

Taking on the Challenge of New Growth

ANNUAL REPORT 2006

Asahi



CORPORATE PHILOSOPHY

The Asahi Breweries Group aims to satisfy its customers
with the highest levels of quality and integrity,
while contributing to the promotion of
healthy living and the enrichment of society worldwide.

CORPORATE OUTLINE (as of the fiscal year ended December 2006):

Company Name: Asahi Breweries, Ltd.

Date of Establishment: September 1, 1949

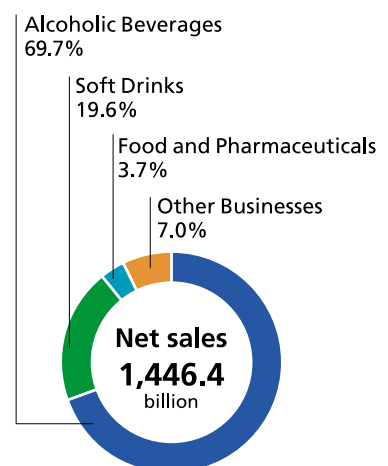
Paid-in Capital: ¥182,531 million

Number of Employees: (Parent) 3,672
(Consolidated) 15,280

Number of Subsidiary Companies: (Consolidated) 53
(Non-consolidated subsidiary under equity method) 1
(Affiliated companies under equity method) 25

Net Sales: (Parent) ¥1,031,060 million
(Consolidated) ¥1,446,385 million

Composition of net sales by business segment (FY2006)



FORWARD-LOOKING STATEMENTS

The current plans, forecasts, strategies and performance presented in this annual report include forward-looking statements based on assumptions and opinions arrived at from currently available information. Asahi Breweries cautions readers that future actual results could differ materially from these forward-looking statements depending on the outcome of certain factors. All such forward-looking statements are subject to certain risks and uncertainties including, but not limited to, economic conditions, trends in consumption and market competition, foreign exchange rates, tax, and other systems influencing the company's business areas.

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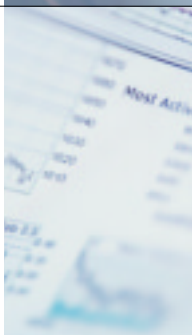
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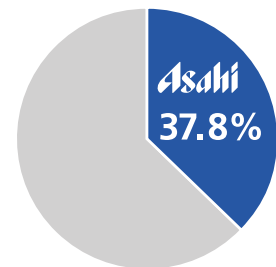
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Profile

For six consecutive years since 2001, the Asahi Breweries Group has succeeded in winning the largest share of the domestic market for making beer-type beverages^{*1}—beer, happoshu (low-malt beer) and new genre beverages (no-malt beer). *Asahi Super Dry*, our flagship product, is ranked among the world's top ten beer brands (ninth in 2005^{*2}) and is highly regarded by customers all over the world.

The Asahi Breweries Group leverages its competitive edge in the beer-type beverages market to advance into businesses involving alcoholic beverages other than beer—such as shochu, RTD (ready-to-drink) beverages, whisky and spirits, and wine—as well as into the soft drinks, food and pharmaceuticals, and overseas business categories. Our goal is to provide people with lifelong enjoyment and excitement in the business domain of food and health.

Share of the domestic market for beer-type beverages (beer, happoshu and new genre beverages) for 2006



^{*1} **Beer-type beverages:** Beer, happoshu and new genre beverages. While they all have the same alcohol content, the tax rate for happoshu, which is low-malt beer, is lower than that of beer, and therefore the price is lower. As for new genre beverages, which are beer-flavored products containing no malt, the tax rate is even lower than that of happoshu, and accordingly the price is lower. (Please refer to page 45 for tax rates on beer-type beverages.)

^{*2} Source: Impact Databank 2006 Edition

Business Segment

Alcoholic Beverages Business

In beer-type beverages (beer, happoshu and new genre beverages), which account for 66% of Japan's market for alcoholic beverages, we boast powerful brands in each category. Our lineup includes Japan's top brand *Asahi Super Dry* and premium beer *Asahi Prime Time* in the beer category; *Asahi Honnama Draft*, *Asahi Honnama Aqua Blue*, *Asahi Style Free* and *Asahi Zeitaku-biyori* in the happoshu category; and *Asahi Gokuumma*, *Asahi Gubinama* and *Asahi Shinnama 3* in the new genre beverage category.

We are also striving to expand sales of alcoholic beverages other than beer-type beverages, such as shochu, RTD beverages, wine, whisky and spirits.

In our overseas operations, we are expanding sales of *Asahi Super Dry* in the priority regions of China and ASEAN countries. In China, we also manufacture and sell local brand beers produced by our joint ventures. In other regions, we manufacture and sell *Asahi Super Dry* in Europe and the United States.



Soft Drinks Business

Asahi Soft Drinks Co., Ltd., our major Group company, manufactures and sells products including *WONDA* canned coffee, *Asahi Juroku-Cha* blended tea and *Mitsuya Cider* carbonated beverage in the domestic soft drinks market. We are also developing our chilled-beverage business led by LB, Ltd. (Hasuda, Saitama) and LB, Ltd. (Tokai, Aichi), which were acquired in 2005.

In our overseas operations, we are developing our soft drinks business in China through Tingyi-Asahi-Itochu Beverages Holding Co., Ltd., an equity-method subsidiary established in 2004 as a joint venture with China's Tingyi Holding Corporation and Itochu Corporation, and in South Korea through Haitai Beverage Co., Ltd., a consolidated subsidiary.



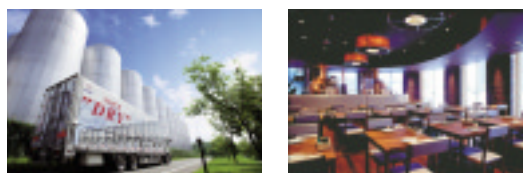
Food and Healthcare Business

Asahi Food & Healthcare Co., Ltd., our major Group company, manufactures and sells products such as *MINTIA* breath mint tablets, *BALANCEUP* nutritionally balanced snack bars, *EBIOS* quasi-drug made from brewer's yeast and *Dear-Natura* supplement tablets. We are reinforcing our R&D capability and steadily expanding the scope of our products through acquisitions, as with Sunwell Co., Ltd., a maker of health foods acquired in 2005, and Wakodo Co., Ltd., Japan's largest maker of baby food acquired in 2006.



Other Businesses

Other businesses include logistics and sales support operations that provide support to Group companies.



Financial Highlights

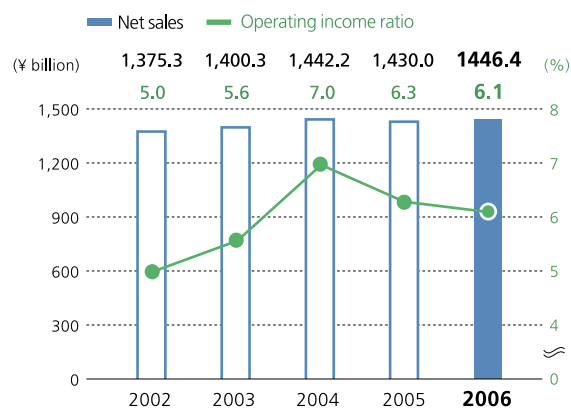
Asahi Breweries, Ltd. and Consolidated Subsidiaries
December 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note)
	2006	2005	2004	2006
For the year:				
Net sales	¥1,446,385	¥1,430,027	¥1,444,226	\$12,143,271
Alcoholic beverages	1,007,558	1,025,447	1,078,931	8,459,055
Soft drinks	283,121	267,003	217,380	2,376,971
Food and pharmaceuticals	53,792	25,286	22,163	451,616
Other businesses	101,914	112,291	125,752	855,629
Operating income	88,713	90,249	101,273	744,799
Alcoholic beverages	78,186	78,089	90,872	656,418
Soft drinks	7,746	8,632	8,114	65,032
Food and pharmaceuticals	445	805	-599	3,736
Other businesses	2,173	2,559	2,935	18,244
Elimination and/or corporate	163	164	-49	1,369
Operating income ratio (%)	6.1	6.3	7.0	
Net income	44,775	39,870	30,596	375,913
Net cash provided by operating activities	105,843	87,245	112,930	888,616
Capital investments	36,894	43,941	40,134	309,747
At year-end:				
Total assets	¥1,288,501	¥1,218,227	¥1,250,818	\$10,817,740
Interest-bearing debt	290,101	289,202	303,089	2,435,581
Total shareholders' equity	509,775	454,892	417,828	4,279,867
Per share data (in yen and U.S. dollars):				
Net income -Primary	¥ 94.02	¥ 82.22	¥ 62.52	\$ 0.79
-Fully diluted	93.85	80.98	60.64	0.79
Cash dividends applicable to the year	19.00	17.00	15.00	0.16
Total shareholders' equity	1,012.77	951.12	860.66	8.50
Key ratios:				
ROE (%)	9.6	9.1	7.5	
ROA (%)	7.2	7.4	7.7	
Total assets turnover (times)	1.2	1.2	1.2	
Shareholders' equity ratio (%)	37.0	37.3	33.4	
Interest coverage ratio (times)	20.5	22.5	24.0	
Debt-to-equity ratio (%)	60.9	63.6	72.5	

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥119.11 to U.S.\$1, using the exchange rate prevailing at December 31, 2006.

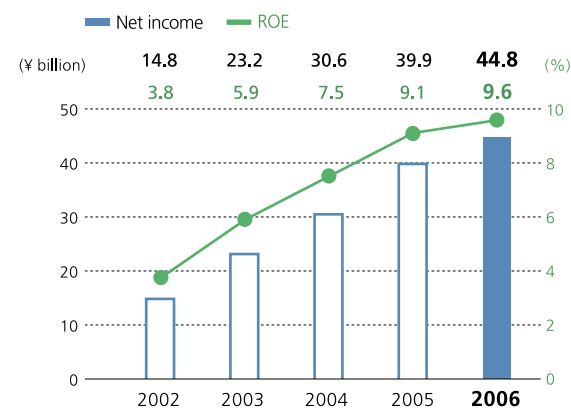
Net sales

up **1.1%**



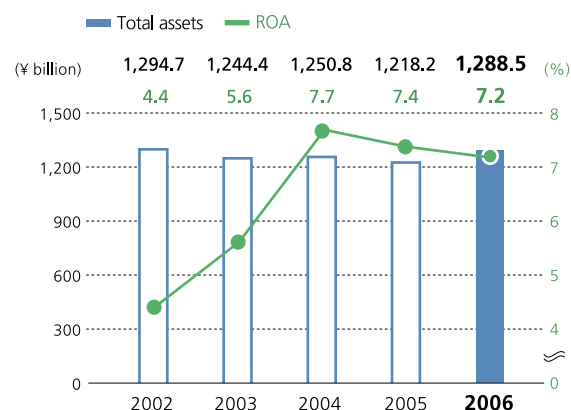
Net income

up **12.3%**



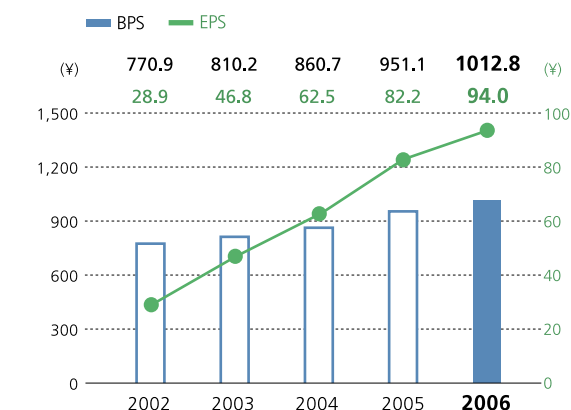
ROA

down **0.2 points**



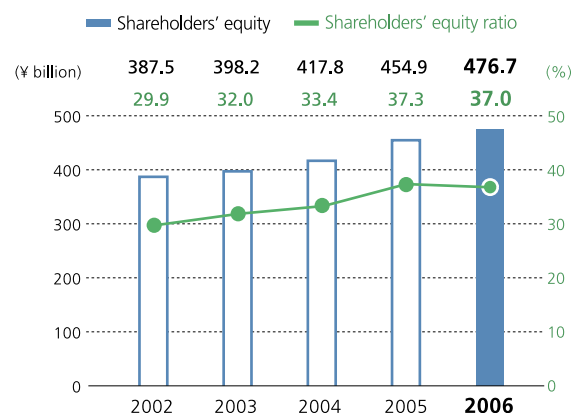
EPS

up **14.4%**



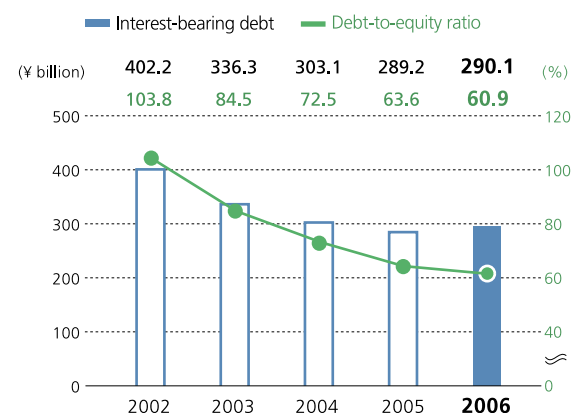
Shareholders' equity ratio

down **0.3 points**



Debt-to-equity ratio

down **2.7 points**





Kouichi Ikeda

Date of Birth: April 21, 1940

Chairman of the Board and CEO

1963: Graduated from Kyushu University,
joined Asahi Breweries, Ltd.

1997: Became Managing Director, Senior Deputy General
Manager of Sales & Marketing, Senior General Director of
Kyushu and Chugoku Regional Headquarters

1999: Became Senior Managing Director, Senior Deputy General
Manager of Sales & Marketing, Senior General Manager
of Shutoken Regional Headquarters

2001: Became Senior Managing Director

2002: Became President and Chief Operating Officer

2006: Became Chairman of the Board and Chief Executive Officer

New Medium-Term Management Plan Builds on the Accomplishments and Remaining Issues from 2006

Review of Fiscal 2006

Consolidated Net Sales at Record-High Level, Marking Sixth Consecutive Year of Record-Breaking Profit

In 2006, the Asahi Breweries Group generated record-high levels of profit.

Consolidated net sales reached ¥1,446.4 billion. While revenues declined at Asahi Breweries Co., Ltd., increased revenues at major Group companies Asahi Soft Drinks Co., Ltd. and Asahi Food & Healthcare Co., Ltd., together with sales from Wakodo Co., Ltd., which was newly acquired in 2006, contributed to performance.

With respect to operating income, while Asahi Breweries, Ltd. covered the decline in its revenues by reducing costs to secure profit growth, the total amount, ¥88.7 billion, fell short of the previous

fiscal year, due mainly to a decrease in profit in our overseas business. Meanwhile, net income reached ¥44.8 billion as a result of improvements in extraordinary income/loss, marking the sixth consecutive year of record-high profit.

Summary of the Second Group Medium-Term Management Plan

Three Accomplishments —Expanded Business Base for the Group and Enhanced Profitability

Fiscal 2006 also marked the final year of our Second Group Medium-Term Management Plan. An overview of developments in recent years provides a context for these results and our self-assessment.

In the course of the First Group Medium-Term Management Plan (2001—2003), Asahi Breweries, Ltd. made progress in reforming its corporate

Roadmap of the Group Medium-Term Management Plans



governance and improving its financial structure. We also began to restructure our business toward achieving Group-wide growth in the business domain of food and health.

During the subsequent Second Group Medium-Term Management Plan, we endeavored to reform our business and profit structures with a firm eye on the maturing domestic market for alcoholic beverages. We believe these efforts have yielded three major accomplishments.

Accomplishment 1

Expanded Business Base through Acquisitions

First, we aggressively pursued M&A and expanded the business base for each of our Group companies. We were particularly successful in the high-growth market of Asia's soft drinks business as well as in the domestic market for the chilled-beverage

business and the food and healthcare business.

Accomplishment 2

Cost Reductions Surpassing Projections

Second, we realized considerable cost reductions, which led to a dramatic improvement in our profit structure. We accomplished this through our efforts to enhance marginal income for the entire supply chain, which included reviewing raw material procurement and realigning our manufacturing and logistics subsidiaries as well as through a steadfast commitment from every single company and division to raise the efficiency of fixed costs. The impact of these cost reductions was particularly pronounced in our alcoholic beverages and soft drinks businesses, reaching about ¥38.0 billion over the three years—roughly double our initial plan.

Accomplishment 3

Enhanced Net Income Levels

Third, we have essentially completed disposing of losses associated with the introduction of asset-impairment accounting and restructuring of Group businesses, and achieved solid progress in enhancing net income levels. We consequently managed to reduce financial liabilities to appropriate levels. In addition, we were able to advance the level of overall shareholder return through the implementation of practices such as dividend payouts and the purchase of treasury stock, which amounted to about ¥54.0 billion in three years.

**Two Issues Remain
—Growth in Alcoholic Beverages
Business and Less-Than-Targeted
Contribution from Acquisitions**

Despite these accomplishments, we were nevertheless unable to attain the targets of the Second Group Medium-Term Management Plan. This was primarily due to the two remaining issues.

Issue 1

**Growth Strategy for the Alcoholic Beverages
Business**

The first issue is the unaccomplished target for the alcoholic beverages business. With respect to beer-type beverages that constitute the core of this business, although we have won the top position for six consecutive years in terms of sales quantity, our market share declined from the previous year due to sluggish sales of happoshu. Furthermore, with respect to our business in alcoholic beverages other than beer-type beverages, which we have been expanding over the past five years, while we made progress in cultivating core brands in the shochu and RTD categories, we nevertheless fell short of attaining our business targets.

Issue 2

Profit Contribution from Acquisitions

The second issue is to ensure that the expanded

business base accomplished through acquisitions will contribute to profit. While our equity method subsidiary Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. is making contributions that exceed our initial projections, other consolidated subsidiaries have yet to reach the levels set in our initial plan in terms of contribution to operating income.

**Focal Points for the Formulation of the Third Group
Medium-Term Management Plan**

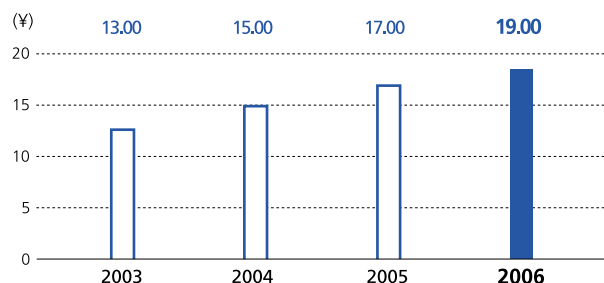
**Strengthen Brand Power by Working
from the Customer's Perspective**

As previously mentioned, despite significant accomplishments under the Second Group Medium-Term Management Plan, issues remain. In the overall business environment, we expect competition to intensify even further, as customer needs become ever more diversified, and as moves toward M&A and corporate regroupings accelerate in response to the revised Company Law, the surging price of raw materials and the growing scope of distribution networks.

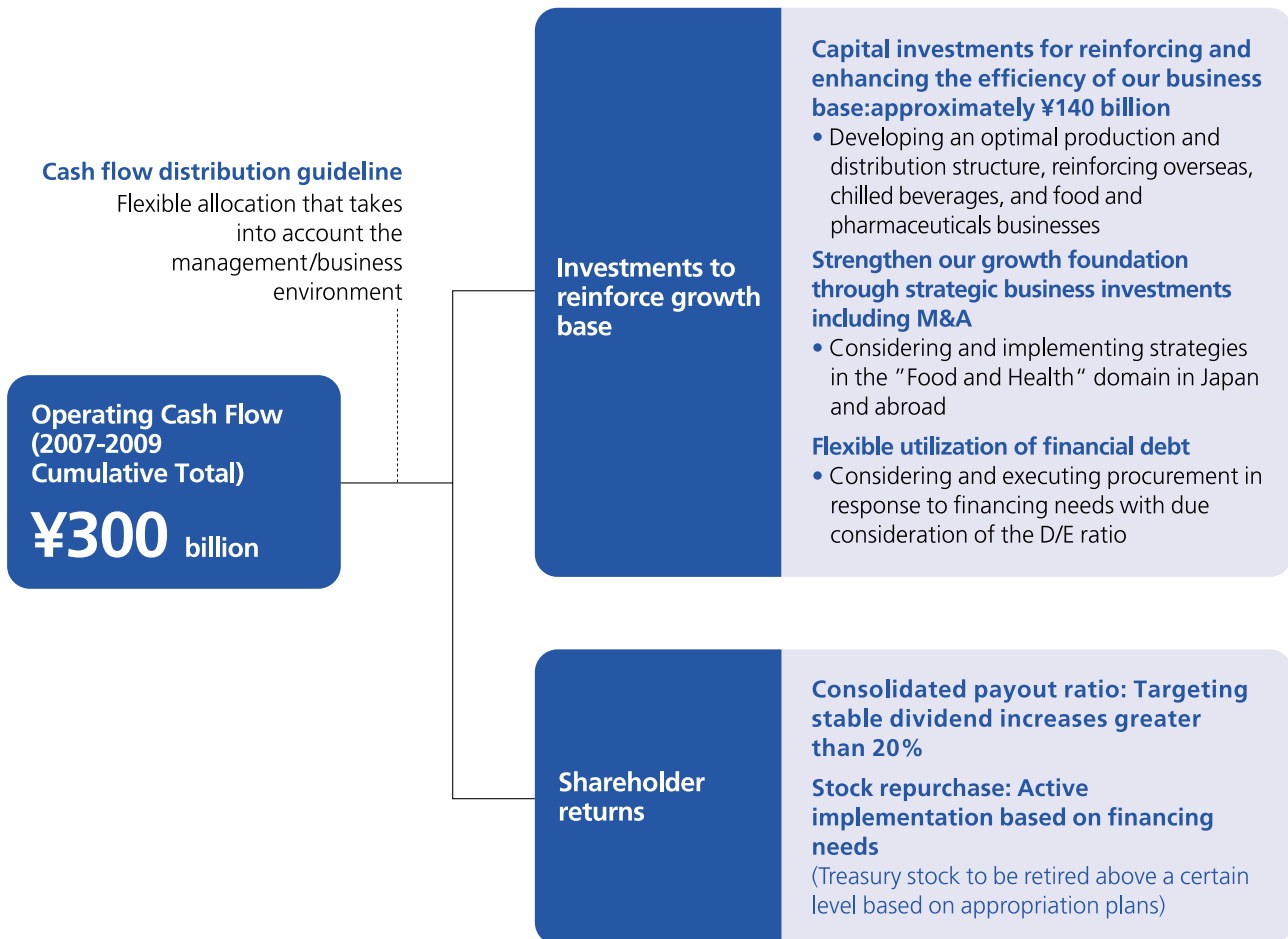
Based on these circumstances, Asahi Breweries, Ltd. has formulated the Third Group Medium-Term Management Plan, encompassing the three-year period beginning in 2007. Our imperative under this plan is to reinforce our competitiveness in *monozukuri* (product creation) manufacturing with genuine consideration for the perspective of our customers. Every single employee of the Group will work in concert to enhance the Asahi brand and establish a new growth path through the creation of synergies with the newly acquired brands.

In a concrete move related to this objective, Asahi Breweries, Ltd. agreed in February 2007 to a business

Cash dividends applicable to the year



Cash flow strategies



and capital alliance with Kagome Co., Ltd. We are convinced this alliance will generate powerful synergies over the broad spectrum of product development, sales, production and distribution.

Medium-Term Numerical Targets and Cash Flow Strategy Increasing Dividends Based on a Targeted Consolidated Payout Ratio of Over 20%

In terms of performance targets, we will strive to achieve net sales of ¥1,600 billion, operating income of ¥110 billion and net profit of ¥55 billion by 2009, the final year of the latest Medium-Term Management Plan.

We expect our operating activities will generate cash flows of around ¥300 billion over the course of the three-year Medium-Term Management Plan. We will utilize the cash to strengthen our foundation for growth.

In addition, with respect to returns to shareholders, based on our principle of consistent and stable dividend payouts, we plan to raise dividends based on our targeted payout ratio of over 20%. We will also purchase treasury stock on a timely basis while paying due consideration to our funding needs in an effort to maintain our policy of actively and comprehensively returning profit to shareholders.

The severity of the environment is precisely the reason we intend to remain fully committed to Asahi's DNA of taking on challenges and endeavoring to establish a solid foundation for exponential growth for the entire Group. We appreciate your ongoing support for the Asahi Breweries Group.

Kouichi Ikeda,
Chairman of the Board
and CEO

Realizing a Strong Corporate Group Centered around the Alcoholic Beverages Business by Exercising Our Speed and Ability to Act

Q1 A year has passed since you became president. How do you see things now?

I am committed to utilizing our speed and ability to act in order to achieve our performance targets.

While 2006 was marked by record-high net sales and net profit, we nevertheless fell short of attaining the numerical targets set out in the Second Group Medium-Term Management Plan. With that in mind, the Third Group Medium-Term Management Plan was formulated with the firm resolve to complete the Plan in its entirety. To accomplish its goals, I as an executive officer, and

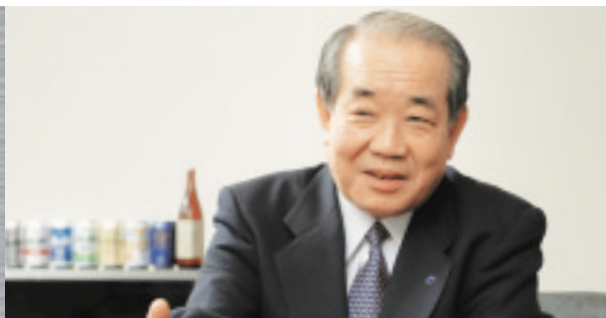
every single member of the Group will strive to fulfill our individual tasks quickly and decisively. I believe 2007 will be a very important year for ensuring the sustained growth of the Group as a whole. And for this reason, we also formulated a Group Long-Term Vision in the Plan. The intent is to further clarify the Group's business domains and areas that need to be strengthened as well as our basic concept and road map for enhancing corporate value. By instilling this concept throughout the Group, we will intensify our efforts to attain growth in the alcoholic beverages business and profit from acquisitions—two issues that remain from the Second Group Medium-Term

Group Long-Term Vision

To become the “leading company” with high growth potential by continuously offering “lifelong enjoyment and excitement” to customers, especially in Asia, in the business domain of “food and health.”

Strategies for the Medium-Term Management Plan





Hitoshi Ogita
President and COO

Management Plan.

Toward achieving this goal, I am disseminating the slogan, “speed and ability to act,” among employees throughout the Group. In addition, when changes beyond the scope of our projections occur in our business environment, we will swiftly correct our course and continue to advance toward realizing our vision. This will be possible by accelerating the speed of our management. We will build a corporate group with sufficient strength to tackle any obstacle or challenge.

Q2 What are the strategies and targets of the Third Group Medium-Term Management Plan?

Our targets are to achieve net sales of ¥1,600 billion and net income of ¥55 billion by 2009.

We established two guidelines in the Third Group Medium-Term Management Plan for realizing the scenario for growth laid out in the Group Long-Term Vision.

First, we will launch the alcoholic beverages business as a whole onto a path of renewed growth to generate stable, long-term cash flow. This will require restructuring the entire foundation of the Asahi brand centered on *Asahi Super Dry*, along with *Asahi Honnama* and *Asahi Cocktail Partner*.

