority**
- **Profit Structure Reform: Implement structural reforms with the target of raising the operating income ratio for the domestic alcoholic beverages business to 10% or higher (excluding alcohol tax, 18%)**
  – Improve maximum profit (to ¥10.0 billion or higher)
  – Increase efficiency in fixed costs (¥15.0–20.0 billion or higher)

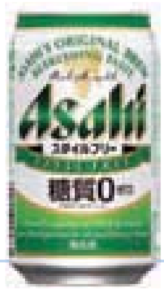
Beer



Asahi Super Dry

Asahi The Master

Happoshu



Asahi Style Free

2009 BUSINESS OVERVIEW

Market Environment

Japan's alcoholic beverages industry continued to confront accelerating market changes in 2009, including a decline in the drinking-age population and changing consumer tastes, as well as realignment in the distribution sector and growth in private brand products. In addition, beer-type beverages saw substantial growth in new genre beverages (up 21.4% year on year), owing primarily to more stringent belt-tightening among consumers due to poor economic conditions. In contrast, shipment volumes for beer and happoshu declined by 6.7% and 15.6%, respectively. As a result, overall taxable shipment volume was 2.1% lower year on year. By category, beer was 50.6%, happoshu 20.1%, and new genre beverages 29.3% of the beer-type beverages market.

Shipment volume in alcoholic beverages other than beer-type was largely unchanged for the year, despite revitalized growth in the whisky and spirits market, as the market has reached saturation.

Initiatives in 2009

The Asahi Breweries Group worked to cultivate and enhance its brands with product proposals and sales promotion activities tailored to customer needs. At the same time, we took steps to establish a profit structure capable of withstanding market volatility by constructing optimal production and distribution frameworks, and utilizing advertising and sales promotion expenses more efficiently. These efforts, however, were negatively impacted by several factors, including lower sales volumes for beer-type beverages, reflecting weak economic conditions and unstable weather during the summer months, as well as amendments to Japan's tax system and changes in accounting standards. As a result, total sales for the alcoholic beverages business, including overseas operations, were ¥958.2 billion, down 3.8% year on year, with operating income down 13.1% to ¥78.9 billion for the same period.

Beer-type Beverages

In the beer category, as part of efforts to further enhance the brand value of our core product, *Asahi Super Dry*, we implemented a special promotional campaign called "Refreshingly Sustainable" in which a portion of sales was used for the protection and preservation of natural environments and cultural treasures across Japan's 47 prefectures. We also conducted the "Embody Refreshment" consumer campaign, designed to encourage enjoyment of beer at home, as well as other informational and sales promotion activities. Meanwhile, we proposed products tailored to the wide-ranging needs of our customers, which included the launch in May of *Asahi The Master*, a beer that blends the distinctive qualities of Asahi Breweries' with the traditional flavors favored in Germany, with its rich history of brewing. Although taxable shipment volume fell 6.4% year on year, through this and other initiatives, our share of Japan's beer market increased steadily to 50.6%[*1], giving Asahi Breweries the No. 1[*2] position in beer sales in Japan for a twelfth consecutive year.

In happoshu, sales volume for *Asahi Style Free*, the industry's first zero-carbohydrate[*3] beverage created with customer health-consciousness in mind, rose 3% year on year, becoming a bright spot in a market that contracted by nearly 16% for the year. Together with other steps to revitalize the market, including the sale of *Asahi Cool Draft* in March, our happoshu market share grew to 26.6%, although taxable shipment volume fell by 13.4% year on year.

In new genre beverages, we aggressively pursued sales promotion activities intended to establish a solid position for malt liquors, a growing new genre beverage category. To this end, we carried out a large-scale promotion offering free samples of our malt liquor brand, *Clear Asahi*. February and September saw the respective launch of two new beverages, *Asahi Off* and *Asahi Mugi Shibori*, as we proposed products tailored to customers' diverse needs around new genre beverages. The result was steady growth in this category, with taxable shipment volume up 29.7% year on year, while our market share increased 1.4 percentage points to 22.3%.

*1 Beer market share based on statistical data on taxable shipment volume from Japan's top five beer companies.
*2 Based on taxable shipment volume for beer form Asahi Breweries, Ltd. in 2009
*3 Based on nutrition labeling standards, sugar content of less than 0.5g (per 100ml) is indicated as "zero carbohydrate."