Next, we must establish a new growth path for the Group. We will seek further growth for Asahi Soft Drinks Co., Ltd. and Asahi Food & Healthcare Co., Ltd., while pursuing synergies with the two LB,

Ltd. companies, as well as Wakodo Co., Ltd. and Sunwell Co., Ltd. which we acquired through M&A. We will also continue making aggressive business investments to follow-up on the Second Group Medium-Term Management Plan.

In terms of numerical targets, our goal is to achieve net sales of ¥1,600 billion, operating income of ¥110 billion and net income of ¥55 billion by fiscal 2009, the final year of the Plan. In terms of management benchmarks, we are targeting ROE of over 10% and an operating income ratio over 7%.

These performance targets do not include anticipated additional revenues from future acquisitions. We will concentrate on attaining solid results for our existing businesses while concurrently considering and pursuing all avenues of investment, including M&A.

Our operating activities are expected to generate around ¥300 billion in cash flows over the course of the three-year Medium-Term Management Plan. In investing this cash, my idea is to give priority to investments that reinforce our growth base. Specifically, in addition to capital investments of ¥140 billion for optimizing production and logistics systems, we will consider and execute investments and business alliances—in Japan and abroad—in the domains of food and health, unrestricted by any upper limits. For temporary funding needs that arise for large-scale investments and for other reasons, we will adopt a flexible approach to financial liabilities by tolerating a DE Ratio of up to 0.7.



What are your business strategies for accomplishing the performance targets?

We will direct our management resources to our primary goal of achieving growth for beer-type beverages.

The greatest strength of our Group lies in its alcoholic beverages business, particularly beer-type beverages. While our performance in 2006 was unsatisfactory, we cannot talk about the future of the Asahi Breweries Group without a revival in beer-type beverages. First and foremost, we must return to our starting point of pursuing customer satisfaction, to provide enjoyment and excitement to our customers through each brand, backed by the finest quality in each category of alcoholic beverages. To that end, we will reinvigorate our *monozukuri* (product creation) as well as marketing and sales activities in an effort to raise the added value of each individual brand.

With respect to beer-type beverages, in 2007 our flagship product *Asahi Super Dry* will commemorate the 20th anniversary of its introduction. We intend to highlight its brand value to maximum effect through marketing activities developed from the perspective of the customer, and guide the way towards a return to beer.

In the area of happoshu and new genre beverages, our analysis shows we were somewhat vague in promoting the appeal of our products. From now on, we will present each brand in terms of the value it offers to customers through clearly reflecting its product concept in taste as well as in package design, commercials and advertisement campaigns, and storefront sales. In addition, we seek to increase our brand position in the market by promoting marketing activities in order to generate new demand.

Meanwhile, I believe we have already established a foundation for our



alcoholic beverages business other than beer-type beverages (shochu, RTD, whisky and spirits, wine) through acquisitions implemented to date. From now on, we will build on this business foundation to establish leading brands in each category that respond to diverse customer needs by selectively allocating management resources to the development of core brands in the high-growth categories of shochu and RTD. Our goal is to achieve combined sales of ¥160 billion for the alcoholic beverages business excluding beer-type beverages by 2009.



What do you mean by securing the foundations for the entire alcoholic beverages business?

We will reform our revenue structure and strengthen our organizational structure.

Along with our product strategy, we will also endeavor to reform our revenue structure and strengthen our organizational structure to boost the competitiveness of the business. The reason is that the domestic alcoholic beverages market is facing an unavoidable cost increase in the wake of rising raw material prices. To generate stable cash flows in this context, it is important to reduce costs and raise efficiency as a hedge against the risks of fluctuating sales.

To boost cost competitiveness of our *monozukuri* (product creation), we will concentrate some of the production of RTD beverages and soft drinks in the Ibaraki Plant in 2007. We also plan to review the 33 production bases operated by the Group as a whole to develop an optimum production and logistics system. In addition, we will seek to further reduce fixed costs for the sales division and for all the head office divisions.

With respect to advertising and promotional expenses, we will primarily direct resources to beer and happoshu in 2007 to accomplish medium- to long-term growth through a recovery in our alcoholic beverages business. The purpose of this investment is to renew our efforts to communicate the characteristics of the product and value of the

brand—as I have explained already—and not to recover market share by simply increasing sales. Once we have accomplished these goals, we will carefully determine the cost-effectiveness of our advertising and promotional activities and seek to reduce the absolute amount starting from 2008.

Through these endeavors, we plan to reduce costs by about ¥10 to ¥15 billion, including fixed costs.

As a means for strengthening our organizational structure, we revised our organization in a concerted effort to pursue business operations from the perspective of each customer, including consumers and sales channels. In June 2006, we created a Marketing Headquarters within the Product Development Division followed by a reorganization of the Sales Division by business category in September.

Q5 What are the strategies for businesses other than the alcoholic beverages segment?

We will focus our efforts on bolstering existing brands, developing new products and enhancing profitability by creating synergies among our companies.

In the Group's second pillar business of soft drinks, Asahi Soft Drinks Co., Ltd., which plays the central role, we will seek further growth in its core brands while cultivating new ones. The two LB, Ltd. companies involved in the chilled-beverage business boast a sales base of convenience stores, rapid product development and a nationwide production and logistics network. We will seek to fully leverage these advantages to expand marketing channels and product domains through collaboration with Asahi Soft Drinks Co., Ltd., while pursuing even higher quality and undertaking capital investments to increase production and enhance efficiency. In addition, we intend to develop new products that meet the needs of consumers by utilizing the accumulated results of our research and development on plant origin lactic acid bacteria and other areas, as well as the brand power of the newly acquired Wakodo Co., Ltd.

In our food and pharmaceuticals business, we added Wakodo Co., Ltd., Japan's top maker of baby food, to our Group in 2006. In the near future, we will maintain the three-company structure comprising Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Sunwell Co., Ltd. and seek to

Quantitative targets in the Group Medium-Term Management Plan and goals for 2007

(¥ billion)	2006 (Actual results)	2007 (Target)	Year-on-year	2009 (Target)	Percentage change compared with 2006
Net sales	1,446.4	1,520.0	+5%	1,600.0	+11%
Alcoholic beverages business	1,031.1	1,078.0	+5%	1,110.0	+8%
Soft drinks business	249.9	263.1	+5%	290.0	+16%
Food and healthcare business	55.7	67.1	+20%	80.0	+44%
Overseas business	57.1	61.7	+8%	70.0	+23%
Other businesses	52.6	50.1	-5%	50.0	-5%
Operating income (EBITDA)	88.7 (139.6)	93.0	+5%	110.0 (159.0)	+24% (+14%)
Alcoholic beverages business	78.6	80.0	+2%	90.0	+15%
Soft drinks business	10.1	10.7	+6%	14.5	+43%
Food and healthcare business	0.4	0.8	+106%	3.0	+648%
Overseas business	-3.9	-1.5	—	1.5	—
Other businesses	3.5	3.0	-14%	1.0	-71%
Net income	44.8	46.0	+3%	55.0	+23%
ROE	9.6%	—	—	10% or above	—
Operating income ratio (Operating income ratio excludes liquor tax)	6.1% (9.4%)	—	—	7% or above (11% or above)	—

enhance the value of existing brands by demonstrating the respective strengths of the companies. At the same time, we will effectively combine the proprietary technologies and materials possessed by these companies to present products with high added value to a broad age group of customers, from infants to the elderly. As in the soft drinks business, we will develop Group synergies to expand marketing channels and business domains and to enhance profitability in the areas of production, procurement and logistics.



What are your views on overseas business development?

We will seek to expand revenues in the priority region of Asia.

In our overseas business, we will focus on the Asian region to achieve growth and enhance profitability for both the Asahi brand and local brands. With respect to the alcoholic beverages business in China, which continues to grow as the world's largest beer-consuming country, we will strive for growth and improved profitability at Beijing Beer Asahi Co., Ltd. and other companies in which we have invested. At the same time, we intend to further develop the popularity of *Asahi Super Dry* in the premium beer markets of each nation throughout East Asia and Southeast Asia. In the soft drinks business, we will concentrate on achieving stable growth for Haitai Beverage Co., Ltd., our consolidated subsidiary in South Korea, by supporting the strengthening of its management. Meanwhile, Tingyi-Asahi-Itochu Beverages Holding Co. Ltd., which is demonstrating exponential growth, will strive to become China's No. 1 soft drinks maker. We intend to continue providing management support in areas ranging from finance and manufacturing technology to product development.

In addition, by further advancing our planning and execution of strategic business investments in our overseas business as well, we will aim to



become Asia's leading company in the domain of food and health.

My mission is to accomplish the performance plans for each business based on these strategies. At the same time, I intend to strategically direct the cash flows generated by our operational activities to establish the foundations for new growth.



What other management strategies and measures are you pursuing?

We will establish an organization and control structure for steadily executing the management plan.

While steadily executing these business strategies, we will also seek to strengthen our operating foundation.

First, we will make a concentrated effort to reform our organizational structure and nurture human resources to fulfill our commitment to business activity from the perspective of the customer. We will cultivate human resources capable of commanding and leading the expansion in our business amid a dramatically changing management environment, and establish an effective system for allocating personnel.

Next, with the goal of smoothly executing the Third Group Medium-Term Management Plan and securing and enhancing shareholder benefit, pending approval by the General Shareholders' Meeting, we have introduced a prior warning

Hitoshi Ogita

Date of Birth: January 1, 1942

President and COO

1965: Graduated from Kyushu University; joined Asahi Breweries, Ltd.

1997: Became Director and General Manager of Fukuoka Branch

2000: Became Managing Director and Senior General Manager of Kyushu Regional Headquarters

2002: Became Senior Managing Director and Senior General Manager of Kanshinetsu Regional Headquarters

2002: Became Vice President of Asahi Soft Drinks Co, Ltd.

2002: Became President of Asahi Soft Drinks Co, Ltd.

2006: Became President and Chief Operating Officer of Asahi Breweries, Ltd.

defense against hostile takeover bids. We have also begun reforming our Board of Directors system, which will include shortening the term of office for Executives and Directors from two years to one, from the perspective of seeking to evaluate Directors on an annual basis at the General Shareholders' Meeting.

Furthermore, to strengthen our management control system, we will adopt the use of ROIC* as a benchmark for clarifying the performance assessment of Group operations and as the standard for investments and retreats toward promoting portfolio management of the Group's businesses. We will also respond to revisions in the Corporate Law by establishing our internal control system and strengthening our risk management system to further enhance corporate governance.

* ROIC: Return On Invested Capital. A benchmark that indicates the amount of profit generated by invested capital using the formula, operating income / (interest-bearing debt + shareholders' equity).



What are the Company's business policies and resolutions for business in 2007?

We will focus our energy on the alcoholic beverages business in particular.

As the first year of the Third Group Medium-Term Management Plan, I intend to begin 2007 by working toward achieving growth, particularly in the alcoholic beverages business. Our projected performance targets for 2007 are sales of ¥1,520 billion, operating income of ¥93 billion and net income of ¥46 billion. With respect to both the

alcoholic beverages and soft drinks businesses, growth in profit is expected to be limited in 2007 due to increased cost factors such as a surge in raw material prices and investments for future growth. I am nevertheless determined to begin by clearing the way toward stable growth with the intention of achieving our goals by 2009.

As for the food and pharmaceuticals business and overseas business, based on our Medium-Term Management Plan, I will concentrate on achieving growth as well as strengthening diversified brands through synergies for higher profitability.

With respect to our equity method subsidiary Tingyi-Asahi-Itochu Beverages Holding Co. Ltd., I expect its performance to be in line with 2006, although the company does not publicly disclose its performance targets, which it will seek to raise even higher by consistently pursuing growth.

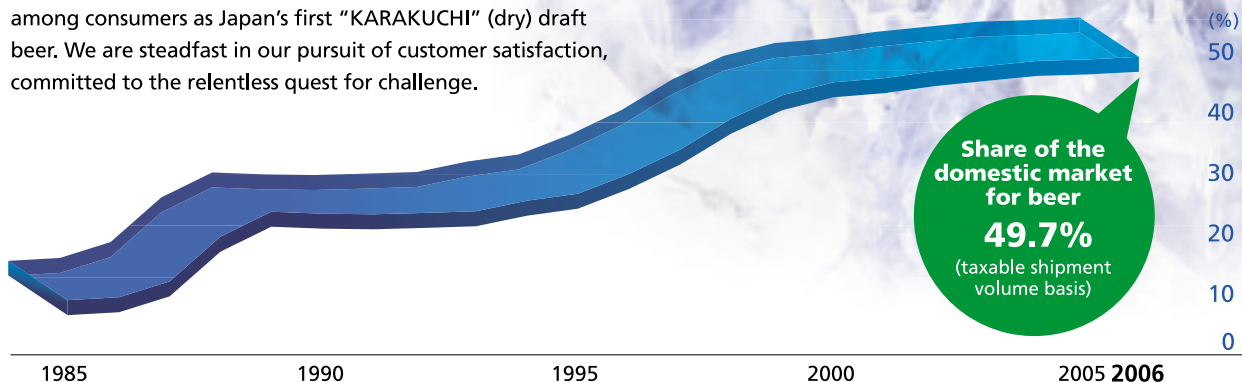
I believe this year will be extremely important for recovering sales momentum for alcoholic beverages. As I mentioned at the very beginning, we will be ever mindful of the customer's perspective in our renewed effort to restructure Asahi Breweries' corporate brand of providing enjoyment and excitement to our customers. I look forward to your continued support for the Asahi Breweries Group.

Hitoshi Ogita,
President and COO

Asahi Super Dry 20th ANNIVERSARY!

SUPER “DRY”

In 2007, our mainstay product *Asahi Super Dry* celebrates the 20th anniversary of its sales launch. Since its debut on March 17, 1987, *Asahi Super Dry* has enjoyed great popularity among consumers as Japan's first “KARAKUCHI” (dry) draft beer. We are steadfast in our pursuit of customer satisfaction, committed to the relentless quest for challenge.



“Challenge 2007” Comprehensive Marketing Activities

We will seize the occasion of *Asahi Super Dry*'s 20th anniversary to pull the entire beer market forward by powerfully appealing to its brand value.

Pursuing Freshness

Proprietary Super-Fresh Manufacturing Method

Our unique Super-Fresh Manufacturing Method ensures freshness by completely cutting off contact with oxygen during every process at the brewery. In 2007, we will pursue further advances in this manufacturing method.

The Super Dry Fresh Experience Package

To provide customers with the experience of freshly brewed beer at home and to ensure freshness at the storefront, we will sell *Asahi Super Dry* within three days of production nationwide (excluding Okinawa) on a pre-order basis. In 2007, we intend to offer this arrangement at 30,000 mass marketing outlets (up 20% year-on-year).

Enhancing the Quality of the Drinking Experience

Delicious Draft Beer Activities

We plan to expand our efforts to offer draft beer kegs for commercial use under the ideal conditions for delicious taste. In 2007, we will increase the number of seminars held for restaurants and bars to encourage attendance and will also distribute DVD manuals explaining proper handling. Furthermore, we will concentrate on training our sales staff who provide support for restaurants and bars that handle draft beer kegs. Through these activities, we will expand the number of Delicious Draft Beer Sellers throughout the nation from the current level of approximately 95,000 in 2006 to about 110,000 in 2007.

Developing Advertisements

Featuring the Headline “Challengers” in TV Commercials

We will appeal to *Asahi Super Dry*'s brand image of “Challenge” and “Dynamism” by using personalities who attract media attention, such as our extremely popular commercials featuring Hideki Matsui of the New York Yankees in the quest for a World Series title and Daisuke Matsuzaka of the Boston Red Sox in his new challenge of performing on the global stage.



Group Management



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Corporate Governance

Basic Policy

The Asahi Breweries Group recognizes all our stakeholders as “customers” who provide us with support, starting with the consumers of our products, and also including shareholders, investors, suppliers, employees and local communities.

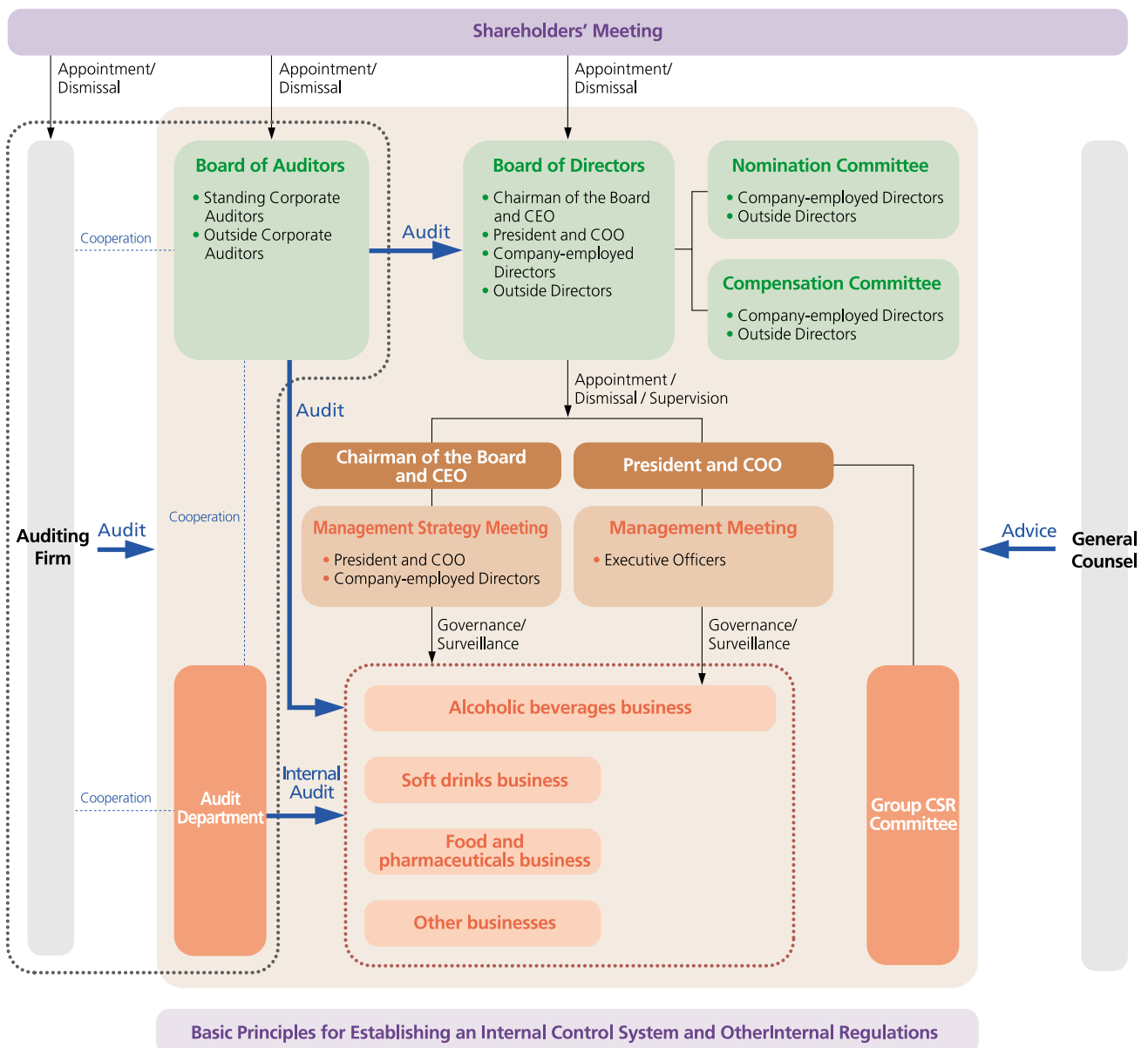
To ensure our corporate activities satisfy all these “customers” and to quickly adapt to an ever-evolving business environment, we have identified corporate governance as a top priority for management. We are therefore striving to strengthen group management, reinforce our relationship of trust with society and enhance our social responsibility and management transparency.

Characteristic Features of Our Corporate Governance Structure

The Asahi Breweries Group developed its corporate governance structure based on the Board of Directors, which answers to the Shareholders’ Meeting, as the highest decision-making organ, and decides management issues under its authority while at the same time it supervises the execution of operations through Executive Directors; and the Board of Auditors, which monitors and audits the implementation of responsibilities by the Directors.

The Corporate Law enacted in May 2006 requires the establishment of systems to ensure the implementation of

Corporate Governance Structure



the Directors' responsibilities comply with the law and the company's articles of incorporation. In 2006, the Asahi Breweries Group formulated its Basic Principles for Establishing an Internal Control System and established a Risk Management Committee, thereby constituting a structure that meets the requirements of the Corporate Law.

Board of Directors

The Board of Directors consists of eleven Directors, including two Outside Directors (as of March 31, 2007). In 2000, Asahi Breweries reduced the number of its Directors from 40 to 10 for more timely decision-making and action, and to promote shareholder-oriented management by completely separating the functions of management control and operational execution. Current Outside Directors, with backgrounds as a former diplomat and a top executive, review the functions of the Board of Directors from an independent standpoint with no special relationships with Asahi Breweries. In 2006, the Board of Directors held 12 regular meetings and two special meetings; the average attendance by Outside Directors was 71%.

Nomination and Compensation Committees

Fairness and transparency in the appointment and compensation of senior officers are ensured by the Nomination Committee and the Compensation Committee, which report to the Board of Directors. Each committee comprises a total of four officers, of which two are Company-employed Directors and two are Outside Directors.

The Nomination Committee recommends candidates for Directors, Executive Officers and Auditors to the Board of Directors. In 2006, the Committee met twice with an average attendance of 88%. The Compensation Committee makes proposals to the Board of Directors regarding the compensation structure for Directors and Executive Officers. In 2006, the Committee met five times with an average attendance of 95%.

Executive Officer System

Asahi Breweries introduced an Executive Officer System to ensure timely execution of operations, clarify responsibilities and authority, and strengthen the supervisory and decision-making functions of the Board

of Directors. Executive Officers are granted the authority by the Board of Directors to execute operations and are responsible for the timely execution of operations. Meanwhile, Directors are entrusted with the mission of formulating Group management strategies and making key decisions on Group management for strengthening and developing the Group, in addition to supervising the execution of operations.

Management Strategy Meeting and Management Meeting

Two high-level meetings share the responsibility of quickly executing decisions made by the Board of Directors. The Management Strategy Meeting, chaired by the CEO, deliberates the operations of the entire Group, while the Management Meeting, chaired by the COO, oversees the main alcoholic beverages business. These meetings maintain the accountability of Directors for the entire Group and the responsibility of the COO and Executive Officers for the alcoholic beverages business, thereby clarifying responsibilities and accelerating decision-making.

Each meeting is attended by at least one Standing Corporate Auditor. To maximize operational efficiency, they control and assess progress being made by each officer at these meetings based on an objective and rational management index.

Auditors, Internal Audit Department and Accounting Auditor

The Board of Auditors is responsible for supervising and auditing the management of the company and the execution of operations by Directors. The Board of Auditors consists of five Auditors with three Outside Auditors comprising the majority to ensure transparency. With varying backgrounds, a former top executive, a lawyer and a university professor, they audit the management of Asahi Breweries from multiple perspectives. In 2006, the Board of Auditors held eight meetings, with an 83% average attendance by Outside Auditors.

To enable Auditors to efficiently conduct their duties and attend important meetings, Asahi Breweries has established a system that facilitates the review of authorized documents at all times. In addition, two full-time staff are assigned to attend to the needs of the Board of Auditors.

With respect to internal control, the 11-member Audit Department, which reports directly to the President, has been established as the internal organ responsible for conducting audits based on our annual plan to ensure the proper and effective operation of the entire Group. Audit results are submitted to the Management Strategy Meeting twice a year and have been utilized as the basis for new policies.

The Auditors, Internal Audit Department and Accounting Auditor work in concert by exchanging information through briefings and by transmitting copies of auditing reports periodically, and as needed. In 2006, the Board of Auditors held four briefings with the Accounting Auditor and with the Internal Audit Department, respectively.

Compensation for Senior Officers and Auditors

With respect to compensation for senior officers, the Compensation Committee makes proposals to the Board of Directors regarding the compensation system and compensation for Directors and Auditors. Information on compensation paid to Directors and Auditors in fiscal 2006 is provided below.

Asahi Breweries decided at a meeting of the Board of Directors held on February 6, 2007, to abolish the system of retirement benefits for Directors and Auditors and to include the relevant amount in their annual salaries. Retirement benefits were traditionally paid to Directors and Auditors as a future payment of compensation, and the decision to include compensation equivalent to retirement benefits in the annual salary was made in response to the adoption of a one-year term of office. At the same February 6 meeting, the Board of Directors also decided to abolish the stock option system that had been implemented as part of the compensation system for Directors, Auditors and Executive Officers.

Compensation for Directors and Auditors (FY2006)

(Millions of yen)	Salary	Bonus	Total
Company-employed Directors (Total: 9)	235.0	41.5	276.5
Outside Directors (Total: 3)	25.8	3.9	29.7
Corporate Auditors (Total: 2)	47.7	2.3	50.0
Outside Auditors (Total: 3)	21.7	1.5	23.2

Note: These are the amounts paid to Directors and Auditors as of the last day of fiscal 2006.

Accounting Auditor Compensation

In fiscal 2006, audit fees payable to the Accounting Auditor amounted to ¥148 million for an attestation agreement and ¥50 million in other compensation.

In fiscal 2006, the total compensation paid (payable) to the five Auditors amounted to ¥73 million.

Internal Control System Development

In June 2006, the Securities Transaction Law was revised and the Financial Products Transaction Law (Japanese SOX Act) was enacted. The revised law requires that in addition to ensuring the accuracy of the completed financial statements as in the past, the appropriateness of the compilation process itself should be audited by a certified accountant to safeguard the reliability of corporate financial statements and to prevent fraudulent accounting. Under the new law, companies are also obligated to submit a Statement on Internal Control. These regulations will be applied starting with the fiscal year ending March 2009 and will be applied to Asahi Breweries, Ltd. starting with the fiscal year ending December 31, 2009.

In addition, the Corporate Law enacted in May 2006 requires the establishment of a basic mechanism of internal control encompassing the overall areas of compliance and risk, with the goal of preventing corporate misconduct.

Asahi Breweries, Ltd. is taking the following measures in response to the regulatory revisions:

Response to the Financial Products Transaction Law (Japanese SOX Act)

A project team has been set up to establish relevant structures for responding to the Financial Products Transaction Law (Japanese SOX Act). In 2006, Asahi Breweries, Ltd. and key subsidiaries were selected as the designated subjects of the regulations. Our basic policy is to comply with the "Practical Guidelines for the Assessment of Internal Control and Auditing" published by the Business Accounting Council of the Financial Services Agency, and refer to U.S. standards and practices on issues not clearly addressed by these guidelines. We also selected important account headings, formulated documentation formats for these accounts and for Group-wide, internal control assessment. In 2007, on the basis of these measures, we plan proceed with the enhancement of documentation, the establishment of an operation system and the evaluation of the validity of internal control.

Development of an Internal Control System in Compliance with the Corporate Law

In 2006, Asahi Breweries, Ltd. established the Basic Principles for Establishing an Internal Control System in compliance with the Corporate Law. In formulating these principles, we assess the current state of Asahi Breweries, Ltd. and the Asahi Breweries Group to determine the proper course of action. We disclosed information on our corporate governance system, including these Basic Principles, to the Tokyo Stock Exchange.

Asahi Breweries, Ltd. is currently developing a Group-wide internal control system. We are pursuing control measures by establishing the systems and guidelines for risk management and compliance in accordance with the Basic Principles (see p. 24—25).

Furthermore, the Basic Principles established by major Group companies including Asahi Soft Drinks Co., Ltd., Wakodo Co., Ltd., Nikka Whisky Distilling Co., Ltd. and Asahi Food & Healthcare Co., Ltd. are based on the Basic Principles of Asahi Breweries, Ltd.

Looking ahead, we will seek to have a PDCA (Plan-Do-Check-Act) cycle in place based on these guidelines and organizational control, and to achieve compliance with internal controls throughout the Group, including newly acquired companies. In addition to product quality, in view of the growing risks related to social issues such as drinking problems and fraudulent contracts, we will maintain an ongoing awareness of regulatory reforms and social trends to support a proactive stance on risk management.

> Topics

Resolution on the Adoption of Defensive Measures Against Hostile Takeovers

Asahi Breweries, Ltd. resolved at a meeting of its Board of Directors held on February 6, 2007, to adopt "Introduction of a Plan against Large-Scale Purchases of the Shares in the Company" (a framework of takeover defense measures) to guard against hostile takeover bids. The objective is to restrict substantial purchases of stock that could undermine the corporate value of the Asahi Breweries Group and the common interests of our shareholders. In the event a substantial purchase of Asahi Breweries stock is attempted, the defensive measures are designed to secure the necessary information and time to allow shareholders to decide whether they should respond to the offer or the Board of Directors to make an alternative proposal to shareholders, and negotiate on their behalf.

These measures will be adopted pending approval by shareholders at the 83rd Annual Shareholders' Meeting scheduled for March 27, 2007.

Shorter Term of Office for the Board Directors

At the General Shareholders' Meeting to be held in March 2007, the Directors' term of office will be shortened from two years to one year to be able to more quickly respond to changes in the management environment. Consequently, in the future Asahi Breweries will seek an annual vote of confidence from shareholders with respect to the Directors in an effort to further strengthen its corporate governance functions.

Limited Liability Agreement with Outside Directors

Asahi Breweries, Ltd. will revise its Articles of Incorporation to enable the signing of limited liability agreements with Outside Directors and/or Outside Auditors, at the General Shareholders' Meeting to be held in March 2007. The measure limits the maximum liabilities to be paid by Directors and Auditors under the Corporate Law. The objective is to enhance the transparency and fairness of management through these revised Articles of Incorporation and enable Outside Directors and Outside Auditors to fulfill their expected roles.

Risk Management

The Asahi Breweries Group Risk Management Committee established in June 2006 leads our efforts to prevent all types of risks surrounding the business and to strengthen our risk management system for responding to emergency situations toward our goal of realizing a stable and sustainable business foundation.

Risk Management Committee

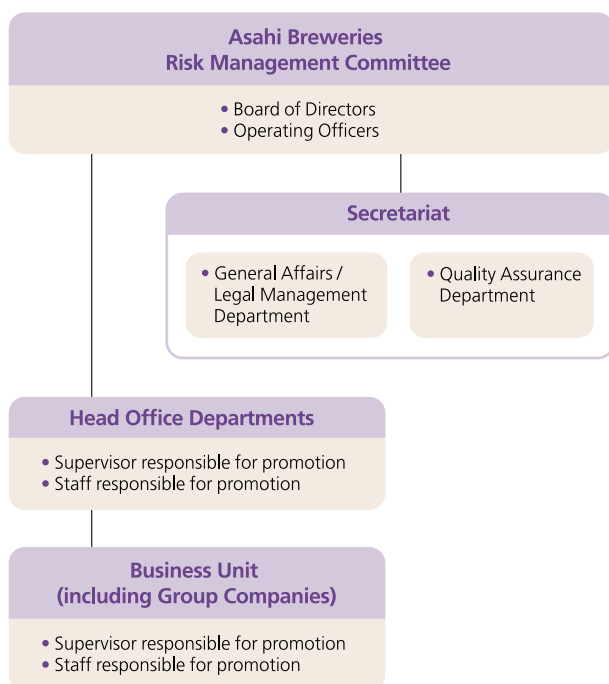
The Asahi Breweries Group Risk Management Committee was established in June 2006 as the highest organ related to the deliberation and promotion of risk management for the entire Asahi Breweries Group. In the past, the Asahi Breweries Group had primarily undertaken risk management after the fact, in response to short-term risks, and implemented preventive measures and countermeasures based on isolated rules. However, these measures did not sufficiently address issues in terms of their

comprehensiveness, or consistency between the different levels: risk avoidance, transfer, reduction and possession, or the ability to effectively meet the issues of mid- and long-term risks such as changes in market and economic trends and demography. In view of these concerns, we intend to promote risk management that is highly advanced and at the same time consistent throughout the entire Group.

Our Risk Management Committee comprises four Directors and one Executive Officer. The Committee meets at least twice a year to discuss and decide guidelines for related activities as a whole as well as priority measures to be taken based on the results of a risk survey, and reviews the content of measures and the progress of plans concerning major risks. In 2006, the Committee held one meeting subsequent to its establishment in June to report on the risk survey, identify priority issues and decide the risk management promotion plan for 2007.

Similarly, in June 2006, we appointed a supervisor and staff to be responsible for promoting risk management in each major business unit within the Group. The objective for assigning these supervisors and staff is to conduct preventive activities at the organizational level to avoid the occurrence of risks on a daily basis in collaboration with the Risk Management Committee by submitting regular reports on potential risks that have been identified in their respective divisions.

Risk Management Promotion System



Group Risk Management Principal Rules and Risk Management Procedures

In June 2006, the Asahi Breweries Group established the Asahi Breweries Group Risk Management Principal Rules and the Risk Management Procedures. The Principal Rules defines the basic issues related to risk management. The Risk Management Procedures define specific management processes based on the Principal Rules, including the role of the promotion organization and the control, analysis and assessment, countermeasures and implementation, and assessment and revision of risks.

* For information on potential risks, please refer to pages 64—67 (MD&A).

Compliance

Asahi Breweries, Ltd. promotes compliance throughout the Group under the leadership of the Asahi Breweries Group Corporate Ethics Committee—comprising Directors, Executive Officers and legal advisors—by appointing Legal Promoters who are responsible for promoting compliance in each business unit and Group company, providing thorough training on the Business Ethics Rule and enhancing awareness of the Rule.

Business Ethics Rule

The Asahi Breweries Group established the Asahi Breweries Group Business Ethics Rule in November 1999. The Rule lays down the specifics for practicing compliance included in the Group Corporate Philosophy and Guidelines for Corporate Activity and defines codes of conduct from the perspective of compliance with corporate ethics that are to be followed by every senior officer and employee of the Group in the course of daily operations. The Rule applies to all senior officers and employees (including contract staff and temporary staff), who are each obliged to attend training sessions on corporate ethics and to submit a signed statement declaring their compliance with the Business Ethics Rule in an effort to broadly instill the significance and spirit of compliance management.

In 2006, we revised the Asahi Breweries Group Business Ethics Rule. In response to the results of the Corporate Ethics Survey involving all senior officers and employees across the Group, we provided detailed explanations about systems that were not sufficiently recognized and about compliance risks actually experienced by employees.

Legal Promoter System

The Asahi Breweries Group introduced the Legal Promoter System in 1999 to promote understanding of compliance among employees. Under this system employees who have participated in compliance training and acquired certain level of knowledge are assigned to each business unit and affiliated company as Legal Promoters (LPs). Training sessions are held on an annual basis to share the latest information on compliance cases and legal knowledge. To further strengthen our compliance structure, the Group began appointing Senior Legal Promoters (SLPs) in 2002 to take responsibility for the education, guidance and practical implementation of advanced legal practices and compliance, and Legal Promoters for Governmental

Regulations (GLP) in 2006 to review regulations for operations in the workplace. As of the end of 2006, 130 LPs, 27 SLPs and 30 GLPs have been assigned.

Compliance Education and Development

Each division of Asahi Breweries, Ltd. endeavors to promote compliance by offering compliance training tailored to the needs of their respective operations and by making updated versions of the Business Ethics Rule available for review via the Intranet at all times.

Survey on Corporate Ethics

Since 2002, we have conducted annual surveys on the current state of corporate compliance involving all senior officers and employees across the entire Group. These surveys are used as the Check function in the PDCA (Plan-Do-Check-Action) cycle for promoting compliance management.

Clean Line System

The Asahi Breweries Group introduced the Clean Line System (in-house reporting system) in January 2003. This system enables an employee who has identified a worksite problem in potential violation of regulations or internal rules and who may find it difficult to report the problem to an immediate superior to directly report the problem to the Corporate Ethics Committee or to external contract lawyers. When a problem is identified under this system, the Corporate Ethics Committee conducts an investigation to establish the facts while protecting the identity of the employee who has reported it and takes appropriate action. In 2006, five cases were reported under this system.

Compliance Promotion System



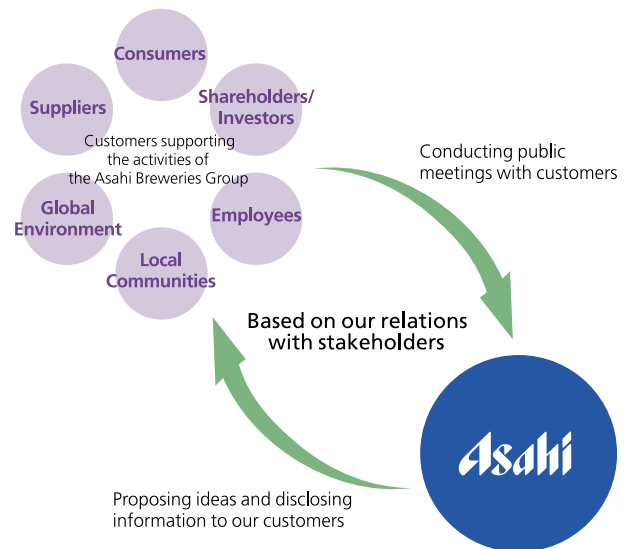
Corporate Social Responsibility (CSR)

The corporate activities of the Asahi Breweries Group are guided by our vision of bringing greater enjoyment and prosperity to people's lives through our food and health businesses, upholding our corporate philosophy of pursuing customer satisfaction.

We regard all our stakeholders, including shareholders, suppliers, communities and employees, as important "customers." We actively solicit feedback and comments on our activities and will take action to ensure we satisfy all our customers by communicating with them. We believe this continuing cycle of customer satisfaction (CS) and relations (R) enables the Asahi Breweries Group to fulfill its corporate social responsibility (CSR).

Today, these diverse customers expect more from us than just providing quality products. As a group, we strive to fulfill every aspect of our responsibilities to society and the environment and thereby earn public trust.

Based on this conviction, in 2003, the Group launched the CSR Committee, which reports directly to the President, and revised the Asahi Breweries Group Business Ethics Rule. In 2004, the Group laid out six priority CSR initiatives for the near future*, and the CSR Committee was joined by representatives of major Group companies, expanding it into the Group CSR Committee. In 2007, we will expand the scope of our CSR activities to the entire supply chain



and overseas businesses under the newly established CSR policy. Through active commitment to CSR, Asahi Breweries Group intends to live in harmony with society as a corporate citizen while promoting the sustainable development of the Group.

* Please see more details on the CSR activities of the Asahi Breweries Group on the corporate website.
URL: <http://www.asahibeer.co.jp/english/responsibility/index.html>

Asahi Breweries Group CSR Policy (revised in 2007)

The Asahi Breweries Group responds to customer expectations as a corporate group that contributes to people and society through the food and health businesses by fulfilling corporate responsibility to the environment and society in order to promote a sustainable society. We will pursue efforts in cooperation with our business partners considering both the entire supply chain and a global perspective.

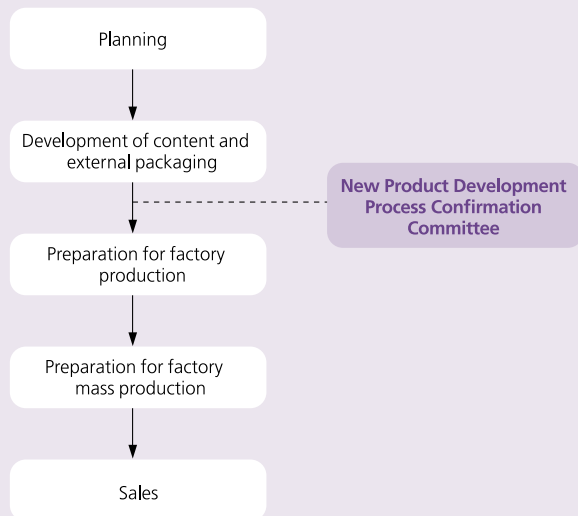
► Topics: Accomplishments for 2006

Established New Product Development Process Confirmation Committee

Asahi Breweries, Ltd. implements rigid quality control throughout the entire supply chain from raw material procurement and new product development to production, distribution and sales, in order to consistently provide safe and secure products to our customers. We established the New Product Development Process Confirmation Committee in June 2006 to further fortify our quality control system. Each related division tests and analyzes potential quality risks during new product development in terms of raw materials, container materials, content formula, manufacturing and labeling, to confirm compliance with internal standards and related regulations.

The establishment of the New Product Development Process Confirmation Committee has added a mechanism for assessing the appropriateness of quality risk control conducted by each related division. Committee members are not only drawn from the product development and R&D divisions that are central to product development but include staff from the production, material procurement, patent and legal affairs, and quality assurance divisions as well. Only products that have been approved by this committee, which functions as the final checkpoint in the development process, can proceed to production.

New Product Development Process



Introduced Post-Injury/Illness Reinstatement System for Employees

Asahi Breweries, Ltd. takes into account the mental health as well as the physical well-being of our employees and makes a concerted effort to establish structures and systems for providing consistent support from prevention and early detection to assistance when an injury or illness occurs and after returning to work by collaborating with in-house psychiatrists and medical specialists and utilizing external specialized medical institutions. Consequently, in May 2006 we introduced the Post-Injury/Illness Reinstatement System for Employees.

This system is intended to support the reinstatement of employees who take long-term absences or extended leaves from their job mainly due to mental illness. Concretely, we provide step-by-step support by temporarily assigning shorter hours (rehabilitation work) and we design working hours and responsibilities during the period, which correspond to the individual condition, in close collaboration with the employee's personal doctor and industrial physicians in the company.

Introduced Measures to Reduce Environmental Burden during Small-Lot Transport of Multiple Products

Asahi Breweries, Ltd. is also addressing environmental issues in the area of logistics through a group-wide effort to conserve resources and control CO₂ emissions. In 2006, we launched efforts in collaboration with our subsidiary Asahi Logistics Co., Ltd. to reduce the environmental burden associated with the small-lot transport of multiple products.

The measures are aimed at reducing the amount of packaging material used to transport palettes carrying a varied product mix in small lots by switching from conventional polyethylene film to Eco Band, a reusable fabric-based packaging material for transportation. At the same time, we are endeavoring to reduce CO₂ emissions by attaching RFID* tags to Eco Bands to improve sorting efficiency by forklifts inside warehouses. We began applying this method to the Tokyo-Nagoya transport segment in 2006 and will gradually extend it to other segments.

The effort is being promoted by the Ministry of Land, Infrastructure and Transport as well as the Ministry of Economy, Trade and Industry, as a "Fiscal 2007 Green Logistics Partnership Promotion Project."

* RFID (Radio Frequency Identification): Method or technology for relaying ID information embedded in IC tags through close-range radio transmission using electromagnetic or radio waves.

Board of Directors, Auditors, and Executive Officers

Board of Directors



Kouichi Ikeda
Chairman of the Board and
Chief Executive Officer



Hitoshi Ogita
President and
Chief Operating Officer



Masatoshi Takahashi
Senior Managing Director
and Senior Managing
Executive Officer



Yoshifumi Nishino
Senior Managing Director
and Senior Managing
Executive Officer



Masahiko Osawa
Managing Director and
Managing Executive
Officer



Naoki Izumiya
Managing Director and
Managing Executive
Officer



Kazuo Motoyama
Managing Director and
Managing Executive
Officer



Akiyoshi Koji
Managing Director and
Managing Executive
Officer



Shin Iwakami
Managing Director and
Managing Executive
Officer



Nobuo Yamaguchi
Director



Yukio Okamoto
Director

Auditors

Standing Corporate Auditors

Sugao Nishikawa
Yoshihiro Goto

Outside Auditors

Takahide Sakurai
Naoto Nakamura
Tadashi Ishizaki

Executive Officers

Senior Managing Executive Officers

Masaru Kuraguchi

Managing Executive Officers

Tsugiya Iwasaki
Masanori Kamenno
Nobukazu Yoshioka

Toshifumi Ishii
Yoshito Tomita
Yuji Ninomiya

Akira Matsunobu
Seikou Takahashi
Osamu Takahashi

Executive Officers

Nobuo Nagura
Masato Miyake
Fumio Yamasaki
Shigeru Hada
Kaoru Koi
Kenji Taniguchi
Katsuyuki Kawatsura

Makoto Sugiura
Masafumi Tanino
Yoshihisa Kitagawa
Muneshige Kinoshita
Shuji Fukushima
Noriyuki Karasawa
Toshihiko Nagao

Norifumi Hideshima
Naoki Morie
Norio Naito
Takayoshi Kanaya
Toshio Mori

(As of March 30, 2007)

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Review of Operations



Asahi at a Glance

The Asahi Breweries Group's business segments, as represented in their consolidated accounting, are alcoholic beverages, soft drinks, food and pharmaceuticals, and other businesses.

Entities that generate major profit for each segment are: Asahi Breweries, Ltd., for the alcoholic beverages business; Asahi Soft Drinks Co. Ltd., for the soft drinks business; and Asahi Food & Healthcare Co., Ltd. and Wakodo Co., Ltd., for the food and pharmaceuticals business.

Please refer to the comparison chart at the top of the next page. ➤



Net sales for business segments and Asahi business entities are as follows:

Segment

(¥ billion)	2006	2005	Year-on-year
Alcoholic beverages	1,007.6	1,025.4	-1.7%
Soft drinks	283.1	267.0	6.0%
Food and pharmaceuticals	53.8	25.3	112.7%
Other businesses	101.9	112.3	-9.2%
Total	1,446.4	1,430.0	1.1%

Company / Businesses

(¥ billion)	2006	2005	Year-on-year
Asahi Breweries	1,031.1	1,054.2	-2.2%
Asahi Soft Drinks	231.6	225.2	2.9%
Asahi Food & Healthcare	30.3	26.8	13.1%
Other (including cancellation/deletion)	153.4	123.8	23.8%
Total	1,446.4	1,430.0	1.1%

Business Outline

Manufacturing and sales of beers including domestic beers centered on *Asahi Super Dry* and international-brand beers; happoshu, the *Asahi Honnama* series and *Asahi Zeitaku-biyori*; and new genre beverages, *Asahi Gokuuma*, *Asahi Gubinama*, and *Asahi Shinnama 3*. In addition to such beer-type beverages, we also undertake manufacturing and sales of other alcoholic beverages including shochu, RTD (ready-to-drink) beverages, whisky and spirits, and wine.

In the overseas markets, we undertake the manufacturing and sales of *Asahi Super Dry* and local brand beers of joint ventures in China, the sales of *Asahi Super Dry* in ASEAN countries, as well as selling *Asahi Super Dry* in North America and Europe.

Asahi Soft Drinks Co., Ltd. carries out manufacturing and sales of canned coffee such as *WONDA* and tea-based beverages such as *Asahi Juroku-Cha* and *Asahi Wakamusha*, and soft drinks including *Mitsuya Cider* and *Bireley's*. We are also developing our chilled drinks business through two LB, Ltd. companies.

In overseas markets, we undertake the manufacturing and sales of soft drinks centering on the Chinese and Korean markets.

Asahi Food & Healthcare Co., Ltd. undertakes the development and sales of healthcare foods, processed foods, supplements, materials for processed seasonings utilizing processing technology for brewer's yeast, brewer's yeast-related products for the commercial-use and consumer markets, freeze-dried products and others. We also develop and sell healthcare foods through Sunwell Co., Ltd. as well as baby food and others through Wakodo Co., Ltd.

Highlights of the Year

- Achieved a record-breaking 49.7% share in the domestic beer market.
- *Asahi Prime Time* was launched for sale in the growing premium beers market.
- *Asahi Zeitaku-biyori* happoshu, and *Asahi Gubinama* and *Asahi Gokuuma* new genre beverages were launched for sale.
- Began bolstering production capacity in China.

- Asahi Soft Drinks Co., Ltd. increased revenues for the fourth consecutive year.
- Began strengthening the operational base for expanding our chilled drinks business.
- Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. is estimated to have leapt into second place among corporate groups in China's soft drinks market.

- Asahi Food & Healthcare Co., Ltd. reported steady growth in sales.
- Acquired stock of major domestic baby food maker Wakodo Co., Ltd. and transformed the company into a consolidated subsidiary.
- Transformed healthcare foods maker Sunwell Co., Ltd. into a consolidated subsidiary.

Business Outline and Review of Performance in 2006

In our other businesses, we undertake Group company sales support operations such as logistics and sales support businesses and operation of restaurants.

In 2006, we enhanced the profitability of our logistics business as a result of reorganizing and integrating Group companies. On the other hand, sales declined due to the reorganization of our real estate and wholesale businesses, and consequently total sales for other businesses decreased 9.2% year-on-year to ¥101,914 million. Operating income fell 15.1% year-on-year to ¥2,173 million.



Alcoholic Beverages Business

The alcoholic beverages business is the Asahi Breweries Group's mainstay business, which accounts for approximately 70% of consolidated sales.

With respect to beer-type beverages—beer, happoshu (low-malt beer) and new genre beverages (no-malt beer)*¹, which account for approximately 66%*² of the domestic alcoholic beverages market in Japan—we endeavor to strengthen our beer brands including *Asahi Super Dry*, which is ranked ninth*³ in terms of global market share, as well as the respective categories of happoshu and new genre beverages.

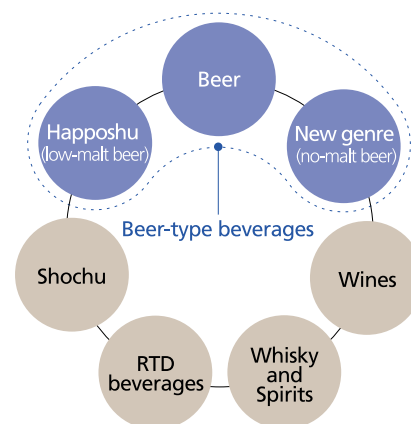
In categories other than beer, such as shochu, RTD beverages, wine, whisky and spirits, we respond to diversified customer needs by offering a broad lineup of products centered on our core brands.

Aware of its mission as the leader in the alcoholic beverages business, Asahi Breweries, Ltd. upholds the slogan of “Satisfying Customers with Great Tastes” and pursues product development and sales activities to provide customers with enjoyment and excitement.

In the overseas markets, we undertake the manufacturing and sales of *Asahi Super Dry* and local brand beers of joint ventures in China, the sales of *Asahi Super Dry* in ASEAN countries, as well as selling *Asahi Super Dry* in North America and Europe.

Major Group companies

- Asahi Breweries, Ltd.
- The Nikka Whisky Distilling Co., Ltd.
- Sainte Neige Wine Co., Ltd.
- Satsumatsukasa Shuzo Co., Ltd.



*¹ **Beer-type beverages:** Beer, happoshu and new genre beverages. Happoshu has low malt content and a correspondingly lower tax rate, making its pricing relatively lower than beer. New genre beverages are beer-flavored beverages that contain no barley or malt, with a tax rate that is even lower than happoshu under Japan's Liquor Tax Laws, and are therefore also priced lower. (Please refer to the graph on page 45 of the Fact Sheet for tax rates on beer-type beverages)

*² **Source:** National Tax Agency Statistics for 2006

*³ **Source:** Impact Databank 2006 Edition

Review of Consolidated Operations

Secured operating income comparable to the previous year despite a decline in sales

Market Trends

In the domestic market in 2006 for beer-type beverages—beer, happoshu (low-malt beer) and new genre beverages (no-malt beer)—total taxable shipments declined by 0.7% year-on-year. Amid harsh business conditions due to a revision in the Liquor Tax Law in May* and bad weather during the peak season, taxable shipments of new genre beverages rose 21.0%, while shipments of beer and happoshu stagnated, resulting in decreases of 2.0% for beer and 10.4% for happoshu. Consequently, in the total beer-type beverages market, beer accounted for 55.6%, happoshu 25.1% and new genre beverages 19.3%.

On the other hand, the respective markets for Otsu-type shochu and RTD beverages are estimated to have expanded by approximately 2%, respectively.

The combined share of all alcoholic beverages in the domestic market is estimated to have slightly decreased compared with the previous year.

* Please refer to the graph in page 45 of the Fact Sheets for the revised Liquor Tax Law.

Review of Performance

Total sales for the alcoholic beverages business for 2006 decreased 1.7% from 2005 to ¥1,007,558 million, while operating income increased 0.1% to ¥78,186 million.

Beer-type Beverages

Fiscal 2006 marked the final year of the Second Medium-Term Group Management Plan, and we concentrated our efforts on achieving growth in beer-type beverages, which constitute the core of our business. With respect to beer, we appealed to the freshness of *Asahi Super*

Dry and sought to strengthen sales of draft beer kegs for commercial-use. In June, we launched *Asahi Prime Time* in the expanding market for premium beers. Taxable shipments of beer amounted to 13,758 cases, and we achieved a record-high 49.7% market share (taxable shipment basis).

In the happoshu and new genre market, we endeavored in February to bolster our *Asahi Honnama* brand by enhancing the taste and packaging quality of the three products in the series and implemented marketing measures in concert with consumer campaigns and advertisement. In addition, we launched a new product, *Asahi Zeitaku-biyori*, in November.

In the new genre market, we focused on developing new products to meet diversified customer preferences, launching *Asahi Gubinama* in May and *Asahi Gokuuma* in October.

Shochu, RTD beverages, Whisky and Spirits, Wine

In the shochu market, we launched two new products under the *Satsuma Tsukasa* brand and invested management resources into promoting brands such as *Kanoka*, *Daigoro* and *SAZAN*.

With respect to RTD beverages, we implemented additional promotion efforts, primarily for our core brands of *Asahi Cocktail Partner* and *Asahi Shunka Shibori*. We also introduced new products such as *Asahi Hon Chu-Hi* toward creating new demand.

With respect to whisky and spirits, we strengthened the development of core brands such as *Taketsuru Pure Malt* whiskey and *Black Nikka Clear Blend*, while also pursuing aggressive sales and marketing activities for the single malt *Yoichi* and the renewed *Tsuru 17-Years*.

With respect to wine, we pursued sales and promotion measures centered on our *Antioxidant-Free Organic Wine* and *Antioxidant-Free Organic Wine Monogatari* brands, while seeking to develop the *Sainte Neige* brand by launching *Sainte Neige Excellante*, and sought to expand sales of imported wine by offering a varied lineup of



Asahi Super Dry



Asahi Prime Time

Premium beer that offers a new drinking experience and "prime time" enjoyment.
Sales launch: June 2006



Asahi Honnama Draft

Happoshu offers the pleasures of genuine taste sought by high-volume consumers.
Sales launch: February 2007



Asahi Honnama Aqua Blue



Asahi Style Free

The industry's first-ever sugar-free happoshu*.
Sales launch: March 2007



Asahi Zeitaku-biyori

Happoshu for adults that brings luxury into everyday life.
Sales launch: November 2006



Asahi Gokuuma

New genre product that realizes an unprecedented "rich taste."
Sales launch: October 2006



Asahi Gubinama

New genre product that seeks to offer an "easy drink with a subdued bitterness."
Sales launch: May 2006

* Based on nutrition labeling standards, sugar content of less than 0.5g (per 100ml) is indicated as "zero sugar content."

products, such as *Baron Philippe* and *Gancia*.