Shochu, RTD Beverages, Whisky and Spirits, Wine

Although sales of shochu, RTD beverages, whisky and spirits, and wine as a group ended lower than the previous year, we marked steady progress in cultivating core brands, one of our top priorities for this category.

New genre
(Malt-type)

Clear Asahi   Asahi Off   Asahi Mugi Shibori   Asahi Strong Off

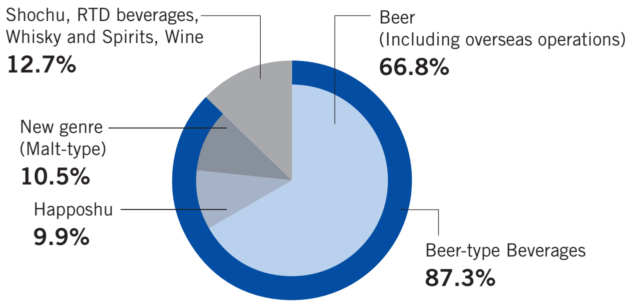
The profit margin, meanwhile, improved over initial estimates, to nearly 6%, thanks largely to more efficient use of sales promotion expenses.

In shochu, we conducted vigorous sales promotion activities targeting core brands *Kanoka* and *Satsuma Tsukasa*, in a bid to fortify our position in the strong-selling Ko- and Otsu-type shochu blend and potato shochu markets. These efforts yielded steady success, culminating in year-on-year growth for *Kanoka* on a sales volume and monetary basis for a sixteenth consecutive year.

In RTD beverages, along with adding *Asahi Slat* to our mainstay *Asahi Cocktail Partner* and *Asahi Shunka Shibori* brands, we worked to propose a broad lineup of products to meet customer needs. *Asahi Slat*, launched in February 2009, has proven a hit for its juicy taste with real fruit pulp while remaining a very low-calorie beverage*4. As a result, the product continues to sell strongly, having already exceeded initial targets.

In whisky and spirits, brisk sales of core brand *Black Nikka Clear Blend* continued, leading to year-on-year growth for a third consecutive year. The quality of the *Nikka* brand, moreover, was recognized on the world stage when *Taketsuru 21 Years Old* was named "World's Best Blended Malt Whisky" at the World Whiskies Awards*5 in April 2009,

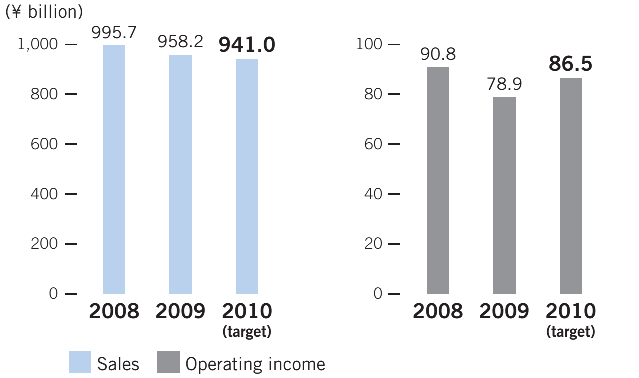
SHARE OF SALES BY PRODUCT (2009)



* Excludes sales from real estate and other

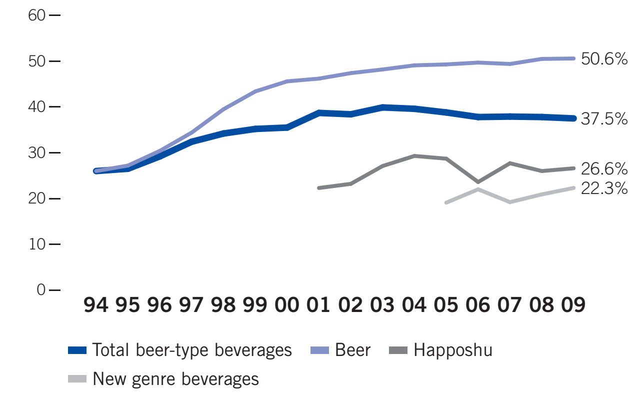
ALCOHOLIC BEVERAGES SALES AND OPERATING INCOME (INCL. OVERSEAS OPERATIONS)

(¥ billion)