As a result, total sales for alcoholic beverages, excluding beer-type beverages, increased 1.5% year-on-year to ¥135,314 million.

Overseas Alcoholic Beverages Business

In our overseas alcoholic beverages business, we sought to expand business centered on China and other regions of Asia and consequently succeeded in steadily expanding the sales volume of our beer joint ventures in China. We were also able to enhance our market position in the Asian region by aggressively developing markets in ASEAN countries. In the Chinese market, we began reinforcing production capacity toward achieving growth beyond 2007.

In Europe, we signed a licensing agreement with Shepherd Neame Limited in the United Kingdom and strengthened our base for a full-scale entry into the market for commercial-use keg beer.

Targets and Strategies

Raising the standing of the beer-type beverages market

In the beer-type beverages market for 2007, while the shift to low-priced products is expected to decelerate compared with 2006, we are projecting beer and happoshu to decline by roughly 2% and 3%, respectively, and new genre beverages to rise by about 5%. With respect to beer consumption, customers are selecting products based on their recognition of the characteristics of each category; we expect this trend will become even more pronounced. We also expect even greater interest in premium beers and that the beer market will be revitalized through aggressive marketing measures by beer companies.

In the overseas market, we expect consumption to rise in China in advance of the 2008 Beijing Olympics as well as in other Asian countries where the ASEAN Free Trade Area and other developments are likely to encourage economic growth.

Performance Outlook and Strategies for the Alcoholic Beverages Business

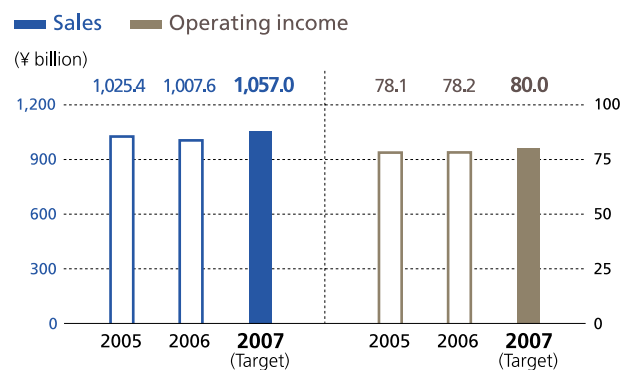
In 2007, we intend to achieve performance targets of ¥1,057.0 billion in sales (up 4.9% year-on-year) and ¥80.0 billion in operating income (up 2.3% year-on-year).

In the domestic alcoholic beverages market, we are planning to achieve total sales of ¥935.0 billion (up 4.6% year-on-year) for beer-type beverages. To do so, we will further strengthen the position of beer-type beverages as a whole, centered on *Asahi Super Dry*.

In concrete terms, with respect to beer, we will launch a comprehensive marketing campaign "Challenge 2007" (see page 18), which encompasses the promotion of products, advertisement and sales to commemorate the 20th anniversary of the introduction of *Asahi Super Dry*. In the premium beer market, which is attracting growing interest, we will emphasize the uniqueness of products including *Asahi Prime Time*, which was introduced in 2006, and *Asahi Premium Draft Beer Jukusen*, a strategic commercial-use product which has enjoyed steady support since its release in 2004.

With respect to happoshu, we will refresh our product lineup to respond to diversified customer needs. To meet the demand for rich, satisfying flavor, in February 2007 we will launch *Asahi Honnama Draft* into the standard

Targets for sales and operating income (consolidated basis)



product area, which constitutes the core of the market, in addition to *Asahi Zeitaku-biyori*, which went on sale in November 2006. In March 2007, we will also begin sales of *Asahi Style Free* as a new product for health-conscious customers.

In the new-genre beverage field, we will respond to expanding consumer preferences around our three pillar brands developed in 2006.

We intend to raise total sales of domestic alcoholic beverages, excluding beer-type beverages—shochu, RTD, whiskey and spirits, wine—by 3.5% to ¥140.0 billion. We will strive to further strengthen the core brands we have developed thus far and pursue original product development measures.

In addition to these product strategies, we will also take action to bolster cost competitiveness from the perspective of the entire group and reform our profitability structure. To spearhead this move, starting March 2007 we plan to take the first steps towards multi-product production at the Asahi Breweries Ibaraki Brewery toward optimizing the Group's production and logistics system for the Kanto area.

Meanwhile, in our overseas alcoholic beverages business, we will maintain momentum in expanding our business base and strengthening profitability in the priority market of China and other Asian countries. In China, we will seek growth and enhanced profitability for our existing affiliates by expanding business in the Beijing market in advance of the Olympics and in the south China region where our new brewery is scheduled for construction. We will concurrently seek to further solidify our foothold for the *Asahi Super Dry* brand in the fast-growing premium beer markets in ASEAN countries, Taiwan and South Korea.

► Topics

"Challenge 2007" Comprehensive Marketing Activities

We will seize the occasion of *Asahi Super Dry*'s 20th anniversary to pull the entire beer market forward by powerfully appealing to its brand value.

* For an outline of "Challenge 2007," please see page 18.



► Topics

Multi-Product Production at Asahi Breweries Ibaraki Brewery

Over the next three years through 2009, the Asahi Breweries Group plans to introduce manufacturing facilities for low-alcoholic beverages and soft drinks at Asahi Breweries, Ltd.'s Ibaraki Brewery (Moriya, Ibaraki Prefecture), which currently produces beer-type beverages. In addition, Asahi Soft Drinks Co., Ltd.'s logistics functions will be integrated into the Ibaraki Brewery to enhance logistics efficiency for the entire Group. We are seeking, through these steps, to optimize production and logistics systems for both alcoholic beverages and soft drinks businesses in the Kanto region and expect to reduce annual costs by ¥5 billion for the entire Group. To develop this new system, Asahi Breweries, Ltd. will make the required total investment ¥22.5 billion over the three-year period.



Sales plan and actual results by alcoholic beverage category (Asahi Breweries, Ltd.)

	2006				2007		
	Target* (¥ billion)	Actual sales results (¥ billion)	Year-on-year	Year-on-year growth of overall market (estimate)	Target (¥ billion)	Year-on-year	Year-on-year growth of overall market (projection)
Beer-type beverages (total)	931.0	893.9	-2.8%	Approx. -1%	935.0	4.6%	Approx. -1%
Beer	746.4	718.1	-1.1%	Approx. -2%	728.2	1.4%	Approx. -2%
Happoshu (low-malt beer)	107.6	108.6	-26.3%	Approx. -10%	122.6	12.9%	Approx. -3%
New genre (no-malt beer)	77.0	67.2	46.5%	Approx. +21%	84.2	25.4%	Approx. +5%
Beverages other than beer (total)	140.0	135.3	1.5%		140.0	3.5%	
Shochu	60.0	57.2	3.8%		60.5	5.8%	±0%
RTD	35.0	32.7	0.2%		34.0	3.8%	+1%
Whisky and spirits	27.5	27.4	-2.8%		27.5	0.2%	-1%
Wine	15.0	15.1	4.4%		15.5	2.9%	±0%
Other	2.5	2.9	-0.9%		2.5	-13.6%	
Total	1,071.0	1,029.2	-2.3%		1,075.0	4.5%	

* As announced on August 4, 2006.



Soft Drinks Business

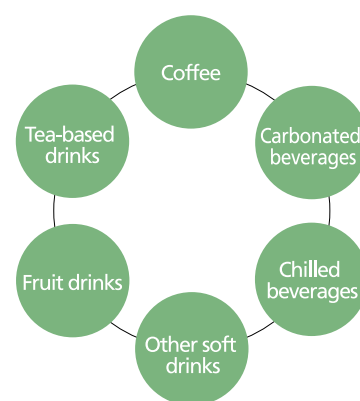
The soft drinks business accounts for approximately 20% of the Asahi Breweries Group's consolidated sales.

Asahi Soft Drinks Co., Ltd., our major Group company, boasts core brands that enjoy strong customer support, including *WONDA* canned coffee, *Mitsuya Cider* carbonated beverage and tea-based beverage *Asahi Juroku-Cha*. It also actively promotes new products for health-conscious consumers such as *Asahi Super H₂O* and *Asahi Fujisan no Vanadium Tennensui* (Vanadium Natural Mineral Water from Mt. Fuji). Along with strategies for these products and in close collaboration with Group companies, Asahi Soft Drinks Co., Ltd. is focusing on reforming its profit structure by reducing production costs and promoting the development of an efficient production and distribution structure.

The Asahi Breweries Group is also striving to enter and expand in the chilled beverage business, led by main corporations LB, Ltd. (Hasuda, Saitama) and LB, Ltd. (Tokai, Aichi), which were acquired in 2005.

Major Group companies

- Asahi Soft Drinks Co., Ltd.
- LB, Ltd. (Hasuda, Saitama)
- LB, Ltd. (Tokai, Aichi)



WONDA



Mitsuya Cider



Asahi Juroku-Cha



Asahi Shokujito Isshoni
Juroku-Cha

Blended tea containing dietary fiber, which is useful for improving the daily diets of those who are concerned about rising blood sugar levels.

[Specified Health Food]
Sales launch: February 2006



Asahi Gyu-gyu-tto
Shimikomu Collagen Water

Sugar-free soft drink with zero calories that facilitates the convenient intake of collagen.

Sales launch: November 2006



Chilled soft drinks

Review of Consolidated Operations

Growth in revenues achieved for the fourth consecutive year

Market Trends

In the domestic soft drinks market for 2006, while makers pursued aggressive sales promotion campaigns, shipments for the overall market are expected to have decreased 1% year-on-year due to factors including the effects of atypical weather conditions in the peak season. Despite these conditions, shipments at Asahi Soft Drinks Co., Ltd. totaled 121.7 million cases, rising 4.2% year-on-year and exceeding the growth level of the overall industry.

Review of Performance*

In 2006, sales in the soft drinks business rose 6.0% year-on-year to ¥283,121 million, marking four consecutive years of sales growth. Meanwhile, operating income fell 10.3% to ¥7,746 million, due in part to the slumping performance of overseas soft drinks company Haitai Beverage Co., Ltd.

* Please refer to pages 60—61 (MD&A) for details.

Domestic Soft Drinks Business

In the domestic soft drinks market, Asahi Soft Drinks Co., Ltd. continued to promote its growth strategy and structural reforms.

In terms of products that constitute the pillar of its growth strategy, we continued to promote the strengthening and expansion of core brands *WONDA*, *Mitsuya* and *Asahi Juroku-Cha*. We were also aggressive in developing and proposing new products.

In the area of structural reform, we sought to further enhance our profit structure by reducing production costs, improving the efficiency of expenses related to automatic vending machines and starting work on the development of an optimal production and distribution structure for Group collaboration.

In the chilled beverages business, we designated 2006 as the year for seeking renewed growth for LB, Ltd. (Hasuda, Saitama) and LB, Ltd. (Tokai, Aichi), which were transformed into consolidated subsidiaries in 2005, and endeavored to bolster their operational foundations.

Overseas Soft Drinks Business

In the overseas markets, we sought to expand our business centered on Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. an equity-method affiliate based China, and Haitai Beverage Co., Ltd., a consolidated subsidiary in South Korea. We were particularly successful in China, where favorable sales of tea-based drinks and mineral water boosted performance, and were able to significantly enhance productivity and profitability.

Targets and Strategies

Reinforcing core brands and nurturing brands in high-growth categories

We expect the domestic soft drinks market to remain at approximately the same level year-on-year in 2007.

Against this backdrop, the Asahi Breweries Group will target ¥263.0 billion in net sales and ¥10.7 billion in operating income for the entire soft drinks business.

In the domestic market, Asahi Soft Drinks Co., Ltd. will add challenging new initiatives to its basic strategy of growth and structural reforms, and strive to strengthen competitiveness. In terms of products—the key element of growth strategy—the Company will continue strengthening its core brands *WONDA* and *Mitsuya* while also nurturing *Asahi Wakamusha*, *Asahi Super H₂O* and *Asahi Fujisan no Vanadium Tennensui*. We will also seek to propose products that meet the needs of customers and mass marketing outlets.*

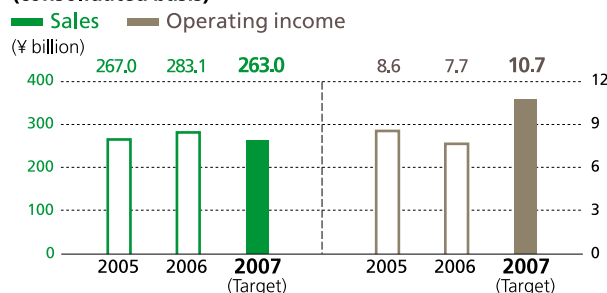
With respect to structural reforms, we began developing an optimal production and distribution structure for Group collaboration. All our divisions remain firmly committed to cost reductions such as bringing down manufacturing costs through the in-house manufacturing of PET bottles.

Recognizing the chilled drinks business as a new growth area, we will seek to expand the scale of our business centered on our two core LB, Ltd. corporations. To that end, we will integrate the chilled drinks operations of Asahi Soft Drinks Co., Ltd. and LB, Ltd. in April 2007, and will strengthen the entire operational base for production and sales encompassing product development, SCM and sales activities by seeking synergies with Group companies.

In our overseas soft drink business, we will strengthen management support toward achieving stable growth for Haitai Beverage Co., Ltd. in South Korea. With respect to fast-growing Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. in China, we will support further growth by drawing upon the technological strengths and management expertise of the Asahi Breweries Group.

* For the sales plan of Asahi Soft Drinks Co., Ltd., please refer to page 67 (MD&A).

Targets for sales and operating income (consolidated basis)





Food and Pharmaceuticals Business

The food and pharmaceuticals business accounts for 3.7% of the Asahi Breweries Group's consolidated sales. In addition to Asahi Food & Healthcare Co., Ltd., our major Group company, Wakodo Co., Ltd. and Sunwell Co., Ltd.—two new members of the Group—provide secure, safe and high-quality products by taking full advantage of their respective strengths to expand business.

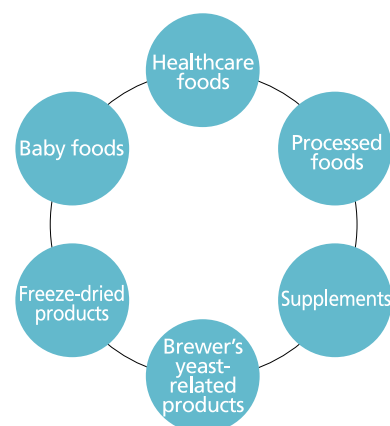
Asahi Food & Healthcare Co., Ltd. supports the healthy and affluent lifestyles of our customers through products such as *MINTIA* breath mint tablets and *BALANCEUP* nutritionally balanced snack bars.

Wakodo Co., Ltd., which joined the Group in 2006 following a tender offer for its stock, is a pioneer in the domestic market for childcare products. The company is involved in the development and sales of products such as baby food and milk for infants.

Sunwell Co., Ltd., which was transformed into a consolidated subsidiary in 2006, provides many highly safe healthcare foods that use natural plant ingredients as raw material.

Major Group companies

- Asahi Food & Healthcare Co., Ltd.
- Wakodo Co., Ltd.
- Sunwell Co., Ltd.



MINTIA
Breath Mint Tablets



BALANCEUP



Dear-Natura

A supplement series with 30 choices, each one a unique mix of 24 different supplements for children and adults selected according to age and purpose.
Sales launch: April 2007



Slim Up Slim

Dieting support health food product that can be consumed as a meal while providing benefits in terms of beauty care.
Sales launch: April 2006



EBIOS

Review of Consolidated Operations

Two new consolidated subsidiaries added

Review of Performance

Bolstered by the addition of sales by two companies newly transformed into consolidated subsidiaries, sales in the food and pharmaceuticals business in 2006 rose 112.7% year-on-year to ¥53,792 million. On the other hand, operating income fell 44.7% to ¥445 million due to the burden of writing off consolidated adjustment accounts.

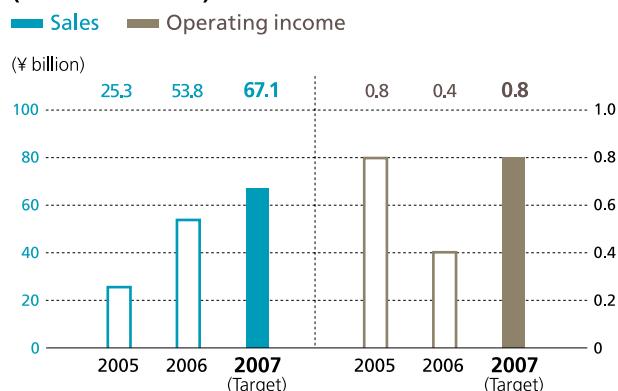
In 2006, Asahi Food & Healthcare Co., Ltd. endeavored to expand its business and strengthen its operational base through the basic strategies of growth, structural reform and assurance of safety and security.

The Company sought to strengthen its core products—*MINTIA* breath mint tablets, *BALANCEUP* nutritionally balanced snack bars, *EBIOS* quasi-drug and *Actio* supplement tablets—launched *Slim Up Slim* diet support food and took on the challenge of establishing its brands in new areas.

We also achieved steady sales growth and managed to transform into a profitability-oriented structure by introducing new products and expanding marketing channels for the food product material business, such as freeze-dried ingredients and brewer's yeast extracts, and for the direct marketing business.

Toward achieving exponential growth for the food and pharmaceuticals business and to expand operational bases for new businesses, the Asahi Breweries Group acquired the stock of leading baby food maker Wakodo Co., Ltd. through a tender offer, transforming the company into a consolidated subsidiary. Sunwell Co., Ltd., which undertakes health food businesses, also became a consolidated subsidiary in 2006.

Targets for sales and operating income (consolidated basis)



Targets and Strategies

Expanding business by fully leveraging the strengths of Group companies

In 2007, we are targeting net sales of ¥67.1 billion (up 8.2% year-on-year) and operating income of ¥800 million (up by ¥400 million year-on-year) for the food and pharmaceuticals business.

We will strive to dramatically expand the scale of this business through synergies with Asahi Food & Healthcare Co., Ltd., Wakodo Co., Ltd. and Sunwell Co., Ltd. and by bolstering their respective R&D and product development capabilities.

Asahi Food & Healthcare Co., Ltd. will continue seeking to expand sales of mainstay products such as *MINTIA* and *BALANCEUP* based on the basic principles of growth strategy, structural reform and assurance of safety and security. The Company will also endeavor to establish itself as a key brand in the areas of supplements and diet support foods through new products including *Dear-Natura* and *Slim Up Slim*. It will also continue to present attractive new, high added-value products in the areas of brewer's yeast extracts, freeze-dried ingredients and specialized products for catalog marketing.

Wakodo Co., Ltd. will fully leverage its position as the top baby food maker to further reinforce its brand in the area of products for infants. At the same time, the Company will focus on new product development utilizing the technologies of Asahi Food & Healthcare Co., Ltd., consider and execute a full-scale entry into the business areas of food products for infants and for the elderly, as well as developing overseas operations.

Topics

Wakodo Co., Ltd.

Leading baby food maker with over half a century of history since its establishment in 1953. The company joined the Group as a consolidated subsidiary of Asahi Breweries, Ltd. on May 19, 2006.

Sales results and projections at major Group companies

(¥ billion)	2006 (Actual results)	2007 (Target)	Year-on-year
Asahi Food & Healthcare Co., Ltd.	30.3	32.5	7.2%
Wakodo Co., Ltd.	24.0	32.9	37.0%
Sunwell Co., Ltd.	1.4	1.7	24.4%

* Sales for Wakodo Co., Ltd. are actual results for the April to December period.

Overseas Business

Asia

Sales centers:

- Asahi Breweries, Ltd.
- Asahi Beer (Shanghai) Product Services Co., Ltd.
- Lotte Asahi Liquor Co., Ltd.

Production centers:

- Beer
- Soft drinks (Tingyi-Asahi-Itochu Beverages Holding Co., Ltd.)
- Soft drinks (Qingdao Tsingtao Beer & Asahi Beverage Co., Ltd.)
- Soft drinks (Haitai Beverage Co., Ltd.)



Beijing Beer



Asahi Kampai

The Asahi Breweries Group produces and sells beer and soft drinks in Asia led by China, the top priority region, North America and Europe.

In the fast growing Asian market centered on China, we are aggressively pursuing business strategies including M&A and business alliances toward expanding our operational base and enhancing profit.

Beer Business in China

In China, the largest beer consuming country in the world, we have been steadily expanding our operations since we began participating in the management of a Chinese beer company in a joint venture with Itochu Corporation in 1994. We currently operate four joint venture companies, including Beijing Beer Asahi Co., Ltd. We produce and sell the *Asahi Super Dry* brand, which belongs to a premium beer category, as well as local brands in a standard beer category that constitutes the majority of demand. In 2006, we were able to build a firm growth base for our local beer affiliates by opening a new Chinese Head Office in Beijing as one of our Headquarters to accelerate decision making. The total production volume for beer companies in which we have invested reached 637,000

kiloliters in 2006.

We will follow this up with the completion and commencement of operation of a new brewery for Hangzhou Xihu Beer Asahi Co., Ltd., scheduled for May 2007. In accordance with our strategy to increase beer sales dramatically, Beijing Beer Asahi Co., Ltd. will double production capacity to 100,000 kiloliters by building an additional production facility, which will be completed in April 2007 (construction started in July 2006).

Production volume and sales: 637,000 kiloliters (actual result for 2006)

Business model: Joint ventures through capital participation in Chinese beer companies

Business corporations (joint venture companies): Hangzhou Xihu Beer Asahi Co., Ltd., Beijing Beer Asahi Co., Ltd., Yantai Beer Asahi Co., Ltd., Shenzhen Tsingtao Beer Asahi Co., Ltd.

Beer Business in Asia Excluding China

We are working to increase sales of *Asahi Super Dry* as a premium beer in East Asia, Southeast Asia and Oceania, where import duty tariffs are gradually being lowered or abolished under the formation of AFTA (ASEAN Free Trade Area). In Taiwan, the launch of *Asahi Kampai* has been a major success. To strengthen our operations in Asia and Oceania, we are promoting stronger sales in the area centered on the regional office established in Bangkok, Thailand, in 2005.



Soft Drinks Business in China and South Korea

We produce and sell various soft drinks through joint ventures with Chinese companies. We are seeking to further expand our profit base by providing support to the joint ventures in the areas of marketing, technology and business strategy.

In 2006, Tingyi-Asahi-Itochu Beverages Holding Co. Ltd. in China achieved quite high sales growth exceeding that of average of the entire soft drinks industry, and the Group might leap into second place in the industry.

With respect to our soft drinks business in South Korea, consolidated subsidiary Haitai Beverage Co., Ltd. will pursue aggressive marketing activities in 2007 for the growth categories including tea and water in addition to the powerful category of fruits juice while concurrently working on improving its profit structure.

Products manufactured and sold: bottled water, tea-based beverages, fruit juice, carbonated drinks (in South Korea only) and other soft drinks

Business corporations: Qingdao Tsingtao Beer & Asahi Beverage Co., Ltd. (joint venture between Tsingtao Breweries Group and Asahi Breweries, Ltd.), in Shandong, China; Tingyi-Asahi-Itochu Beverages Holding Co. Ltd. (joint venture between Tingyi Holding Corporation, Asahi Breweries, Ltd. and Itochu Corp.), in the Cayman Islands; and Haitai Beverage Co., Ltd. (consolidated subsidiary of Asahi Breweries, Ltd.), in Seoul, South Korea

Beer Business in North America

We emphasize profitability in our marketing activities by focusing on the West Coast, Hawaii and eastern metropolitan areas, including New York, where large Japanese markets are located. In 2005, we began selling *Asahi Select*, which has been well received.

Products manufactured and sold: *Asahi Super Dry*, *Asahi Select*
Production under license: Molson Canada Ltd., Vancouver, Canada

Beer Business in Europe

We sell *Asahi Super Dry* in Europe with a focus on the U.K. market, where demand for foreign beer is high, as well as in the Japanese and Asian beer market segments in France and Russia. In September 2005, we began production of *Asahi Super Dry* at Shepherd Neame Ltd., in the United Kingdom. In 2006, we signed a licensing agreement for assigning sales and marketing in the U.K. to launch a full-scale entry into the market for commercial-use keg beer, which accounts for a greater proportion of consumption.

Product manufactured and sold: *Asahi Super Dry*
Production under license: Shepherd Neame Ltd. (Kent, U.K.), Staropramen Brewery (Prague, Czech Republic)

Research & Development



The Asahi Breweries Group seeks to expand on the technological skills related to alcoholic beverages and soft drinks we have cultivated over the years while also concentrating its R&D efforts on creating products, services and new businesses that will contribute to food and health.

Our laboratories closely collaborate toward attaining our Group's long-term vision—to become the leading company with high growth potential by continuously offering lifelong enjoyment and excitement in the business domains of food and health.

R&D Headquarters

Fundamental Research Laboratory

- Functional research of food materials, research into technologies for utilizing microorganisms and new technologies
- Research into efficient utilization of byproducts, research related to environmental purification
- Provision of safety test results for products from Group companies to relevant divisions

Development Laboratory for New Business

- Product and business development based on research results from laboratories
- Development of new products and related technologies based on food, pharmaceuticals and related products in collaboration with Group companies
- Research and development for maintaining and enhancing the quality of food, pharmaceuticals and related products

Engineering & Technology Development Laboratory

- Research and development on containers, packaging and supplies
- Research and development on machinery, testing equipment and environment-related technologies

Product & Technology Development Headquarters

Brewing Research and Development Laboratory

- New product development related to alcoholic beverages, raw material research and development, and the brewing process

Analytical Technology Laboratory

- Development and improvement of analytical methods and sensory inspection for quality assurance
- Provision of information gained from analysis and sensory inspection to individual divisions

Packaging Research and Development Laboratory

- Development of containers and packaging materials, testing, and cost verification

Major R&D Accomplishments in 2006

We developed the technology for producing biomass ethanol using high biomass sugarcane cultivar as a material in a joint research effort with the National Agricultural Research Center for Kyushu Okinawa Region, and conducted a pilot plant verification test on Ie Island, Okinawa Prefecture. Our efforts were widely covered by the media and attracted public attention.



Ethanol-blended gasoline station

Through our accumulated research on apple polyphenol, we discovered its effectiveness in reducing visceral fat and improving blood flow and presented our findings at the Japan Society for Bioscience, Biotechnology and Agrochemistry. Apple polyphenol is being incorporated into health foods as Applephenon®, our proprietary functional ingredient.



Applephenon® powder

We were the first in the world to establish the technology for a liquid culture system for making practical use of *Aspergillus oryzae*, which plays an important role in the production of shochu. The technology has been awarded a domestic patent, and international patents are pending. We presented the results of this research to the Japan Society for Bioscience, Biotechnology and Agrochemistry in March 2006 and to the Society for Biotechnology, Japan in September 2006.



Aspergillus oryzae by liquid culture system

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52	Evaluation by External Research Institutions

Fact Sheets



Global beer market

1 Beer consumption—top 10 countries*¹

(Millions of barrels)

	1990	1995	2000	2001	2002	2003	2004	2005
China	59.0	132.4	190.2	193.8	203.2	211.2	240.6	260.9
United States	193.0	185.9	196.1	196.3	198.1	198.1	199.7	199.9
Germany	96.8	94.6	87.9	86.0	85.5	82.8	81.5	81.0
Brazil	46.4	68.2	70.4	71.5	73.9	72.4	74.4	77.9
Russia	28.5	16.8	47.1	52.0	57.2	63.1	70.1	74.3
Japan*²	56.7	60.8	60.5	60.7	59.1	56.1	56.4	53.9
United Kingdom	55.5	50.4	48.6	49.6	50.6	51.4	50.4	49.9
Mexico	31.5	34.8	42.9	43.6	43.6	45.1	46.4	48.3
Spain	24.1	23.0	24.8	26.5	26.2	28.5	29.4	30.0
Poland	9.6	12.9	19.0	20.7	22.8	24.2	24.9	26.2

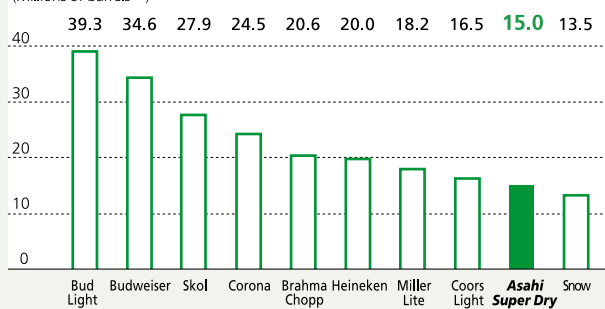
*¹ Excludes non-alcoholic brews.

*² Includes happoshu and new genre.

Source: Impact Databank 2006 Edition

2 World's top 10 beer brands*¹ in 2005

(Millions of barrels*²)



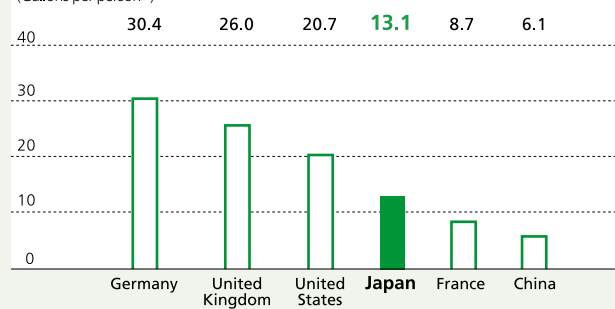
*¹ Includes exports and license volume.

*² One U.S. barrel = 1,173,477,653 hectoliters.

Source: Impact Databank 2006 Edition

3 Per-Capita beer consumption in major nations

(Gallons per person*)

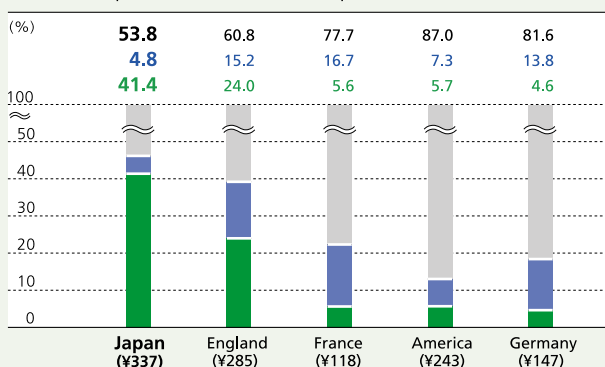


* Based on total population. One U.S. gallon = 3.785 liters.

Source: Impact Databank 2006 Edition

4 Ratio of liquor tax and consumption tax in retail prices for beer in major nations

Ratio of liquor tax Ratio of consumption tax



Source: Brewers Association of Japan (June 2006)

Notes: 1. Cash values (liquor tax, consumption taxes, retail price) shown in yen per 633 milliliters.

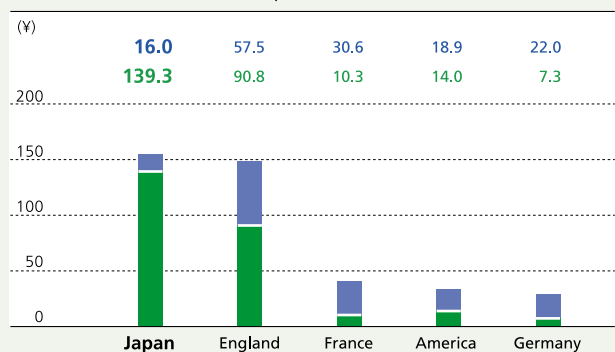
2. Foreign exchange rates were: € = ¥144.9; U.S.\$1 = ¥112.42; £1 = ¥210.45 (based on TTM rate as of June 30, 2006).

3. Consumption tax represents the consumption tax in Japan, value-added tax in European countries, and retail sales tax in the U.S.

4. Figures for the U.S. based on survey conducted in New York City.

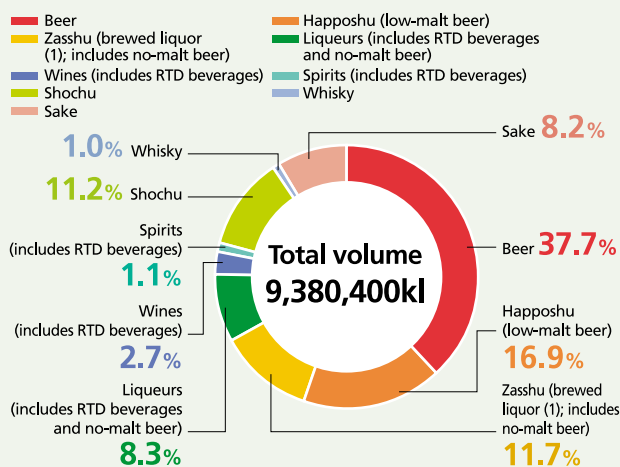
5 Beer tax and consumption tax in major nations

Beer tax amount Consumption tax amount



Japan's alcoholic beverages market

6 Taxable shipment volume in Japan



* Compiled from National Tax Agency reference materials.

7 Comparison of liquor taxes per 350 milliliters of beer-type beverages



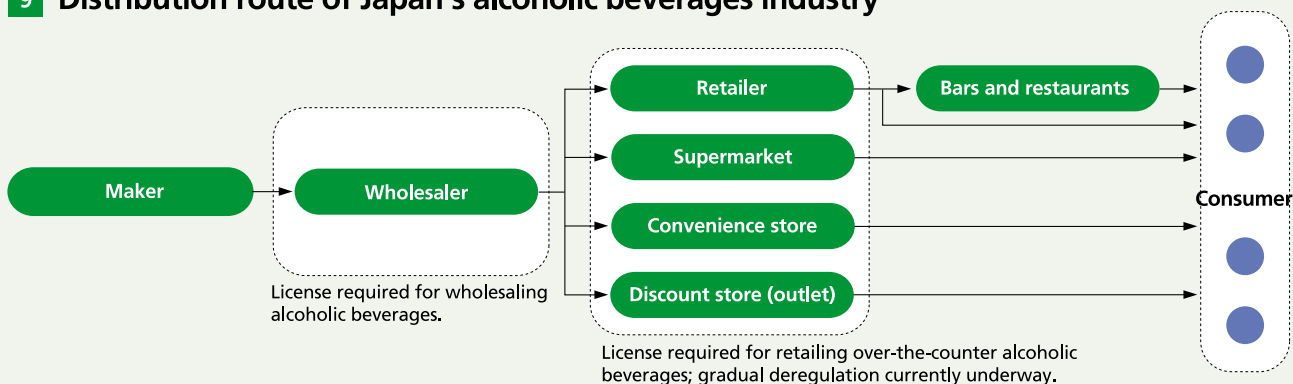
* Shop prices at a leading convenience store chain

8 Comparison of liquor taxes per 350 milliliters

Alcoholic beverages	Malt component ratio	Alcohol content	Tax amount before revision of the Liquor Tax Law (Yen)	Change (Yen)	Tax amount after revision of the Liquor Tax Law (Yen)
Beer*	67% and above	5.0%	77.7	-0.7	77.0
Happoshu (low-malt beer)*	Below 25%	5.5%	47.0	0	47.0
Liqueurs (no-malt beer)*	0%	5%	27.8	0.2	consolidated to 28.0
Zasshu (no-malt beer)*	0%	5%	24.2	3.8	
Liqueurs (canned chu-hi)	—	7%	27.8	0.2	
Sparkling Wine (low-alcohol)	—	8%	16.4	11.6	
Wines	—	12%	24.7	3.3	28.0

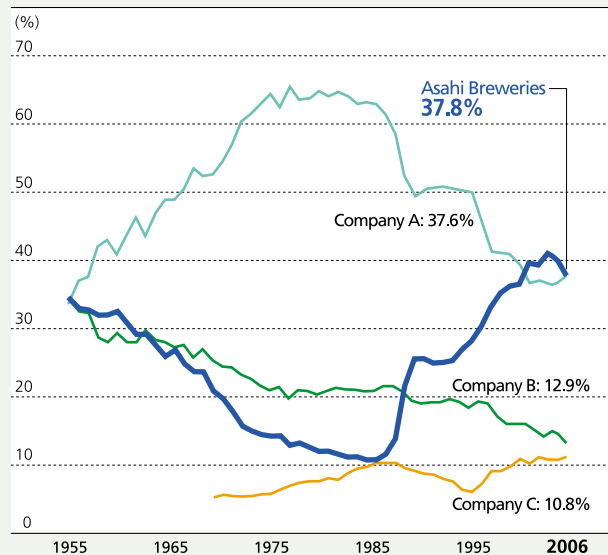
* Beer-type beverages: their tax amounts are derived from representative products in the market.

9 Distribution route of Japan's alcoholic beverages industry



Market Information

10 Beer, happoshu and new genre: market share in Japan by major company



Source: Asahi Breweries, Ltd.

11 Beer, happoshu and new genre: shipment volume in Japan (January—December 2006)

Asahi Breweries

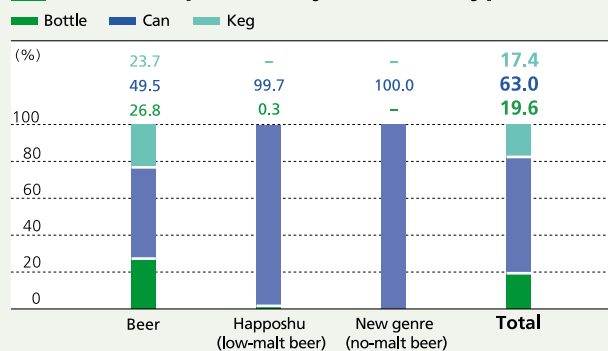
	Volume	Year-on-year change (%)	Market share (Increase/Decrease)
Beer	137.58	-1.7 (-1.2%)	49.7% (+0.4%)
Happoshu (low-malt beer)	29.46	-10.53 (-26.3%)	23.6% (-5.1%)
New genre (no-malt beer)	21.10	+5.91 (+38.9%)	22.0% (+2.9%)
Total	188.14	-6.32 (-3.2%)	37.8% (-1.0%)

Industry overall

	Volume	Year-on-year change (%)	Breakdown (Increase/Decrease)
Beer	276.63	-5.71 (-2.0%)	55.6% (-0.8%)
Happoshu (low-malt beer)	124.78	-14.48 (-10.4%)	25.1% (-2.7%)
New genre (no-malt beer)	96.09	+16.67 (+21.0%)	19.3% (+3.4%)
Total	497.50	-3.52 (-0.7%)	100.0% (—)

Asahi Breweries beer and happoshu sales

12 Sales composition by container type in 2006



Year-on-year sales ratio, by container type (2006/2005)

	Bottle	Can	Keg	Total
Beer	-5.9%	-0.4%	+2.7%	-1.2%
Happoshu (low-malt beer)	-23.7%	-26.4%	—	-26.4%
New genre (no-malt beer)	—	+41.9%	—	+41.9%
Total	-5.9%	-3.7%	+2.7%	-3.1%

13 Sales composition by marketing channel

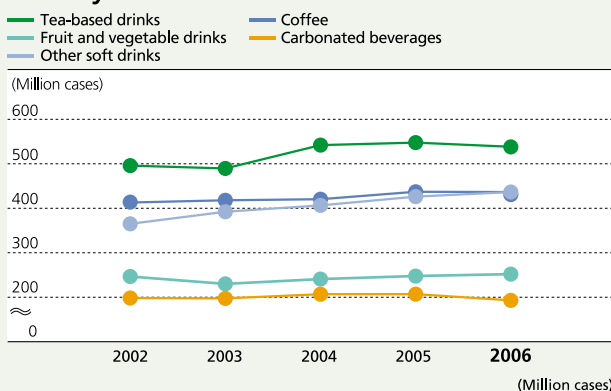
	2005 results			2006 results		
	Beer	Happoshu and new genre (total)	Total	Beer	Happoshu and new genre (total)	Total
Convenience stores	9.8%	16.6%	11.7%	9.6%	14.8%	11.0%
Supermarkets	14.0%	37.0%	20.4%	14.9%	37.7%	21.0%
Discount stores (outlets)	18.8%	23.6%	20.2%	18.7%	24.6%	20.3%
Mass-retail outlets total	42.6%	77.2%	52.3%	43.2%	77.1%	52.3%
Commercial-use liquor retailers	34.7%	4.0%	26.1%	34.5%	3.7%	26.2%
General liquor shops, etc.	22.7%	18.8%	21.6%	22.3%	19.2%	21.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Composition of commercial-use liquor retailers does not equal the consumption rate for commercial-use liquor.
Source: Asahi Breweries, Ltd.

Japan's soft drinks market and Asahi Soft Drinks sales

14 Sales in domestic soft drinks market, by category

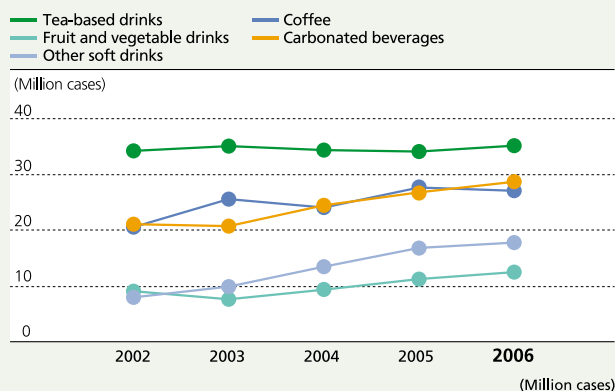
Industry overall



	2002	2003	2004	2005	2006
Tea-based drinks	495.1	489.2	541.5	547.2	537.3
Coffee	412.9	417.9	419.9	436.7	436.1
Fruit and vegetable drinks	246.9	230.5	241.0	247.9	251.7
Carbonated beverages	198.8	197.7	207.5	206.6	194.9
Other soft drinks	364.8	391.5	405.7	425.8	430.3
Total	1,718.5	1,726.8	1,815.6	1,864.2	1,850.3

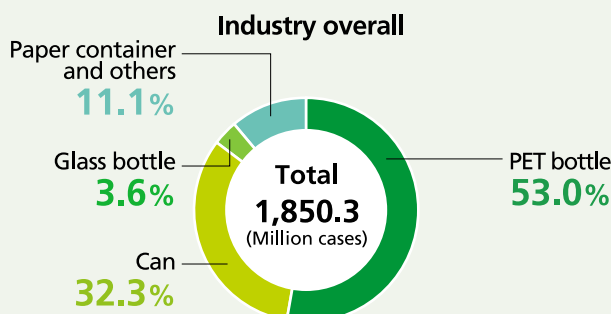
Source: Asahi Soft Drinks, Co., Ltd.

Asahi Soft Drinks

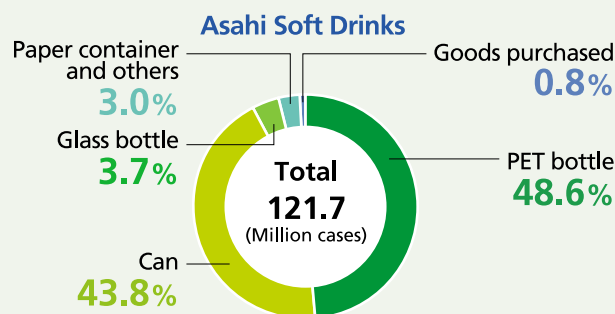


	2002	2003	2004	2005	2006
Tea-based drinks	34.3	35.1	34.5	34.2	35.1
Coffee	20.5	25.5	24.1	27.5	27.6
Fruit and vegetable drinks	8.9	7.7	9.5	11.4	12.6
Carbonated beverages	21.3	20.8	24.5	26.7	28.6
Other soft drinks	8.1	9.8	13.5	17.0	17.8
Total	93.0	99.0	106.0	116.8	121.7

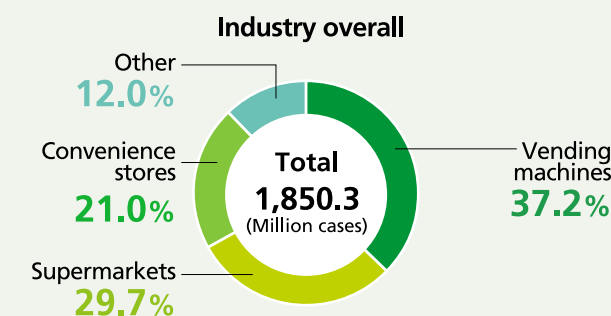
15 Sales in domestic soft drinks market, by container type in 2006



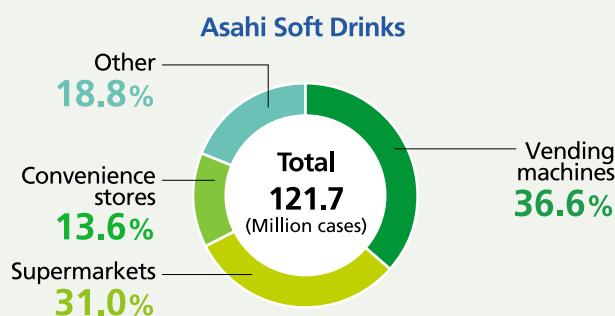
Source: Asahi Soft Drinks, Co., Ltd.



16 Sales composition in domestic soft drinks market, by marketing channel in 2006



Source: Asahi Soft Drinks, Co., Ltd.



Corporate Data

Major Group companies (domestic)

(As of December 31, 2006)

Company	Capital (¥ billion)	Percentage of voting rights	Sales in 2006 (¥ billion)
Domestic soft drinks business			
Asahi Soft Drinks Co., Ltd.	11.1	51.2%	231.6
LB, Ltd. (Hasuda, Saitama)	0.5	67.9%	13.2
LB, Ltd. (Tokai, Aichi)	0.1	97.0%	5.1
Domestic food and pharmaceuticals business			
Asahi Food & Healthcare Co., Ltd.	3.2	100.0%	30.3
Wakodo Co., Ltd.	2.9	92.5%	24.0
Sunwell Co., Ltd.	0.5	100.0%	1.4

Plants and manufacturing bases (domestic)

Company	Plants	Products	Locations
Asahi Breweries, Ltd.	9	Beer, happoshu, new genre, fruit wine, beer-taste, carbonated beverages	Hokkaido, Fukushima, Ibaraki, Kanagawa, Aichi, Osaka, Hyogo, Ehime, Fukuoka
The Nikka Whisky Distilling Co., Ltd.	7	Whisky, shochu, RTD beverages	Hokkaido, Aomori, Miyagi, Tochigi, Chiba, Hyogo, Fukuoka
Sainte Neige Wine Co., Ltd.	1	Wine	Yamanashi
Satsumatsukasa Shuzo Co., Ltd.	1	Otsu-type shochu	Kagoshima
Asahi Soft Drinks Co., Ltd.	4	Coffee drinks, carbonated drinks, tea-based beverages, other soft drinks and RTD beverages	Chiba, Shizuoka, Toyama, Hyogo
LB, Ltd. (Hasuda, Saitama)	1	Chilled beverages such as tea-based drinks, soft drinks and other drinks	Saitama
LB, Ltd. (Tokai, Aichi)	1	Black vinegar drinks for home-delivery and other products	Aichi
Asahi Food & Healthcare Co., Ltd.	4	Brewer's yeast extract, supplements and other products	Ibaraki, Tochigi, Nagano, Osaka
Wakodo Co., Ltd.	3	Milk powder for infants, baby food, milk powder for commercial-use, skincare products, food	Tochigi, Nagano, Shizuoka
Asahi Beer Malt, Ltd.	2	Malt, malt powder, barley tea and other products	Tochigi, Shiga

* Sunwell Co., Ltd. outsources its production

Sales and marketing bases (overseas)

(As of December 2006)

Branch / Office	Principal business	Locations
Europe		
Asahi Breweries, Ltd. Europe Branch	Sales and marketing of beer	17 Connaught Place, London W2 2EL, U.K. Tel: (44) 20-7706-8330 Fax: (44) 20-7706-4220
Asia		
Asahi Breweries, Ltd. Bangkok, Asia / Pacific Regional Office	Sales and marketing of beer (Other than Thailand)	17th floor, BC Building, 91 Sukhumvit 33, Wattana, Bangkok 10110, Thailand Tel: (66-2) 262-0066 Fax: (66-2) 262-0065

Major Group companies (overseas)

(As of December 2006)

Company	Capital	Percentage of voting rights	Principal business	Locations
United States				
Asahi Beer U.S.A., Inc.	U.S.\$32 million	99.2%	Sales and marketing of beer	Headquarters & Los Angeles Branch: 20000 Mariner Avenue, Suite 300, Torrance, CA 90503, U.S.A. (New location from July 2007) 3625 Del Amo Blvd., Suite 250, Torrance, CA 90503, U.S.A. Tel: (1) 310-921-4000 Fax: (1) 310-921-4001 New York Branch: 560 White Plains Rd., Suite 320, Tarrytown, NY 10591, U.S.A. Tel: (1) 914-332-9436 Fax: (1) 914-332-9439
Europe				
Buckinghamshire Golf Company Limited	£24.5 million	100.0%	Ownership and management of a golf club	Denham Court Drive, Denham Buckinghamshire UB9 5PG, U.K. Tel: (44) 1895-835777 Fax: (44) 1895-835210
Asia				
Hangzhou Xihu Beer Asahi Co., Ltd.	RMB276 million	55.0%	Production and sales of beer	Xixi Road545 Hangzhou Zhejiang China Tel: (86) 571-8502-1919 Fax: (86) 571-8512-2654
Yantai Beer Asahi Co., Ltd.	RMB219 million	53.0%	Production and sales of beer	Huanshan Road100 Yantai Shandong China Tel: (86) 535-608-2283 Fax: (86) 535-608-6279
Beijing Beer Asahi Co., Ltd.	RMB802 million	47.0%	Production and sales of beer	North 1 Yanqi-Road Yanqi Industrial Development Zone, Huairou District, Beijing China Tel: (86) 10-6567-7001 Fax: (86) 10-6566-6885
Shenzhen Tsingtao Beer Asahi Co., Ltd.	RMB248 million	29.0%	Production and sales of beer	Hongqiaotou Village Songgang Town Baoan District Shenzhen P.R China Tel: (86) 755-2705-7146 Fax: (86) 755-2705-7146
Asahi Beer (Shanghai) Product Services Co., Ltd.	RMB300 million	100.0%	Sales of beer and soft drinks	Mei Long Zhen Guang Chang 12F Nanjingxi Road Jingan District, Shanghai China Tel: (86) 21-6267-2052 Fax: (86) 21-6267-2082
Qingdao Tsingtao Beer & Asahi Beverage Co., Ltd.	RMB90 million	60.0%	Production and sales of soft drinks	Laoshan Road97 Laoshan District, Qingdao Shandong China Tel: (86) 532-8880-7407 Fax: (86) 532-8880-7401
Tingyi-Asahi-Itochu Beverages Holding Co. Ltd.	U.S.\$10 thousand	50.0%	Production and sales of soft drinks	No.15, 3road Avenue, T.E.D.A Tianjin China Tel: (86) 22-6529-8888 Fax: (86) 22-6529-8877
Haitai Beverage Co., Ltd.	KRW100,000 million	41.0%	Production and sales of soft drinks	17f, Cbs B/d 917-1, Mok-Dong, Yangchon-Gu, Seoul, Korea Tel: (82) 2-3219-7114 Fax: (82) 2-2651-9084
B&A Distribution Co., Ltd.	THB100 million	49.0%	Sales and marketing of beer in Thailand	17th floor, UBC II Building, 591 Sukhumvit 33, Wattana, Bangkok 10110, Thailand Tel: (66-2) 662-3274 Fax: (66-2) 662-3275

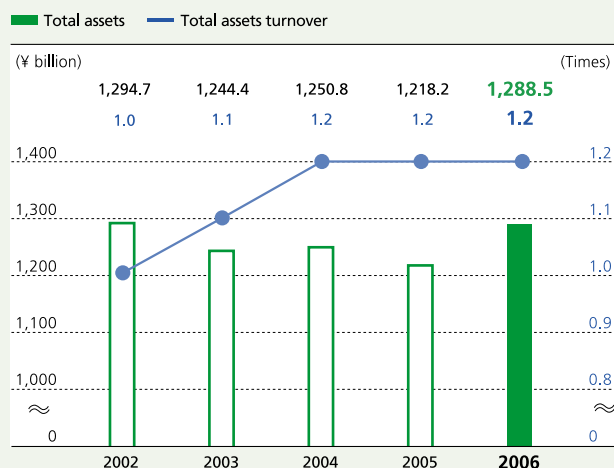
History

Year	Month	Major events
1889	November	Osaka Beer Brewing Company, predecessor to Asahi Breweries, Ltd., is established. Japan Beer Brewery, Ltd. and Sapporo Beer Company are established around the same time.
1891	October	The Suita-mura Brewery, now Asahi Breweries' Suita Brewery, is completed.
1906	March	Dai Nippon Breweries Co., Ltd. is jointly established by Osaka Breweries, Ltd., Japan Beer Brewery, Ltd. and Sapporo Beer Co.
1944		Dai Nippon Vitamin and Pharmaceuticals Co., Ltd., now Asahi Food & Healthcare Co., Ltd., is established by spinning off the pharmaceuticals division of Dai Nippon Breweries Co., Ltd.
1949	September	Asahi Breweries, Ltd. is established. Tamesaburo Yamamoto becomes the company's first president. Dai Nippon Breweries Co., Ltd. is divided into Asahi Breweries, Ltd. and Nippon Breweries, Ltd. upon enactment of the Economic Decentralization Act.
1954	August	Asahi invests in Nikka Whisky Distilling Co., Ltd.
1972	March	Mitsuya Vending, now Asahi Soft Drinks Co., Ltd., is established.
1986	March	Tsutomu Murai becomes chairman, and Hirotaro Higuchi takes office as president.
1987	March	<i>Asahi Super Dry</i> is launched, becoming a mega-hit that sparks a revolution in the beer industry.
1988	May	Asahi acquires majority interest in Torii Pharmaceutical Co., Ltd.
1992	March	Asahi Beer Food, Ltd., now Asahi Food & Healthcare Co., Ltd. is established.
	September	Hirotaro Higuchi becomes chairman, and Yuzo Seto takes office as president.
1994	January	Asahi acquires shares in three beer companies in China and signs technical and production licensing agreements with each of the companies. This marks Asahi's full-scale entry into the Chinese beer market.
	March	Asahi Beer Pharmaceutical Co., Ltd., now Asahi Food & Healthcare Co., Ltd., is established.
1995	December	Asahi and Itochu Corporation jointly acquire management rights for Beijing Beer Asahi Co., Ltd. and Yantai Beer Asahi Co., Ltd.
1996	July	Asahi Soft Drinks Co., Ltd. begins operations as a manufacturer and distributor of soft drinks.
1997	December	Shenzhen Tsingtao Beer Asahi Co., Ltd. is jointly established with China's Tsingtao Brewery Co., Ltd. and others, and plant construction begins.
1998	December	Asahi achieves leading market share in beer sales in Japan. Asahi sells its shares of Torii Pharmaceutical Co., Ltd. to Japan Tobacco Inc.
1999	January	Yuzo Seto becomes chairman, and Shigeo Fukuchi takes office as president.
	August	Asahi Soft Drinks Co., Ltd. lists its shares on the First Section of the Tokyo Stock Exchange.
2001	February	Asahi launches <i>Asahi Honnama</i> happoshu (low-malt beer).
	April	Sales departments of Asahi and Nikka Whisky Distilling Co., Ltd. are merged.