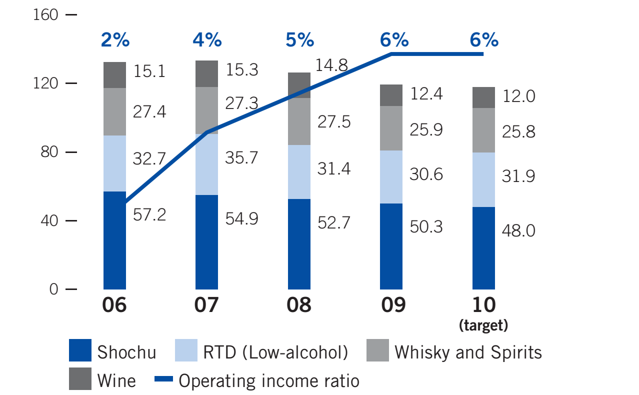
SHARE BY BEER-TYPE BEVERAGE CATEGORY (ASAHI BREWERIES, LTD.)

(%)



NET SALES FOR SHOCHU, RTD BEVERAGES, WHISKY AND SPIRITS, WINE AND OPERATING INCOME RATIO

(¥ billion)



Shochu

Kanoka

Satsuma Tsukasa

RTD beverages

Asahi Slat

Asahi Cocktail Partner

and received the highest honor in the whisky category at the International Spirits Challenge*6 in October.

In wine, we revamped our *Antioxidant-Free Organic Wine* series of domestic wines to further groom the *Sainte Neige* brand. For imported wines, along with handling the *Lanson* champagne brand for the first time, we strove to expand sales through more robust brand appeal and a diverse product lineup centered on key brands like *Baron Philippe de Rothschild* and *Maison Louis Latour*.

*4 Based on comparison with products sold in the can chu-hi market as of December 2009.
*5 An international competition focused exclusively on whisky, chiefly sponsored by U.K.-based *Whisky Magazine*.
*6 An international competition covering the full range of spirits, chiefly sponsored by Drinks International, an exclusive publisher of alcoholic beverage-related material based in the U.K.

PLANS AND STRATEGIES FOR 2010

Sales Plan for the Alcoholic Beverages Business in 2010

Faced with ongoing market contraction and realignment of the industry in Japan and overseas, the alcoholic beverages industry is likely to continue to confront a severe environment characterized by major restructuring both domestically and internationally. Despite this climate, we will marshal Group management resources in a drive to cultivate and enhance top brands in each category. At the same time, we are determined to successfully achieve the top priority of our Medium-Term Management Plan 2012—improving the profitability of existing businesses—and push forward with profit structure reform. Consequently, the Group is targeting sales of ¥941.0 billion (down 1.8% year on year) and operating income of ¥86.5 billion (up 9.7% year on year).

Beer-type Beverages

The market for beer-type beverages in 2010 is predicted to contract between 1 and 2%, with the ongoing shift in demand away from the beer and happoshu categories towards new genre beverages projected to continue. Still further growth is also likely for some time in low-carbohydrate beverages and other products that meet needs around customer health consciousness. The Group is responding readily to these customer trends, with the goal of tying these efforts to future growth.

Three policies will shape initiatives in this area—uncover potential beer demand; respond more robustly to zero- and low-carbohydrate beverage needs; and propose new value in the diversifying range of new genre beverages. To this end, we are targeting total taxable shipment volume of 176 million cases, down 0.6% year on year.

Beer

In the beer category, the overall market is expected to decline between 5 to 6% due to the impact of economic weakness in Japan. In this climate, the Asahi Breweries Group will focus on “uncovering potential beer demand” to frame our initiatives, working to expand Asahi brand presence even in a contracting market. Specifically, in *Asahi Super Dry*, while to date we have focused mainly on marketing activities designed to heighten brand loyalty among an existing base of mainstay customers, going forward we intend to strengthen the targeting of entry customers from a wider range of generations, particularly those of younger drinking ages. In February 2010, the Asahi Group served as a Japan Olympic Committee “Gold Partner” for the Winter Olympic Games in Vancouver, pursuing ad campaigns featuring Olympic athletes and various other promotions to stimulate demand. This year, the Company will continue to promote the “Refreshingly Sustainable” campaign, which earned a good reception when it was run in spring and fall of 2009.

In targeting other potential customers, we are planning a series of ad campaigns that persuasively underscore the inherent value of the *Asahi Super Dry* brand as a sophisticated and masculine beer. At the same time, we seek to propose the new “extra cold” style of drinking to uncover potential beer demand in the commercial- and home-use sectors.