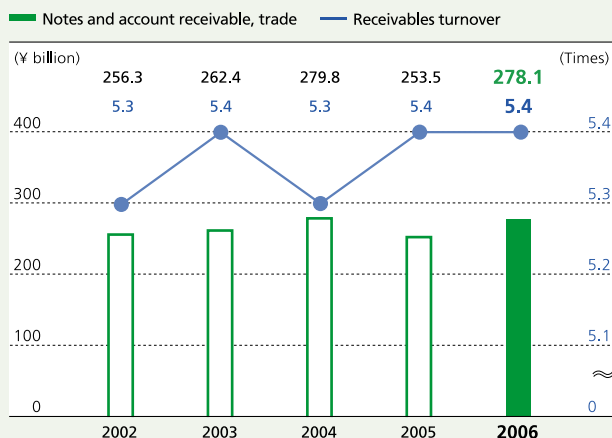
Year	Month	Major events
2001	December	Asahi claims the No. 1 share of the Japanese beer / happoshu market.
2002	January	Shigeo Fukuchi becomes chairman, and Kouichi Ikeda takes office as president.
	July	Asahi Beer Food, Ltd. and Asahi Beer Pharmaceutical Co., Ltd. merge to form Asahi Food & Healthcare Co., Ltd.
	September	Asahi acquires the alcoholic beverages businesses of Kyowa Hakko Kogyo Co., Ltd. and Asahi Kasei Corporation, and enters into a strategic sales alliance with Maxxium Japan K.K.
2003	January	Asahi Food & Healthcare Co., Ltd. integrates Pola Foods Co., Ltd.
	July	Asahi launches <i>Asahi Honnama Aqua Blue</i> happoshu (low-malt beer).
2004	April	Asahi establishes soft drink company in a joint venture with Tingyi-Asahi-Itochu Beverages Holding Co., Ltd.
	May	New Beijing Beer Brewery, known as the Beijing Green Brewery, is completed, and New Beijing Beer is launched.
	July	Asahi raises its stake in South Korea's Haitai Beverage Co., Ltd., making it a consolidated subsidiary.
	November	Asahi invests in the alcoholic beverages sales company of South Korea's Lotte Group to establish Lotte Asahi Liquor Co., Ltd.
2005	August	Asahi acquires all the stock of health foods sales company, Sunwell Co., Ltd. from Yamanouchi Pharmaceutical Co., Ltd.
	April	Asahi enters the new genre (no-malt beer) market.
	May	Asahi acquires the stock of chilled beverage maker LB, Ltd. (Saitama) from Kanebo, Ltd.
	June	Asahi acquires the stock of chilled beverage maker LB, Ltd. (Nagoya) from Kanebo, Ltd.
	September	Sainte Neige Wine Co., Ltd. and Asahi Beer Winery, Ltd. are merged.
2006	January	Nikka Whisky Distilling Co., Ltd. and Asahi-Kyowa Liquor Manufacturing Co., Ltd. are merged.
		Asahi reorganizes its logistics subsidiaries and integrates their areas of commerce. Asahi Logistics Co., Ltd. and two companies specializing in large-scale transport are established.
		Asahi begins pilot plant verification tests for the production and utilization of biomass ethanol on Ie Island, Okinawa.
	August	Kouichi Ikeda becomes chairman, and Hitoshi Ogita takes office as president.
	May	Asahi acquires the stock of Japan's largest baby food maker, Wakodo Co., Ltd.
	May	Asahi launches <i>Asahi Gubinama</i> new genre beverage (no-malt beer).
	June	Asahi launches <i>Asahi Prime Time</i> premium beer.
	October	Asahi launches <i>Asahi Gokuumma</i> new genre beverage (no-malt beer).
	November	Asahi launches <i>Asahi Zeitaku-biyori</i> happoshu (low-malt beer).

Financial Data

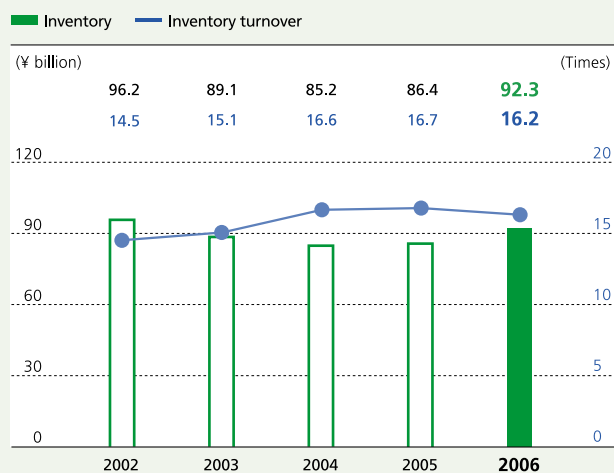
Total assets / Total assets turnover



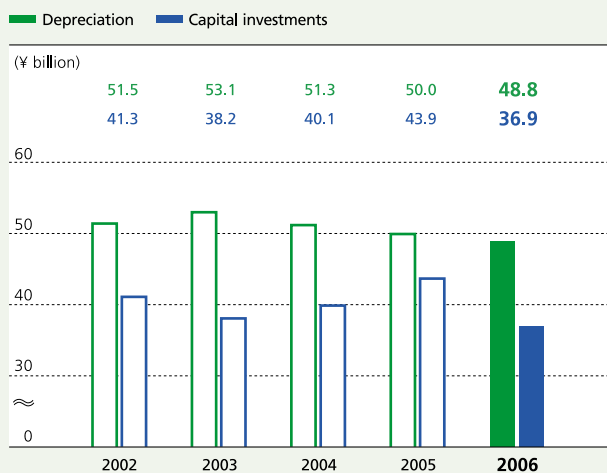
Notes and account receivable, trade / Receivables turnover



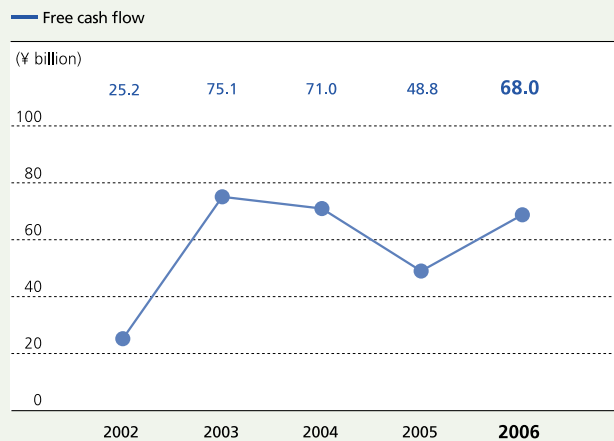
Inventory / Inventory turnover



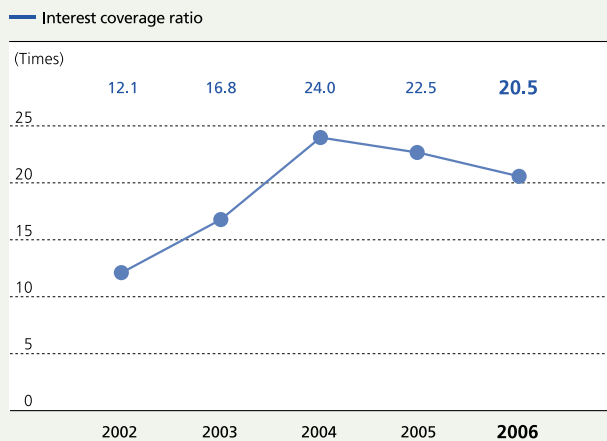
Depreciation / Capital investments



Free cash flow



Interest coverage ratio



Issuance of Bonds

Bond ratings

(As of February 8, 2007)

Rating agency	Rating
Rating and Investment Information, Inc. (R&I)	A+
Japan Credit Rating Agency, Ltd. (JCR)	AA-
Moody's Japan K.K. (Moody's)	A3
Standard & Poor's (S&P)	A-
Fitch Ratings Ltd.	A-

* Ratings provided by Moody's, S&P and Fitch Ratings are based on disclosed information and are not at the request of Asahi Breweries, Ltd.

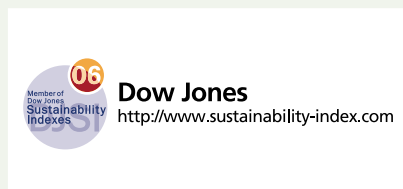
List of bonds

(As of February 8, 2007)

	Issued	Amount (¥ million)	Coupon rate	Date of maturity
22nd Corporate debentures	November 27, 2002	30,000	0.55%	November 27, 2007
23rd Corporate debentures	November 27, 2002	20,000	0.84%	November 27, 2009
24th Corporate debentures	March 27, 2003	10,000	0.45%	March 27, 2007
25th Corporate debentures	May 12, 2004	10,000	0.61%	May 12, 2008
26th Corporate debentures	June 22, 2006	15,000	1.34%	June 22, 2010
27th Corporate debentures	June 22, 2006	10,000	1.72%	June 22, 2012

Evaluation by External Research Institutions (As of March 31, 2007)

Asahi Breweries is included in the various domestic SRI funds and the following international CSR-related indices:



* FTSE Group is delighted to confirm that Asahi Breweries, Ltd. has been independently assessed according to the FTSE4Good criteria, and as of March 2004 has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalize on the benefits of responsible business practice.

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Financial Section



Eleven-Year Summary

Years ended December 31

	Millions of yen				
	2006	2005	2004	2003	2002
For the year:					
Net sales	¥1,446,385	¥1,430,027	¥1,444,226	¥1,400,302	¥1,375,267
Operating income	88,713	90,249	101,273	78,984	69,341
Net income (loss) before income taxes	81,165	75,725	58,369	48,681	32,483
Net income (loss)	44,775	39,870	30,596	23,210	14,754
Capital investments	36,894	43,941	40,134	38,184	41,257
Depreciation	48,793	50,028	51,339	53,101	51,546
<Segment information>					
Sales:					
Alcoholic beverages	—	—	—	—	—
Soft drinks and food	—	—	—	—	—
Pharmaceuticals	—	—	—	—	—
Real estate	—	—	—	—	—
Others	—	—	—	—	—
Sales: (New Segments)					
Alcoholic beverages	1,007,558	1,025,447	1,078,931	1,067,136	1,057,029
Soft drinks	283,121	267,003	217,380	185,738	173,773
Food and pharmaceuticals	53,792	25,286	22,163	21,547	14,232
Others	101,914	112,291	125,752	125,881	130,233
Operating income:					
Alcoholic beverages	—	—	—	—	—
Soft drinks and food	—	—	—	—	—
Pharmaceuticals	—	—	—	—	—
Real estate	—	—	—	—	—
Others	—	—	—	—	—
Operating income: (New Segments)					
Alcoholic beverages	78,186	78,089	90,872	72,452	69,145
Soft drinks	7,746	8,632	8,114	2,645	(4,086)
Food and pharmaceuticals	445	805	(599)	169	8
Others	2,173	2,559	2,935	3,399	3,855
Financial position:					
Total assets	1,288,501	1,218,227	1,250,818	1,244,410	1,294,738
Total shareholders' equity	509,775	454,892	417,828	398,153	387,539
Interest-bearing debt	290,101	289,202	303,089	336,285	402,206
Per share data:					
	Yen				
Net income (loss): Primary	94.02	82.22	62.52	46.80	28.90
: Fully diluted	93.85	80.98	60.64	44.58	27.46
Shareholders' equity	1,012.77	951.12	860.66	810.19	770.86
Cash dividends applicable to the year	19.00	17.00	15.00	13.00	13.00
	%				
Ratios:					
Net income to shareholders' equity (ROE)	9.6	9.1	7.5	5.9	3.8
Operating income per net sales	6.1	6.3	7.0	5.6	5.0
Operating income per net sales (exclusive of alcohol tax)	9.4	9.8	11.4	9.2	8.3
Shareholders' equity to total assets	37.0	37.3	33.4	32.0	29.9

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥119.11 to U.S.\$1, the exchange rate prevailing at December 31, 2006.

*1 Disclosure of fully diluted per share data of net income was waived due to the immateriality of dilution effect.

*2 In case of net loss, disclosure of fully diluted per share data is not required.

Millions of yen						Thousands of U.S. dollars (Note)
2001	2000	1999	1998	1997	1996	2006
¥1,433,364 77,777	¥1,399,108 76,550	¥1,396,898 80,122	¥1,357,217 91,893	¥1,313,257 96,299	¥1,212,046 99,643	\$12,143,271 744,799
18,611	(18,116)	15,038	23,273	32,798	36,291	681,429
13,617	(15,707)	4,082	579	11,555	8,231	375,913
64,829	66,518	63,149	103,449	100,936	48,366	309,747
52,901	51,790	43,840	39,656	35,740	34,245	409,647
1,179,412	1,127,737	1,114,441	1,068,908	1,017,915	933,072	—
201,772	216,191	229,704	234,729	204,199	192,127	—
—	—	—	—	41,891	40,158	—
3,058	4,194	3,897	4,921	4,488	3,819	—
49,122	50,986	48,856	48,659	44,764	42,870	—
1,101,620						8,459,055
192,526						2,376,971
14,561						451,616
124,657						855,629
92,635	86,774	86,037	92,583	92,140	86,489	—
(1,485)	2,009	6,972	7,641	5,290	11,686	—
—	—	—	—	5,723	5,343	—
1,833	2,717	1,623	3,060	3,453	3,326	—
(816)	(758)	94	950	1,007	430	—
76,809						656,418
(2,079)						65,032
406						3,736
2,476						18,244
1,341,103	1,389,827	1,405,507	1,519,014	1,616,210	1,697,268	10,817,740
385,965	356,009	383,474	387,089	374,591	319,645	4,279,867
417,167	503,371	502,327	613,194	695,569	861,955	2,435,581
Yen						U.S. dollars (Note)
27.00	(31.54)	8.20	1.19	25.15	19.18	0.79
25.25	—*2	8.11	—*1	23.36	17.56	0.79
752.25	715.04	777.04	777.60	776.68	723.99	8.50
13.00	12.00	12.00	12.00	11.00	10.00	0.16
%						
3.7	(4.2)	1.1	0.2	3.3	2.7	
5.4	5.5	5.7	6.8	7.3	8.2	
9.0	9.2	9.7	11.5	12.3	13.7	
28.8	25.6	27.3	25.5	23.2	18.8	

Overview

Market trends

In the alcoholic beverages industry in the fiscal year ended December 31, 2006, the new genre (no-malt beer) market grew around 20% from the previous fiscal year amid a harsh business environment that included a revision in the Liquor Tax Law in May and atypical weather during the peak selling period. The beer and happoshu (low-malt beer) markets, however, remained stagnant, and consequently, taxable shipments fell approximately 1% in the overall market for beer-type beverages. Meanwhile, markets for Otsu-type shochu and RTD (ready-to-drink) beverages maintained their expansionary trends.

In the soft drinks industry, while soft drink companies engaged in aggressive sales and promotion measures, overall sales volume for the industry is estimated to have fallen approximately 1% from the previous fiscal year due in part to the influence of atypical weather during the peak selling period.

Net sales

Under these circumstances, the Asahi Breweries Group endeavored to reform its business, profit structure and organizational culture based on the Second Group Medium-Term Management Plan covering fiscal 2004 through fiscal 2006, to transform into a new Asahi Breweries Group with high-growth potential.

As a result, net sales for Asahi Breweries, Ltd. and its consolidated subsidiaries ("the Companies") increased ¥16.4 billion, or 1.1% year-on-year to a record high of ¥1,446.4 billion. While sales declined 1.7% in the alcoholic beverages business due in part to the sluggish beer market, sales rose 6.0% in the soft drinks business and surged 112.7% in the food and pharmaceuticals business due to contributions made by baby food maker Wakodo Co., Ltd. and health food maker Sunwell Co., Ltd., which became consolidated subsidiaries from fiscal 2006.

In sales composition by segment, the alcoholic beverages business decreased its share to 69.7% from 71.7% in the previous fiscal year, while the soft drinks business increased to 19.6% from 18.7% and the food and pharmaceuticals business rose to 3.7% from 1.8%.

Sales for the alcoholic beverages business and the soft drinks business include net sales from the Companies' overseas business. Sales overseas increased 5.8% to ¥57.1 billion from the previous fiscal year.

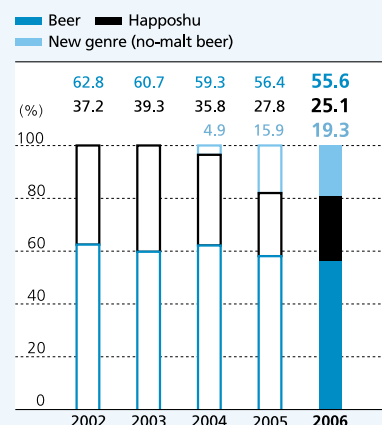
Operating income

Cost of sales decreased ¥3.9 billion, or 0.4% year-on-year, to ¥950.1 billion, gross profit amounted to ¥496.2 billion, and profit margin on sales improved 1.0 percentage point to 34.3% from 33.3% in the previous fiscal year. Although sales for beer and happoshu declined, our continued efforts to reduce costs of production and enhance the efficiency of fixed costs led to the positive results.

Selling, general and administrative expenses increased ¥21.7 billion, or 5.6%, to ¥407.5 billion from ¥385.8 billion in the previous fiscal year. This was primarily due to an increase of ¥9.9 billion in sales promotion incentives and commissions, and ¥2.1 billion in the amortization of consolidation goodwill that were reported as an item under selling, general and administrative expenses starting in fiscal 2006. R&D expenses included in selling, general and administrative expenses totaled ¥8.5 billion.

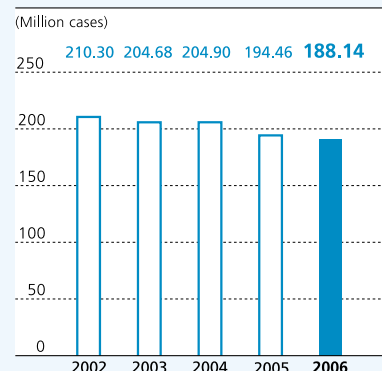
As a result, operating income decreased ¥1.5 billion, or 1.7%, to ¥88.7 billion

Product share in the beer-type beverages market by genre

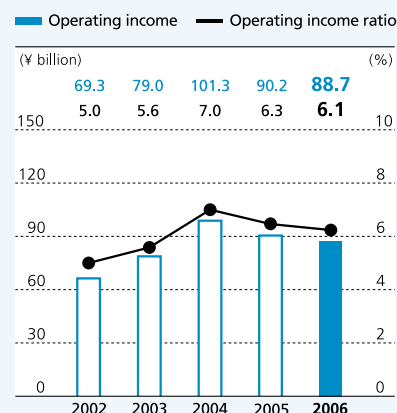


* Based on taxable shipments

Asahi's combined taxable shipments of beer-type beverages



Operating income and Operating income ratio



from ¥90.2 billion in the previous fiscal year. The operating income ratio fell slightly to 6.1% from 6.3% in the previous fiscal year.

Other income and expenses

While there was a decrease of ¥1.4 billion due to the exclusion of consolidated adjustment accounts from fiscal 2006, investment gains based on the equity method increased ¥1.9 billion, resulting in a ¥0.1 billion year-on-year increase in other income to ¥9.6 billion. Other expenses remained little changed at ¥8.1 billion compared with ¥8.2 billion in the previous fiscal year. As a result, other income rose ¥0.2 billion to ¥1.4 billion compared with ¥1.2 billion in the previous fiscal year.

Extraordinary income/loss

Extraordinary income decreased ¥3.6 billion compared with the previous fiscal year as gains on sales and disposal of property, plant and equipment were limited to ¥2.0 billion. And despite a ¥3.9 billion loss on fixed asset impairment, considerable decreases in loss on sales and disposal of property, plant and equipment, and business restructuring charges resulted in a significant decrease in extraordinary loss to ¥11.8 billion compared with ¥18.9 billion in the previous fiscal year.

Income taxes

The actual effective tax rate on income taxes, including corporate tax for fiscal 2006, declined to 43.5% from 44.9% in the previous fiscal year. The difference between the actual effective tax rate of 43.5% and the statutory tax rate of 40.4% is primarily caused by the positive effects of 4.7% in valuation allowances and 2.2% in non-deductible expenses, and the negative effect of 3.2% in equity in net income of unconsolidated subsidiaries and affiliated companies. The actual effective tax rate declined primarily because of a decrease in non-deductible expenses to 2.2% from 3.5% in the previous fiscal year.

Net income

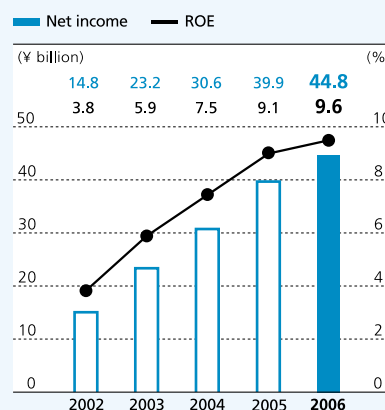
Net income increased ¥4.9 billion, or 12.3% from the previous fiscal year to ¥44.8 billion, marking a record high for the sixth consecutive year. This led to significant year-on-year increases in the net income ratio to 3.1% from 2.8%, and in ROE to 9.6% from 9.1%. Net income per share (diluted) also marked a record high of ¥93.85.

Dividends

Asahi Breweries, Ltd. places priority on returning profit to shareholders and adheres to the basic policy of implementing shareholder return that takes business performance into account while seeking enhanced profitability and ensuring stronger financial conditions. We strive for consistent and stable dividend payments and aim to increase dividends by generally referring to a benchmark of at least 20% in consolidated payout ratio.

From this perspective, the Board of Directors resolved at a meeting held on February 6 to raise year-end dividends by ¥2.0 per share to ¥10.50, pending approval at the 83rd Annual General Shareholders' Meeting scheduled for late March 2007.

Net income (loss) and ROE



Review of operations by segment

	Millions of yen		Percent change
	2006	2005	
Sales			
Alcoholic beverages	¥1,007,558	¥1,025,447	(1.7)
Soft drinks	283,121	267,003	6.0
Food and pharmaceuticals	53,792	25,286	112.7
Other businesses	101,914	112,291	(9.2)
Operating income			
Alcoholic beverages	78,186	78,089	0.1
Soft drinks	7,746	8,632	(10.3)
Food and pharmaceuticals	445	805	(44.7)
Other businesses	2,173	2,559	(15.1)

Alcoholic beverages business

Fiscal 2006 marked the final year for completing the Second Group Medium-Term Management Plan, and we concentrated our management resources on the Plan's core objective of achieving growth in beer-type beverages in the domestic alcoholic beverages business by striving to restructure the growth base of the entire business. As a result, while sales increased in new genre and other alcoholic beverages, overall sales for the segment decreased 1.7% year-on-year to ¥1,007.6 billion, due to a stagnant beer market and a considerable decline in sales of happoshu. We nevertheless maintained operating income roughly on par with the previous fiscal year at ¥78.2 billion.

Asahi Breweries, Ltd.

Beer-type beverages

In the beer market, we strengthened our efforts to promote the "freshness" of *Asahi Super Dry* and boosted our activities for "tasty" draft beer kegs for commercial-use, while launching a new product, *Asahi Prime Time*, in June to reinforce our efforts in the fast-growing market for premium beer. As a result, while taxable shipments declined 1.2% year-on-year due to stagnation in the overall market, we seized a record-high 49.7% share in terms of annual taxable shipments of beer.

With respect to happoshu, we offered enhanced quality for our three Honnama brand products in February and pursued measures linked to campaigns targeting consumers and advertisements to strengthen the Honnama brand as a whole. We followed up in November by launching *Asahi Zeitaku-biyori*, a high-quality happoshu offering daily luxury targeting adults. However, as the happoshu market diminished in size due to growth in new genre beverages, annual taxable shipments declined 26.4% year-on-year and market share fell 5.1 percentage points from 28.7% in the previous fiscal year to 23.6%.

In the new genre market, we aggressively sought to present new products in response to diversifying customer preferences by launching *Asahi Gubinama*, which resulted from the uncompromising pursuit of a product that was "less bitter and smoother to the throat" in May, and *Asahi Gokuumma*, which realized a completely new "richness in taste," in October. Annual taxable shipments of new genre beverages increased 38.9% year-on-year and our market share rose 2.9 percentage points from 19.1% in the previous fiscal year to 22.0%.

Consequently, while combined taxable shipments of beer-type beverages as a

whole fell short of initial projections and decreased 3.3% year-on-year to 188.1 million cases and market share declined by 1 percentage point to 37.8%, we nevertheless maintained our top position in the domestic market.

As a result of these factors, overall sales of beer-type beverages decreased 2.8% from ¥919.5 billion in the previous fiscal year to ¥893.9 billion.

Other alcoholic beverages

Overall sales of other alcoholic beverages—shochu, RTD beverages, whisky and spirits, and wine—increased 1.4% year-on-year to ¥135.3 billion.

In other alcoholic beverages, the Company concentrated its management resources on the core brands in each category while simultaneously launching several new products. As a result, we were able to reconfirm the established strengths of our core brands as standard products in both the shochu and RTD beverage categories, which represent high-growth areas.

Shochu

In shochu, we concentrated our management resources on promoting brands such as *Kanoka*, *Satsuma Tsukasa*, *Daigoro* and *SAZAN*. Particularly with respect to *Satsuma Tsukasa*, we launched new products *Satsuma Tsukasa Kurokoji-jikomi* and *Satsuma Tsukasa Kikoji-jikomi* to present new flavors to customers. As a result, sales increased 3.8% year-on-year to ¥57.2 billion.

Ready-to-Drink (RTD) beverages

In RTD beverages, we reinforced our efforts to expand sales of unique products centered on the core brands of *Asahi Cocktail Partner* and *Asahi Shunka Shibori*. Furthermore, we took up the challenge of creating new value and demand by launching new products such as *Asahi Hon Chu-Hi*. As a result, sales remained roughly in line with the previous year at ¥32.7 billion.

Whisky and spirits

We reinforced our core brands including *Taketsuru Pure Malt* and *Black Nikka Clear Blend*, and aggressively promoted the sales of *Single Malt Yoichi* and the renewed *Tsuru 17 Years*. Nevertheless, sales fell 2.8% year-on-year to ¥27.4 billion.

Wine

We pursued sales promotion measures for domestic wines centered on *Antioxidant-Free Organic Wine* and *Antioxidant-Free Organic Wine Monogatari* brands while seeking to develop the *Ste. Neige* brand by launching *Ste. Neige Excellante* and sought to expand sales of imported wine by offering a varied lineup of products such as *Baron Philippe* and *Gancia*. As a result, sales rose 4.4% year-on-year to ¥15.1 billion.

Overseas alcoholic beverages business

In the overseas alcoholic beverages business, we sought to expand our business in our priority market of Asia centered on China, which boasts high-growth potential.

Sales volume at local beer companies in China steadily expanded and our competitiveness improved in the Asian market due in part to aggressive market development in ASEAN countries, yielding exponential growth.

In Europe, we bolstered our business foundation by signing a licensing agreement with Shepherd Neame Ltd. in the U.K. in an aggressive full-scale effort targeting the market for commercial-use keg beer.

Soft drinks business

In the soft drinks business, sales grew 6.0% year-on-year to ¥283.1 billion, as the mainstay brands of Asahi Soft Drinks Co., Ltd. and its mineral water products enjoyed steady increases in sales in the domestic market. Operating income, however, fell 10.3% year-on-year to ¥7.7 billion, due in part to sluggish performance at Haitai Beverage Co., Ltd.

Asahi Soft Drinks Co., Ltd.

In the domestic soft drinks market, Asahi Soft Drinks Co., Ltd. pursued additional growth strategies and structural reforms and developed a system for attaining the next stage of exponential growth.

With respect to products that constitute the pillar of its growth strategy, we continued to promote further strength and expansion in the core brands of *WONDA*, *Mitsuya* and *Asahi Juroku-Cha*, while cultivating *Asahi Wakamusha*, *Asahi Super H₂O* and *Asahi Fujisan no Vanadium Tennensui*. We also aggressively presented new products, launching specified health food *Asahi Shokujito Isshoni Juroku-Cha*, and products that meet customer needs such as *Asahi Sansosui*, *Asahi Gyu-gyu-tto Shimikomu Collagen Water*.

In the area of structural reform, we sought to further enhance our profit structure by reducing production costs, improving the efficiency of expenses related to automatic vending machines and starting work on the development of an optimal production and distribution structures for Group collaboration.

As a result of these efforts, Asahi Soft Drinks Co., Ltd. realized sales of ¥231.6 billion.

In the chilled beverages business, we designated fiscal 2006 as a year for preparing a new growth stage for LB, Ltd. (Saitama) and LB, Ltd. (Nagoya), which were transformed into consolidated subsidiaries in fiscal 2005, and endeavored to bolster their business foundations.

Carbonated beverages

We maintained a vigorous advertisement campaign and sales and promotion activities to energize one of our mainstay brands *Mitsuya* by launching *Mitsuya Shiroy Cider*, a milk-based carbonated beverage, and several carbonated beverages containing fruit juice such as *Mitsuya Shinshu Kogen Budo*.

As a result, total sales of carbonated beverages increased 7.0% year-on-year to ¥53.5 billion.

Fruit and vegetable drinks

We sought to expand the presence and enhance recognition of the *Bireley's* brand, which celebrated the 55th anniversary of its introduction in Japan, by aggressively pursuing advertisement campaigns and sales promotions. We also endeavored to revitalize the *Bireley's* brand by developing the *Torokeru* series of products featuring various fruit.

As a result, total sales for fruit and vegetable drinks rose 9.6% year-on-year to ¥21.7 billion.

Coffee

With respect to the core brand of *WONDA*, we focused advertisement and sales promotion activities on the main product *WONDA Morning Shot* and low-sugar *WONDA SHOT & SHOT*. Combined sales of coffee drinks, however, decreased 0.3% to ¥60.2 billion.

Tea-based drinks

With respect to *Asahi Juroku-Cha*, we reviewed its 16 ingredients to further

strengthen the product concept of a “blended tea with 16 selected ingredients for the physical well-being of all members of the family.” We also launched *Asahi Shokujito Isshoni Juroku-Cha*, which was approved as a specified health food, to bolster the overall *Asahi Juroku-Cha* brand. We also maintained aggressive advertisement and sales promotion activities for *Asahi Wakamusha*, which was launched last year. Despite these efforts, sales of tea-based drinks decreased 0.2% year-on-year to ¥57.9 billion.

Other soft drinks

In health drinks, despite the favorable reception of *Asahi Sansosui* and *Asahi Gyu-gyu-tto Shimikomu Collagen Water* for meeting the diversifying needs of customers, combined sales for health drinks decreased 3.8% year-on-year due to the reduced number of new products launched in fiscal 2006. With respect to mineral water, sales of *Asahi Fujisan no Vanadium Tennensui* continued to rise, increasing 35.6% year-on-year.

As a result, total sales of other soft drinks increased 12.3% to ¥38.3 billion.

Overseas drinks business

In the overseas drinks business, we sought expansion centered on Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. in China and Haitai Beverage Co., Ltd. in South Korea. We enjoyed exponential growth, particularly in China, due to the steady sales of tea-based drinks and mineral water, while significantly improving productivity and profitability.

Food and pharmaceuticals business

In the food and pharmaceuticals business, Asahi Food & Healthcare Co., Ltd. strived to expand its business and strengthen its business foundation by upholding the basic strategies of growth, structural reform and assurance of safety and quality.

We sought to strengthen our mainstay products—*MINTIA* breath mint tablets, *BALANCEUP* nutritionally balanced snack bars, *EBIOS* quasi-drug and *Actio* supplement tablets—while we also launched diet support food *Slim Up Slim* and took on the challenge of establishing brands in new areas. We also achieved steady sales growth and transformed our corporate structure into one geared to profitability by introducing new products and expanding marketing channels for the food product materials business, such as brewer’s yeast extracts and freeze-dried ingredients, and for the direct marketing business.

With the goal of expanding the new business foundations for the food and pharmaceuticals business, we acquired the stock of leading baby food maker Wakodo Co., Ltd. through a tender offer, transforming the company into a consolidated subsidiary. Sunwell Co., Ltd., which is engaged in health food businesses, also became a consolidated subsidiary in fiscal 2006.

Consequently, sales for the food and pharmaceuticals business increased 112.7% year-on-year to ¥53.8 billion due to the addition of sales generated by the newly consolidated subsidiaries. Operating income meanwhile fell 44.7% to ¥0.4 billion due in part to the burden of amortization of consolidation goodwill.

Other businesses

In other businesses, while we were able to enhance the profitability of our logistics business by reorganizing and integrating Group companies, sales declined due to the reorganization of our real estate and wholesale businesses.

Management's Discussion and Analysis

As a result, total sales for other businesses decreased 9.2% year-on-year to ¥101.9 billion and operating income fell 15.1% year-on-year to ¥2.2 billion.

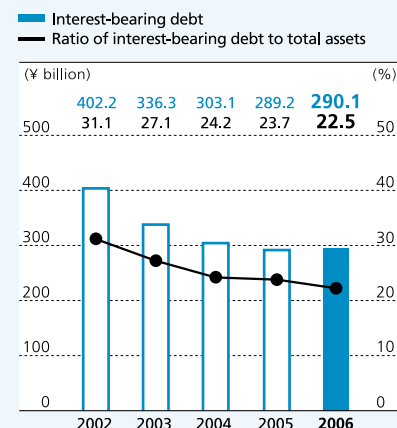
Liquidity and capital resources

Asahi Breweries, Ltd. gains its capital resources principally from cash flows generated by the issuance of bonds or stock. Reducing interest-bearing debt is a key corporate goal, and we have been consistently striving to reduce the outstanding balance each year. We respond to new financing needs as they arise by giving due consideration to procurement methods that will not lead to an increase in the outstanding balance of long-term debt.

Based on this policy, daily financing needs are, in principle, met through short-term loans and the issuance of commercial paper. As a result, the outstanding balance of interest-bearing debt equivalent to the total of short-term and long-term debt, corporate bonds and commercial paper amounted to ¥290.1 billion as of the end of fiscal 2006. The outstanding balance was roughly in line with levels for fiscal 2005 and amounted to approximately one-fifth of its peak of ¥1,411.1 billion in fiscal 1992. In addition, the debt-equity ratio fell from 4.9 in fiscal 1992 to 0.6 during the year under review.

Asahi Breweries, Ltd. has earned an AA- rating from the Japan Credit Rating Agency, Ltd. and an A+ rating from Rating and Investment Information, Inc.

Interest-bearing debt and Ratio of interest-bearing debt to total assets

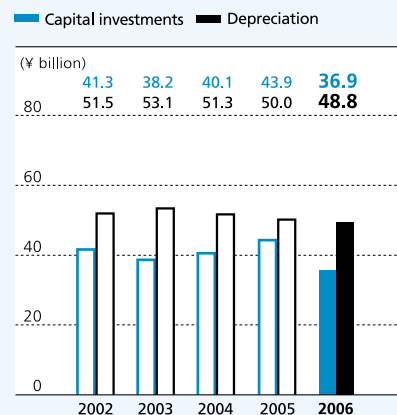


Capital investments

Capital investments decreased ¥7.0 billion from ¥43.9 billion in the previous fiscal year to ¥36.9 billion, of which Asahi Breweries, Ltd. invested ¥25.2 billion, primarily to maintain and update alcoholic beverage production facilities, along with a series of investments to improve quality and streamline business. Group companies invested primarily to reinforce and expand soft drink production facilities at Asahi Soft Drinks Co., Ltd.

Consolidated depreciation costs totaled ¥48.8 billion, including ¥35.8 billion for Asahi Breweries, Ltd. and capital investments were undertaken within the limits of depreciation.

Capital investments and Depreciation

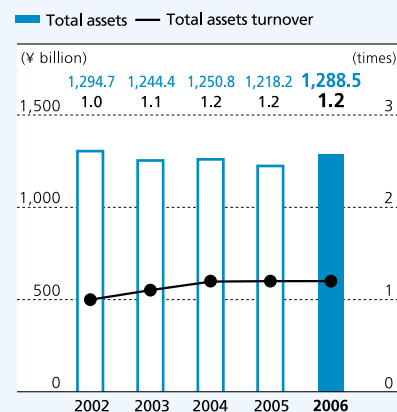


Assets, liabilities and shareholders' equity

Consolidated total assets as of the end of fiscal 2006 increased considerably by ¥70.3 billion, or 5.8%, compared with the previous fiscal year to ¥1,288.5 billion. This was due to an increase in assets from the acquisition of Wakodo Co., Ltd. through a tender offer and its inclusion in consolidation, and to an increase in accounts receivable caused by an additional holiday toward the end of the fiscal year. As a result, return on assets fell slightly from 7.4% to 7.2%.

Current assets increased ¥43.5 billion, or 11.3% year-on-year, to ¥429.0 billion. While this was primarily due to a 9.7% increase in accounts receivable (notes receivable and trade receivable) to ¥278.1 billion, trade receivable turnover has been maintained at levels roughly comparable to the previous fiscal year at 5.4 times. Inventories increased ¥5.9 billion year-on-year to ¥92.3 billion, despite efforts, mainly undertaken by Asahi Breweries, Ltd. to reduce inventories

Total assets and Total assets turnover



such as semi-finished products, raw materials and supplies. As a result, inventories turned over 16.2 times in the fiscal year under review, declining 0.5 points from 16.7 times in the previous fiscal year.

Property, plant and equipment increased ¥0.7 billion, or 0.1% year-on-year to ¥635.0 billion. While tangible fixed assets, investments and other assets remained at levels equivalent to the previous fiscal year, intangible fixed assets increased ¥22.8 billion, or 96.9% year-on-year to ¥46.4 billion, due in part to consolidation goodwill.

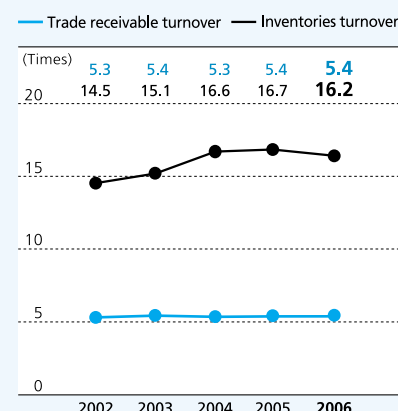
Current liabilities increased ¥61.0 billion, or 12.2% year-on-year, to ¥560.9 billion. This was due to factors including an increase of ¥13.4 billion in notes payable and trade payable, ¥2.2 billion in the current portion of long-term debt, ¥22.7 billion in short-term loans for daily financing and ¥23.2 billion in accrued corporate taxes.

Long-term liabilities decreased ¥18.6 billion, or 7.9% year-on-year to ¥217.8 billion, primarily due to decreases in corporate bonds and long-term debt.

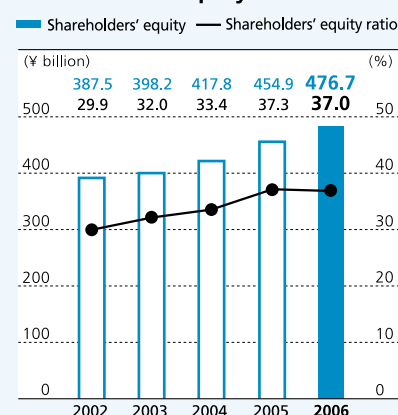
Total shareholders' equity (net assets minus minority interests) increased ¥21.8 billion compared with the previous fiscal year-end, despite increased expenses caused by the acquisition of treasury stock and dividend payments resulting from an increase in net income in fiscal 2005, due to the increase in retained earnings generated by the growth in net income.

As a result, the equity ratio was 37.0%, return on equity rose from 9.1% to 9.6% and shareholders' equity per share increased from ¥951.1 to ¥1,012.8.

Trade receivable turnover and Inventories turnover



Shareholders' equity and Shareholders' equity ratio



Cash flows

Net cash provided by operating activities increased ¥18.6 billion year-on-year to ¥105.8 billion, as the decrease in daily financing caused by an increase in receivables was offset by a significant decrease in corporate tax payments.

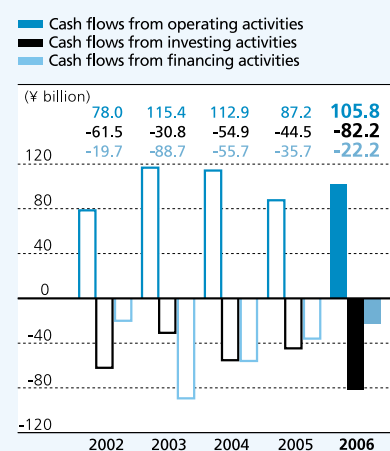
Net cash used in investment activities increased ¥37.8 billion year-on-year to ¥82.2 billion, due primarily to expenditures for the tender offer for Wakodo Co., Ltd.

Net cash used in financing activities decreased ¥13.5 billion year-on-year to ¥22.2 billion, despite expenditures for the acquisition of treasury stock and increased dividend payments, due to the procurement of funds by issuing bonds.

As a result, cash and cash equivalents at fiscal year-end increased ¥2.5 billion year-on-year to ¥23.8 billion.

Free cash flows at fiscal year-end increased ¥19.2 billion, or 39.5% year-on-year to ¥68.0 billion. While cash flows from operating activities increased ¥18.6 billion year-on-year due to a significant decrease in payment of corporate taxes, the acquisition of tangible and intangible assets remained at levels roughly equivalent to the previous fiscal year.

Cash flows



R&D activities

Our R&D division has consistently pursued product development and technology development to reinforce our existing businesses and develop new businesses. Major accomplishments in fiscal 2006 include the following:

- We developed the technology for producing biomass ethanol using high biomass sugarcane cultivar as a material in a joint research effort with the National Agricultural Research Center for Kyushu Okinawa Region, and conducted a pilot plant verification test on Ie Island, Okinawa Prefecture. Our efforts were widely covered by the mass media and attracted public attention.
- Through our accumulated research on apple polyphenol, we discovered its effectiveness in reducing visceral fat and improving blood flow and presented our findings at the Japan Society for Bioscience, Biotechnology and Agrochemistry. Apple polyphenol is being incorporated into health foods as Applephenon®, our proprietary functional ingredient.
- We were the first in the world to establish the technology for a liquid culture system for making practical use of *Aspergillus oryzae*, which plays an important role in the production of shochu. The technology has been awarded a domestic patent, and international patents are pending. We presented the results of this research at the Japan Society for Bioscience, Biotechnology and Agrochemistry and the Society for Biotechnology, Japan.

As a result of our efforts in such projects, R&D expenses for the year under review increased ¥0.2 billion, or 2.3% year-on-year, to ¥8.5 billion.

Business risk

1. Effects of market and economic trends and demographic change in Japan

The alcoholic beverages business accounts for approximately 70% of sales for the Asahi Breweries Group, a considerable portion of which is generated by the Japanese market. Future trends in the Japanese economy may have a significant effect on domestic consumption of alcoholic beverages. Furthermore, a continually declining population, fewer childbirths and the ongoing aging of the Japanese population may affect consumption soft drinks as well as alcoholic beverages, and in turn may affect the business performance and financial condition of the Asahi Breweries Group.

2. Higher liquor tax rates

In the event liquor tax rates are raised, consumption of alcoholic beverages may decline due to higher sales prices, potentially affecting the business performance and financial condition of the Asahi Breweries Group.

3. Dependence on a specific product

Beer sales constitute an important part of sales for the Asahi Breweries Group. The Asahi Breweries Group endeavors to increase sales by improving its lineup of products for alcoholic beverages apart from beer, while also expanding businesses other than the alcoholic beverages business, including soft drinks, and food and pharmaceuticals. Nevertheless, unforeseen circumstances, such as a significant drop in beer consumption due to trends in market demand, may affect the business performance and financial condition of the Asahi Breweries Group.

4. Food safety

The Asahi Breweries Group upholds its management principle of delivering the highest quality to customers, and ensures food safety by implementing an uncompromising system of inspection and control throughout the Group. Nevertheless, the food industry currently faces various problems, including bird flu, BSE, residual agricultural chemicals, genetic engineering and the proper indication of allergy-causing substances. The Asahi Breweries Group endeavors to proactively identify such risks for products manufactured by the Group, as well as for products manufactured through consignment and imported products, and to implement countermeasures before they materialize. Nevertheless, the occurrence of incidents beyond the scope of such measures implemented by the Group may affect the business performance and financial condition of the Asahi Breweries Group.

5. Fluctuations in material prices

The price of main raw materials used for Asahi Breweries Group products fluctuate according to such factors as weather conditions, natural disasters and supply-demand conditions. Rising costs may lead to higher production costs that cannot be passed on to sales prices depending on prevailing market conditions, and may affect the business performance and financial condition of the Asahi Breweries Group.

6. Effects of weather conditions, natural disasters and others

With respect to sales of Asahi Breweries Group, stagnant markets caused by abnormal weather or variable weather conditions may affect the volume of sales.

Furthermore, sudden occurrences of various catastrophes, natural disasters and unforeseeable accidents that could damage production and logistics facilities may result in loss of assets, the reporting of losses on unshipped products, expenditures on facility repairs and opportunity loss due to disruptions in production and logistics, and in turn, affect the business performance and financial condition of the Asahi Breweries Group.

7. Risks related to information systems

Asahi Breweries Group possesses personal information on a great number of customers obtained through sales promotion campaigns, direct marketing and other activities. To prevent such information from being lost, misused or falsified, the Group implements appropriate security measures related to the system and other aspects of information management. Nevertheless, the occurrence of unpredictable incidents including power outages, disasters, defective software or equipment, computer virus infections and illegal access may present risks including the breakdown, shutdown or temporary disruption of the information system, and therefore, could cause the erasure, leakage or falsification of internal information, including customer information. Such incidents may impede operations and in turn affect the business performance and financial condition of the Asahi Breweries Group.

8. Risks related to overseas businesses

The Asahi Breweries Group pursues business operations in Asia, mainly in China, as well as in Europe and North America. The Group endeavors to proactively identify risks and to implement concrete and appropriate countermeasures before they materialize. Nevertheless, occurrences of incidents such as those listed below, which are unforeseeable or beyond the scope of prediction, may affect the business performance and financial condition of the Asahi Breweries Group.

8. Risks related to overseas businesses (continued)

- Unpredictable revisions in the tax system, laws and regulations
- Changes in political and economic factors
- Social and economic disruption caused by the outbreak of epidemics such as SARS or bird flu
- Changes in the market or foreign exchange rates that are beyond prediction
- Social and economic disruption caused by acts of terrorism or war
- Occurrence of natural disasters such as earthquakes

9. Risks related to the environment

Asahi Breweries Group endeavors to thoroughly implement waste recycling, energy conservation, reduction of CO₂ emissions and the recycling of containers, and complies with the relevant environmental laws and regulations while conducting its businesses. Nevertheless, regulatory revisions that drive significant increases in costs due to investments in new facilities and changes in methods of waste disposal may affect the business performance and financial condition of the Asahi Breweries Group.

10. Risks related to changes in laws and regulations

In pursuing its businesses in Japan, Asahi Breweries Group is placed under the regulatory control of various laws, including the Liquor Tax Law, the Food Sanitation Law and the Product Liability Law. The Group also operates under the control of laws and regulations in other countries in which it operates. Changes in such laws and regulations, or the unexpected introduction of new laws and regulations may affect the business performance and financial condition of the Asahi Breweries Group.

11. Developments in alcohol awareness

To fulfill its corporate social responsibility (CSR) as a company that produces and sells alcoholic beverages, Asahi Breweries Group exercises the utmost care in expressions used in advertisements and information on container labels, and is actively involved in educating the public on responsible drinking to prevent underage drinking and consumption by pregnant and breast-feeding women. Nevertheless, considering that problems related to alcohol have become an international issue, regulations that significantly exceed expectations and result in a decline in consumption may affect the business performance and financial condition of the Asahi Breweries Group.

12. Risks related to litigation

In pursuing its businesses, Asahi Breweries Group complies with relevant regulations and makes the utmost effort to ensure employees understand and practice regulatory compliance. Nevertheless, the Group faces risks of litigation in undertaking its businesses both in Japan and abroad. Lawsuits against the Asahi Breweries Group and/or the impact of such lawsuits may affect the business performance and financial condition of the Asahi Breweries Group.

13. Risks related to the impairment of assets

Asahi Breweries Group possesses securities for maintaining long-term business relationships, and a significant drop in the market price of such securities or deterioration in the financial conditions of the related companies may affect the business performance and financial condition of the Asahi Breweries Group.

The Group adopted impairment accounting for fixed assets starting in the fiscal year under review and reported impairment losses for assets to which

accounting standards for the impairment of fixed assets apply. Nevertheless, significant additional declines in land prices resulting from the application of the new standards may affect the business performance and financial condition of the Asahi Breweries Group.

14. Retirement benefits

Retirement benefit liabilities and retirement benefit costs for employees and former employees of the Asahi Breweries Group are calculated based on the discount rate used in actuarial calculations and the rate of expected returns on pension assets. Major fluctuations in preconditions, including changes in the market price of pension assets, interest rates and/or pension system, may affect the business performance and financial condition of the Asahi Breweries Group.

Outlook

In fiscal 2007, which marks the first year of the Third Group Medium-Term Management Plan, we will take on the challenge of establishing a new growth path for the Group. In the alcoholic beverages business, which represents our greatest strength, we will endeavor to establish a new growth path mainly through strengthening the competitiveness of our beer-type beverages, while in Group businesses comprising our domestic soft drinks business, and our food and pharmaceuticals business, and our overseas business, we will seek to cultivate brands for each Group company and reinforce the foundations for growth by fully leveraging Group synergies.

We will also seek to create synergies through measures for reforming our profit structure, which include the development of an optimal production and distribution structures based on Group collaboration. Additionally, we will strive to further strengthen the cost-competitiveness of each business.

With respect to the domestic alcoholic beverages business, we will focus on the priority issue of bolstering the competitiveness of beer-type beverages to pursue even greater customer satisfaction, and strive to expand support for our products.

With respect to Group businesses, Asahi Soft Drinks Co., Ltd. and Asahi Food & Healthcare Co., Ltd. will intensify their efforts related to growth strategies and structural reform to further enhance their profit base. In the new growth area, the chilled beverages business, LB, Ltd. will constitute the core company into which the chilled beverages business of Asahi Soft Drinks Co., Ltd. will be integrated in April 2007, and through these Group synergies, we will reinforce the foundations for our business across the entire flow from production to sales, including product development, supply chain management (SCM) and sales activities.

With respect to our overseas business, we will continue to focus on our priority markets of China and Asia to expand our business base and achieve stronger profitability through aggressive business development.

As a result of these measures, we forecast net sales of ¥1,520.0 billion (up 5.1% from fiscal 2006 results), operating income of ¥93.0 billion (up 4.8%) and net income of ¥46.0 billion (up 2.7%).

Sales plan by category (Asahi Breweries, Ltd.)

(¥ billion)	2006	2007 (Target)	Year-on- year
Beer-type beverages (total)	893.9	935.0	4.6%
Beer	718.1	728.2	1.4%
Happoshu (low-malt beer)	108.6	122.6	12.9%
New genre (no-malt beer)	67.2	84.2	25.4%
Beverages other than beer (total)	135.3	140.0	3.5%
Shochu	57.2	60.5	5.8%
RTD	32.7	34.0	3.8%
Whisky and spirits	27.4	27.5	0.2%
Wine	15.1	15.5	2.9%
Other	2.9	2.5	-13.6%
Total	1,029.2	1,075.0	4.5%

Sales plan by category (Asahi Soft Drinks Co., Ltd.)

(¥ billion)	2006	2007 (Target)	Year-on- year
Carbonated beverages	53.5	55.1	3.0%
Fruit drinks	21.7	21.0	-3.1%
Coffee	60.2	63.2	5.0%
Tea-based drinks	57.9	61.4	6.0%
Other soft drinks	35.5	38.8	9.3%
Goods purchased	2.8	1.5	-46.7%
Total	231.6	241.0	4.1%

* Plans for 2007 exclude amounts representing the chilled beverages business that is scheduled to be transferred to LB, Ltd. after April.