Happoshu

The overall happoshu market is projected to decline by between 12 and 14%, reflecting a shift in demand away from standard-type happoshu towards new genre beverages. The Group achieved record-high sales last year, and will continue to promote the strong-performing *Asahi Style Free* in advertising and sales promotions, with the goal of further cultivating the brand.

New Genre Beverages

The market for new genre beverages is expected to grow between 11 and 13% overall. The entire Group will concentrate on this category, with

Whisky and Spirits


Taketsuru


Black Nikka Clear Blend

Wine


Sankaboshizai-Mutenka Wine


Mouton-Cadet

initiatives led by a commitment to "propose new value in the diversifying range of new genre beverages." First in malt-type new genre beverages, our top priority is to reinforce the *Clear Asahi* brand, ranked No. 1 in sales for a second consecutive year. Specifically, beginning with the late January 2010 production run we enacted quality improvements, changed the package design and enhanced its thirst-quenching qualities. At the same time, we plan to launch the Asahi Breweries Group's largest-ever television ad campaign for new genre beverages in a drive to boost brand value.

In March we launched sales of *Asahi Strong Off*, a product that answers the needs of more frequent consumers. The added value of this beverage includes its higher alcohol content and a crisper taste thanks to its lower level of carbohydrates.

As for *Asahi Off*, the No. 1 newly launched brand in the beer-type beverages market in 2009, we will enhance product quality and packaging beginning late January. Going forward we will highlight more vigorously the two distinct properties of this beverage in order to raise satisfaction among existing customers and encourage potential customers to try the product.

Shochu, RTD Beverages, Whisky and Spirits, Wine

Profit margins are projected to be largely flat across shochu, RTD beverages, whisky and spirits, and wine, mainly reflecting lower sales and greater investment in low-alcohol beverage brands. We will continue channeling resources into cultivating core brands that offer unique value and advantages, and promote further structural reform by enhancing cost competitiveness.

Profit Structure Reform

Improving the profitability of existing businesses is the top priority issue of the Group's newly announced Medium-Term Management Plan 2012.

In terms of profit structure reform for the domestic alcoholic beverages business, our policy is to gain efficiencies totaling ¥25 to ¥30 billion between 2010 to 2012, and raise the operating income ratio excluding the liquor tax in the alcoholic beverages business to 18% or more. In the first year, 2010, our goal is to reduce total costs by roughly ¥11 billion through reductions in costs for raw materials, including benefits from falling market prices for imported malt, and by promoting efforts to minimize fixed costs across the board.

As we press ahead over the three-year period with more efficient utilization of the portion of advertising and sales promotion expenses allocated to the commercial-use sector, we hope to expand investment for fostering and strengthening strong brands. In 2010, assuming the bulk of expenses will go toward new genre beverages, efficiencies should total around ¥1 billion. That said, we will strive to flexibly manage the situation by keeping a close watch on sales trends and other factors.

SALES PLAN AND ACTUAL RESULTS BY ALCOHOLIC BEVERAGES CATEGORY (ASAHI BREWERIES, LTD.)

(¥ billion)

	2009	2008	Year-on-year	% of Total	**2010 Target**	Year-on-year	% of Total
Beer-type beverages (total)	844.3	873.5	–3.3%	87.3%	**827.3**	–2.0%	87.1%
Beer	646.5	685.7	–5.7%	66.8%	**614.7**	–4.9%	64.8%
Happoshu	96.2	110.3	–12.8%	9.9%	**76.9**	–20.1%	8.1%
New genre	101.6	77.5	+31.1%	10.5%	**135.7**	+33.6%	14.3%
Beverages other than beer-type beverages (total)	123.1	129.7	–5.1%	12.7%	**122.0**	–0.9%	12.9%
Shochu	50.3	52.7	–4.6%	5.2%	**48.0**	–4.5%	5.1%
RTD	30.6	31.4	–2.7%	3.2%	**31.9**	+4.4%	3.4%
Whisky and spirits	26.0	27.5	–5.5%	2.7%	**25.8**	–0.8%	2.7%
Wine	12.4	14.8	–16.3%	1.3%	**12.0**	–3.4%	1.3%
Other	3.9	3.2	+19.8%	0.4%	**4.3**	+10.9%	0.5%
Total	967.5	1,003.1	–3.6%	100%	**949.3**	–1.9%	100%

Excludes sales from real estate and other businesses