Consolidated Balance Sheets

Asahi Breweries, Ltd. and Consolidated Subsidiaries
December 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and time deposits (Note 3)	¥ 15,873	¥ 15,434	\$ 133,263
Notes and accounts receivable:			
Trade	278,140	253,475	2,335,152
Other	10,983	9,859	92,209
Allowance for doubtful accounts	(9,099)	(9,105)	(76,391)
Securities (Note 5)	5,321	5	44,673
Inventories (Note 4)	92,344	86,423	775,283
Deferred income tax assets (Note 10)	9,688	7,306	81,337
Other current assets (Note 3)	25,702	22,055	215,784
Total current assets	428,952	385,452	3,601,310
Property, plant and equipment (Notes 8 and 13):			
Land	185,101	173,745	1,554,034
Buildings and structures	407,627	392,279	3,422,274
Machinery and equipment	616,016	602,114	5,171,824
Construction in progress	8,427	4,638	70,750
	1,217,171	1,172,776	10,218,882
Less accumulated depreciation	(582,154)	(538,426)	(4,887,533)
Net property, plant and equipment	635,017	634,350	5,331,349
Investments and other assets:			
Consolidation goodwill	32,635	10,234	273,990
Investment securities (Notes 5 and 8)	78,671	80,315	660,490
Investments in unconsolidated subsidiaries and affiliated companies (Note 5)	51,526	48,038	432,592
Long-term loans receivable	3,402	5,367	28,562
Deferred income tax assets (Note 10)	19,857	18,973	166,712
Other non-current assets	38,441	35,498	322,735
Total investments and other assets	224,532	198,425	1,885,081
	¥1,288,501	¥1,218,227	\$10,817,740

See accompanying notes.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Bank loans (Note 8)	¥ 88,329	¥ 65,637	\$ 741,575
Commercial paper (Note 8)	3,000	3,500	25,187
Long-term debt due within one year (Note 8)	54,330	52,168	456,133
Notes and accounts payable:			
Trade	106,331	92,748	892,713
Other (mainly construction)	49,732	49,948	417,530
Alcohol tax and consumption taxes payable	140,892	140,145	1,182,873
Deposits received	37,627	43,762	315,901
Income taxes payable (Note 10)	28,797	5,590	241,768
Accrued liabilities	47,791	42,845	401,234
Other current liabilities	4,090	3,598	34,338
Total current liabilities	560,919	499,941	4,709,252
Long-term debt (Note 8)	144,443	167,897	1,212,686
Employees' severance and retirement benefits (Note 9)	26,973	27,721	226,455
Allowance for retirement benefits for directors and corporate auditors	844	687	7,086
Deferred income tax liabilities (Note 10)	5,167	709	43,380
Long-term deposits received	36,939	38,212	310,125
Other long-term liabilities	3,441	1,192	28,889
Commitments and contingent liabilities (Note 12)			
Net assets (Note 11)			
Shareholders' equity (Note 15)			
Common stock:			
Authorized-972,305,309 shares			
Issued-483,585,862 shares	182,531	182,531	1,532,457
Capital surplus	150,505	163,709	1,263,580
Retained earnings	142,330	106,426	1,194,946
Treasury stock, at cost	(16,947)	(17,317)	(142,280)
Total shareholders' equity	458,419	435,349	3,848,703
Accumulated gains (losses) from revaluation and translation adjustments			
Unrealized gains on available-for-sale securities, net of taxes	14,563	16,585	122,265
Unrealized losses on hedging derivatives, net of taxes	(28)	—	(235)
Foreign currency translation adjustments	3,754	2,958	31,517
Total accumulated gains (losses) from revaluation and translation	18,289	19,543	153,547
Minority interests	33,067	26,976	277,617
Total net assets	509,775	481,868	4,279,867
	¥1,288,501	¥1,218,227	\$10,817,740

See accompanying notes.

Consolidated Statements of Income

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net sales (Note 17)	¥1,446,385	¥1,430,027	¥1,444,226	\$12,143,271
Costs and expenses (Note 17):				
Cost of sales	452,561	440,220	424,901	3,799,522
Alcohol tax	497,583	513,776	553,709	4,177,508
Selling, general and administrative expenses	407,528	385,782	364,343	3,421,442
	1,357,672	1,339,778	1,342,953	11,398,472
Operating income (Note 17)	88,713	90,249	101,273	744,799
Other income (expenses):				
Interest and dividend income	1,533	1,352	1,505	12,870
Interest expenses	(4,407)	(4,069)	(4,284)	(36,999)
Equity in net income (loss) of unconsolidated subsidiaries and affiliated companies	6,367	4,426	(734)	53,455
Compensation for transfer of plant	290	695	598	2,434
Loss on sale of securities-net	(111)	(736)	(1,469)	(932)
Loss on sale and disposal of property, plant and equipment-net	(4,093)	(9,717)	(30,865)	(34,363)
Loss on liquidation of unconsolidated subsidiaries and affiliated companies	—	—	(666)	—
Loss on devaluation of investment securities	(506)	(337)	(272)	(4,248)
Expense for modification of vending machines due to issuance of new bank bill	—	—	(1,668)	—
Restructuring charges	(1,777)	(3,598)	—	(14,919)
Loss on write-down of land	—	(3,181)	—	—
Impairment loss on fixed assets (Notes 13 and 15)	(3,905)	—	—	(32,785)
Other-net	(939)	641	(5,049)	(7,883)
	(7,548)	(14,524)	(42,904)	(63,370)
Income before income taxes and minority interests	81,165	75,725	58,369	681,429
Income taxes (Note 10):				
Current	36,862	18,542	33,742	309,479
Deferred	(1,538)	15,479	(6,910)	(12,913)
	35,324	34,021	26,832	296,566
Income before minority interests	45,841	41,704	31,537	384,863
Minority interests in net gain of consolidated subsidiaries	(1,066)	(1,834)	(941)	(8,950)
Net income	¥ 44,775	¥ 39,870	¥ 30,596	\$ 375,913

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
Amounts per share of common stock:				
Net income	¥94.02	¥82.22	¥62.52	\$0.79
Diluted net income	93.85	80.98	60.64	0.79
Cash dividends applicable to the year	19	17	15	0.16

See accompanying notes.

Consolidated Statements of Changes in Net Assets (Note 15)

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2006, 2005 and 2004

	Millions of yen							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests
Balance at December 31, 2003	¥182,531	¥181,281	¥50,410	¥(18,027)	¥1,794	—	¥ 164	¥17,495
Net income			30,596					
Cash dividends paid (¥14.00 per share)			(6,833)					
Bonuses to directors and corporate auditors			(124)					
Increase resulting from increase in consolidated subsidiaries			6					
Decrease resulting from increase in consolidated subsidiaries			(2)					
Purchases of treasury stock				(6,871)				
Disposal of treasury stock		1		13				
Increase due to changes in fair market values of available-for-sale securities					2,975			
Adjustments from translation of foreign currency financial statements							(86)	
Increase in minority interests								9,333
Balance at December 31, 2004	182,531	181,282	74,053	(24,885)	4,769	—	78	26,828
Net income			39,870					
Cash dividends paid (¥15.00 per share)			(7,279)					
Bonuses to directors and corporate auditors			(185)					
Decrease resulting from decrease in consolidated subsidiaries			(33)					
Purchases of treasury stock				(10,042)				
Retirement of treasury stock		(17,571)		17,571				
Disposal of treasury stock		(2)		39				
Increase due to changes in fair market values of available-for-sale securities					11,816			
Adjustments from translation of foreign currency financial statements							2,880	
Increase in minority interests								148
Balance at December 31, 2005	182,531	163,709	106,426	(17,317)	16,585	—	2,958	26,976
Net income			44,775					
Cash dividends paid (¥18.00 per share)			(8,607)					
Bonuses to directors and corporate auditors			(146)					
Decrease resulting from increase in consolidated subsidiaries			(118)					
Purchases of treasury stock				(13,068)				
Retirement of treasury stock		(13,147)		13,147				
Disposal of treasury stock		(57)		291				
Decrease due to changes in fair market values of available-for-sale securities					(2,022)			
Decrease due to changes in fair market values of hedging derivatives						(28)		
Adjustments from translation of foreign currency financial statements							796	
Increase in minority interests								6,091
Balance at December 31, 2006	¥182,531	¥150,505	¥142,330	¥(16,947)	¥14,563	¥(28)	¥3,754	¥33,067

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities, net of taxes	Deferred gains or losses on hedges	Foreign currency translation adjustments	Minority interests
Balance at December 31, 2005	\$1,532,457	\$1,374,435	\$893,510	\$(145,387)	\$139,241	—	\$24,834	\$226,480
Net income			375,913					
Cash dividends paid (\$0.15 per share)			(72,261)					
Bonuses to directors and corporate auditors			(1,226)					
Decrease resulting from increase in consolidated subsidiaries			(990)					
Purchases of treasury stock				(109,713)				
Retirement of treasury stock		(110,377)		110,377				
Disposal of treasury stock		(478)		2,443				
Decrease due to changes in fair market values of available-for-sale securities					(16,976)			
Decrease due to changes in fair market values of hedging derivatives						(235)		
Adjustments from translation of foreign currency financial statements							6,683	
Increase in minority interests								51,137
Balance at December 31, 2006	\$1,532,457	\$1,263,580	\$1,194,946	\$(142,280)	\$122,265	\$(235)	\$31,517	\$277,617

See accompanying notes.

Consolidated Statements of Cash Flows

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 81,165	¥ 75,725	¥ 58,369	\$ 681,429
Depreciation (Note 17)	48,793	50,028	51,339	409,647
Impairment loss on fixed assets (Notes 13 and 17)	3,905	—	—	32,785
Decrease in provision for employees' severance and retirement benefits	(3,322)	(1,614)	(1,039)	(27,890)
Decrease in allowance for doubtful accounts	(2,801)	(2,497)	(1,263)	(23,516)
Interest and dividend income	(1,533)	(1,352)	(1,505)	(12,870)
Interest expenses	4,407	4,069	4,284	36,999
Equity in net loss (income) of unconsolidated subsidiaries and affiliated companies	(6,367)	(4,426)	734	(53,455)
Loss on sale of securities-net	111	736	1,469	932
Loss on devaluation of investment securities	506	337	272	4,248
Loss on liquidation of unconsolidated subsidiaries and affiliated companies	—	—	666	—
Loss on write-down of land	—	3,181	—	—
Loss on sale and disposal of property, plant and equipment-net	4,093	10,037	30,865	34,363
Decrease (increase) in notes and accounts receivable	(16,335)	28,024	(12,809)	(137,142)
Decrease (increase) in inventories	(1,911)	(999)	4,316	(16,044)
Increase in notes and accounts payable (excluding construction)	7,702	6,765	2,770	64,663
Increase (decrease) in accrued alcohol tax payable	(622)	(15,494)	1,938	(5,222)
Increase (decrease) in accrued consumption taxes payable	1,196	(3,849)	8	10,041
Bonuses paid to directors and corporate auditors	(189)	(197)	(127)	(1,587)
Other	1,324	(18,110)	5,788	11,115
Subtotal	120,122	130,364	146,075	1,008,496
Interest and dividends received	4,285	1,432	1,621	35,975
Interest paid	(4,439)	(4,029)	(4,392)	(37,268)
Income taxes paid	(14,125)	(40,522)	(30,374)	(118,587)
Net cash provided by operating activities	105,843	87,245	112,930	888,616
Cash flows from investing activities:				
Payments for time deposits	(883)	(113)	(1,046)	(7,413)
Proceeds from time deposits	590	549	1,279	4,953
Proceeds from sales of securities	5	2,464	—	42
Payments for purchases of property, plant and equipment	(33,299)	(35,080)	(36,021)	(279,565)
Proceeds from sale of property, plant and equipment	2,396	11,548	3,960	20,116
Payments for purchases of intangible assets	(4,520)	(3,391)	(5,888)	(37,948)
Proceeds from sales of intangible assets	64	1,500	—	537
Payments for purchases of investment securities	(7,259)	(11,782)	(39,114)	(60,944)
Proceeds from sale of investment securities	1,403	845	12,180	11,779
Payment for purchases of investment in subsidiaries results in change in scope of consolidation (Note 3)	(39,271)	(11,003)	(784)	(329,704)
Proceeds from sales of investment in subsidiaries results in change in scope of consolidation	—	632	7,780	—
Payments for loans receivable	(772)	(1,313)	(809)	(6,481)
Proceeds from collections of loans receivable	1,813	1,473	978	15,221
Other	(2,516)	(877)	2,634	(21,123)
Net cash used in investing activities	(82,249)	(44,548)	(54,851)	(690,530)
Cash flows from financing activities:				
Increase (decrease) in bank loans	21,143	25,921	(17,360)	177,508
Proceeds from long-term debt	3,664	17,605	30,765	30,761
Repayments of long-term debt	(2,532)	(13,104)	(17,242)	(21,258)
Proceeds from bonds and convertible debentures issued	25,000	—	10,000	209,890
Redemption of bonds	(50,000)	(49,996)	(47,397)	(419,780)
Payments for purchases of treasury stock	(13,068)	(10,042)	(6,872)	(109,714)
Cash dividends paid	(8,607)	(7,279)	(6,833)	(72,261)
Cash dividends paid to minority in consolidated subsidiaries	(675)	(489)	(2)	(5,667)
Contribution from minority in consolidated subsidiaries	3,062	1,293	2,504	25,707
Other	(233)	386	(3,230)	(1,955)
Net cash used in financing activities	(22,246)	(35,705)	(55,667)	(186,769)
Effect of exchange rate change on cash and cash equivalents	223	660	(230)	1,872
Net increase in cash and cash equivalents	1,571	7,652	2,182	13,189
Cash and cash equivalents at beginning of year	21,309	13,657	11,562	178,903
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	898	—	(87)	7,539
Cash and cash equivalents at end of year (Note 3)	¥ 23,778	¥ 21,309	¥ 13,657	\$ 199,631

See accompanying notes.

Notes to Consolidated Financial Statements

Asahi Breweries, Ltd. and Consolidated Subsidiaries

1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Asahi Breweries, Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. As discussed in Note 2 "Accounting Standard for Statement of Changes in Net Assets", the consolidated statement of changes in net assets for 2005 and 2004 has been prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau prior to 2006.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2006, which was ¥119.11 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Significant Accounting Policies

➤ Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (41 domestic and 12 overseas subsidiaries for 2006, 40 domestic and 13 overseas subsidiaries for 2005, and 41 domestic and 14 overseas subsidiaries for 2004). All significant intercompany transactions and account balances are eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference of investment cost and net assets is amortized over 5 to 20 years on a straight-line basis.

➤ Equity method

Investments in certain unconsolidated subsidiaries and affiliated companies are accounted for by the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

> Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

> Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual percentage of the Company's collection losses.

> Securities

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). The Company and its consolidated subsidiaries (the "Companies") do not have trading securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

> Inventories

Inventories are stated at cost. Cost is determined mainly by the average method for all inventories except for raw materials and supplies which are determined using the moving average method.

> Property, plant and equipment

Property, plant and equipment are carried substantially at cost. Depreciation is provided by the straight-line method with respect to production facilities and by the declining-balance method with respect to remaining assets, except for the buildings acquired on or after April 1, 1998, which are depreciated using the straight-line method due to the amendments to the Corporation Tax Law. Estimated useful lives of the assets are as follows:

Buildings and structures	3—50 years
Machinery and equipment	2—20 years

Japanese tax regulations allow a company to defer capital gains on the sale

of real estate if the company intends to offset such gains against the cost of newly acquired property, plant and equipment. When such accounting is followed, the cost of the new property, plant and equipment is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation.

➤ Income taxes

The Companies recognized tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences.

➤ Employees' severance and retirement benefits

The Company had provided two types of employees' severance and retirement benefit plans, an unfunded lump-sum payment plan and a funded non-contributory pension plan under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

In the year ended December 31, 2005, the Company changed from those two types of employees' severance and retirement benefit plans to a defined benefit pension plan and an unfunded lump-sum payment plan. In addition, the Company established a defined contribution pension plan and an advance payment system for the employees' retirement plan in the year ended December 31, 2005. As a result of this change, the projected benefit obligation decreased by ¥3,958 million and prior service costs of same amount were incurred.

The consolidated subsidiaries have provided two types of employees' severance and retirement benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

In the year ended December 31, 2006, the Company acquired companies which provide three types of employees' severance and retirement benefit plans, an unfunded lump-sum payment plan, a funded non-contributory pension plan and a funded contributory pension plan.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and retirement benefits at the balance sheet date based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period.

Prior service costs are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years.

➤ Allowance for retirement benefits for directors and corporate auditors

Directors and corporate auditors are entitled, in most circumstances, to lump-sum severance payments based on current rates of pay, length of services and certain other factors. The Companies accrue 100% of obligations based on their rules required under the assumption that all directors and corporate auditors retired at the balance sheet date. Payments of retirement benefits to directors and corporate auditors are subject to approval of the shareholders' meeting.

➤ Translation of foreign currency accounts and financial statements

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and statement of income items resulting from transactions with the Company at the rates used by the Company.

Foreign currency translation adjustments resulting from translation of foreign currency financial statements were presented separately in the accumulated gains (losses) from revaluation and translation adjustments and minority interests in the consolidated balance sheets.

➤ Derivative financial instruments

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

➤ Amounts per share of common stock

Net income per share is computed based upon the average number of shares of common stock outstanding during the period.

Cash dividends per share have been presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

➤ Impairment of Fixed Assets

Effective January 1, 2006, the Company and its domestic consolidated subsidiaries adopted the new accounting standards for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" ("the Financial Accounting Standard Implementation Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the new accounting standard, income before income taxes and minority interests for the year ended December 31, 2006, decreased by ¥3,905 million (\$32,785 thousand).

Additionally, impairment losses comprising the cumulative total have been deducted directly from the book value of respective assets in accordance with revised regulations.

➤ Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective for the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No. 5"

issued by the Accounting Standards Board of Japan on December 9, 2005), and “the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet” (“the Financial Accounting Standard Implementation Guidance No. 8” issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the “New Accounting Standards”).

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and the stockholders’ equity sections.

The net assets section comprises four subsections, which are shareholders’ equity, accumulated gains (losses) from revaluation and translation adjustments, subscription rights to shares and minority interests, as applicable.

The net assets section includes items which were not included in the previously presented stockholders’ equity section. The accumulated gains (losses) from revaluation and translation adjustments section included unrealized gains (losses) on hedging derivatives, net of taxes. Minority interests were presented between non-current liabilities and the previously presented stockholders’ equity.

The previously presented stockholders’ equity and certain other balance sheet items for 2005 have been restated to conform to the 2006 presentation. As a result, minority interests amounting to ¥26,976 million are included in the net assets section as of December 31, 2005.

If the New Accounting Standards had not been adopted and the previous presentation method for the stockholders’ equity had been applied, the stockholders’ equity at December 31, 2005 and 2006, which comprised common stock, capital surplus, retained earnings, unrealized gains on available-for-sale securities, net of taxes, foreign currency translation adjustments and treasury stock, would have been ¥454,891 million and ¥476,736 million (\$4,002,485 thousand), respectively.

➤ Accounting Standard for Statement of Changes in Net Assets

Effective for the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries adopted new accounting standards, “Accounting Standard for Statement of Changes in Net Assets” (“Statement No. 6” issued by the Accounting Standards Board of Japan on December 27, 2005), and “the Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets” (“the Financial Accounting Standard Implementation Guidance No. 9” issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the “New Accounting Standards”). Previously, consolidated statements of stockholders’ equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required in Japan.

Based on the reclassification of the previously presented stockholders’ equity and certain other balance sheet items for 2005 as discussed in Note 2 “Accounting Standard for Presentation of Net Assets in the Balance Sheet”, the consolidated statements of changes in net assets for 2005 and 2004 have been prepared in accordance with the New Accounting Standards. As a result, minority interest of ¥26,976 million and ¥26,828 million, which were not included in the 2005 and 2004 consolidated statements of stockholders’ equity, are now presented in the consolidated statements of changes in net assets.

➤ Reclassifications and restatement

Certain reclassifications have been made in the 2005 and 2004 financial statements to conform to the presentation for 2006. Also, as described in Note 2

Notes to Consolidated Financial Statements

“Accounting Standard for Presentation of Net Assets in the Balance Sheet” and “Accounting Standard for Statement of Changes in Net Assets”, previously presented stockholders’ equity and certain other balance sheet items for 2005 and the consolidated statements of stockholders’ equity for 2005 and 2004, which was voluntarily prepared for the purpose of inclusion in the 2005 consolidated financial statements, have been restated to conform to the new accounting standards adopted in 2006.

These reclassifications and restatement had no impact on previously reported results of operations.

3 Cash Flow Information

A. Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥15,873	¥15,434	\$133,263
Less: Time deposits with maturities exceeding three months	(440)	(124)	(3,694)
Securities	146	—	1,226
Other current assets (short-term loans receivable)	8,199	5,999	68,836
Cash and cash equivalents	¥23,778	¥21,309	\$199,631

B. Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:

Assets and liabilities of the Wakodo Co., Ltd. and its subsidiaries and relationship with the acquisition cost and net cash outflow of such acquisition, which are included in “Payment for purchases of investment in subsidiaries results in change in scope of consolidation” for the year ended December 31, 2006, are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	¥15,736	\$132,113
Non current assets	24,618	206,683
Consolidation goodwill	22,659	190,236
Current liabilities	(9,012)	(75,661)
Non current liabilities	(9,060)	(76,064)
Minority interests	(1,872)	(15,717)
Acquisition cost of Wakodo Co., Ltd.	43,069	361,590
Cash and cash equivalents of Wakodo Co., Ltd.	(3,798)	(31,886)
Net cash used for acquisition of Wakodo Co., Ltd.	39,271	329,704

4 Inventories

Inventories at December 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥19,799	¥16,482	\$166,224
Work in process	39,399	39,098	330,778
Raw materials	20,037	19,830	168,223
Supplies	5,974	5,489	50,155
Merchandise	7,135	5,524	59,903
Total	¥92,344	¥86,423	\$775,283

5 Securities

A. The following tables summarize book values and fair values of held-to-maturity debt securities with available fair value as of December 31, 2006 and 2005:

Type	Millions of yen		
	2006		
	Book value	Fair value	Difference
Securities with fair values exceeding book values:			
Foreign securities	¥29	¥34	¥5
	29	34	5
Securities with fair values not exceeding book values:			
Foreign securities	28	27	(1)
	28	27	(1)
Total	¥57	¥61	¥4

Type	Millions of yen		
	2005		
	Book value	Fair value	Difference
Securities with fair values exceeding book values:			
Foreign securities	¥27	¥32	¥5
	27	32	5
Securities with fair values not exceeding book values:			
Foreign securities	26	24	(2)
	26	24	(2)
Total	¥53	¥56	¥3

Type	Thousands of U.S. dollars		
	2006		
	Book value	Fair value	Difference
Securities with fair values exceeding book values:			
Foreign securities	\$243	\$285	\$42
	243	285	42
Securities with fair values not exceeding book values:			
Foreign securities	235	227	(8)
	235	227	(8)
Total	\$478	\$512	\$34

B. The following tables summarize acquisition costs and book values of available-for-sale securities with available fair value as of December 31, 2006 and 2005:

Type	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥27,383	¥53,826	¥26,443
Others	200	206	6
	27,583	54,032	26,449
Securities with book values not exceeding acquisition costs:			
Equity securities	5,637	4,842	(795)
Corporate bonds	1	1	(0)
	5,638	4,843	(795)
Total	¥33,221	¥58,875	¥25,654

Notes to Consolidated Financial Statements

Type	Millions of yen		
	2005		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥25,024	¥53,376	¥28,352
Others	—	—	—
	25,024	53,376	28,352
Securities with book values not exceeding acquisition costs:			
Equity securities	1,993	1,557	(436)
Corporate bonds	1	1	(0)
	1,994	1,558	(436)
Total	¥27,018	¥54,934	¥27,916

Type	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$229,897	\$451,902	\$222,005
Others	1,679	1,729	50
	231,576	453,631	222,055
Securities with book values not exceeding acquisition costs:			
Equity securities	47,326	40,652	(6,674)
Corporate bonds	8	8	(0)
	47,334	40,660	(6,674)
Total	\$278,910	\$494,291	\$215,381

C. Total sales of available-for-sale securities sold in the years ended December 31, 2006, 2005 and 2004 amounted to ¥1,394 million (\$11,703 thousand), ¥804 million and ¥1,323 million, and the related gains amounted to ¥79 million (\$663 thousand), ¥422 million and ¥496 million and the related losses amounted to ¥107 million (\$898 thousand), ¥78 million and ¥125 million, respectively.

D. The following tables summarize book values of securities with no available fair values as of December 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Book value	Book value	Book value
(a) Held-to-maturity debt securities			
Type			
Non-listed foreign securities	¥ 5,163	¥ 5,118	\$ 43,346
(b) Available-for-sale securities			
Type			
Non-listed equity securities	¥ 8,920	¥ 8,984	\$ 74,889
Preference shares	10,000	10,000	83,956
Others	977	1,232	8,202
(c) Investments in unconsolidated subsidiaries and affiliated companies	¥48,125	¥46,666	\$404,038

E. Available-for-sale securities with maturities and held-to-maturity debt securities as of December 31, 2006 and 2005 are as follows:

Type	Millions of yen				
	2006				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Corporate bonds	¥ —	¥197	¥ —	¥—	¥ 197
Others	—	1	206	—	207
Held-to-maturity debt securities:					
Foreign securities	5,175	38	7	—	5,220
Total	¥5,175	¥236	¥213	¥—	¥5,624

Type	Millions of yen				
	2005				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Corporate bonds	¥1	¥ 182	¥—	¥—	¥ 183
Others	—	3	—	—	3
Held-to-maturity debt securities:					
Foreign securities	5	5,159	7	—	5,171
Total	¥6	¥5,344	¥7	¥—	¥5,357

Type	Thousands of U.S. dollars				
	2006				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Corporate bonds	\$ —	\$1,654	\$ —	\$—	\$ 1,654
Others	—	8	1,729	—	1,737
Held-to-maturity debt securities:					
Foreign securities	43,447	319	59	—	43,825
Total	\$43,447	\$1,981	\$1,788	\$—	\$47,216

6 Research and Development Expenses

Research and development expenses are expensed when incurred. Research and development expenses included in cost of sales and selling, general and administrative expenses are ¥8,484 million (\$71,228 thousand), ¥8,292 million and ¥8,318 million for the years ended December 31, 2006, 2005 and 2004, respectively.

7 Derivative Financial Instruments

The Companies use interest rate swap, currency swap and forward currency exchange contracts only for the purpose of mitigating the risk of fluctuations in interest rates and foreign exchange rates.

Forward currency exchange and currency swap, and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. The Company's Finance Department reports information on derivative transactions

Notes to Consolidated Financial Statements

to the Manager and Executive Officer of the Finance Department whenever necessary.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:

- Forward currency exchange contracts
- Currency swap contracts
- Interest rate swap contracts

Hedged items:

- Foreign currency trade receivables and trade payables
- Foreign currency bonds
- Interest on foreign currency bonds and loans payable

Information on the derivative financial instrument contracts utilized by the Companies outstanding at December 31, 2006 and 2005 are not disclosed as all such contracts are effectively hedging the transactions.

8 Bank Loans, Commercial Paper and Long-term Debt

Bank loans at December 31, 2006 and 2005 were represented by short-term notes or overdrafts, bearing interest at average rates of 1.24% per annum for 2006 and 0.74% per annum for 2005.

The Company has entered into a yen domestic commercial paper program with a current maximum facility amount of ¥200,000 million (\$1,679,120 thousand). There was an outstanding balance of ¥3,000 million (¥25,187 thousand) and ¥3,500 million at December 31, 2006 and 2005.

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Domestic debentures:			
0.63% debentures due in 2006	¥ —	¥ 5,000	\$ —
0.66% debentures due in 2006	—	25,000	—
1.48% debentures due in 2006	—	20,000	—
0.45% debentures due in 2007	10,000	10,000	83,956
0.55% debentures due in 2007	30,000	30,000	251,868
0.61% debentures due in 2008	10,000	10,000	83,956
0.84% debentures due in 2009	20,000	20,000	167,912
1.34% debentures due in 2010	15,000	—	125,934
1.72% debentures due in 2012	10,000	—	83,956
Long-term loans, principally from banks, insurance companies and agricultural cooperatives:			
Secured loans due through 2014 at interest rates of mainly 0.97% to 6.03%	14,122	14,193	118,563
Unsecured loans due through 2013 at interest rates of mainly 0.47% to 5.7%	89,651	85,872	752,674
	198,773	220,065	1,668,819
Amount due within one year	(54,330)	(52,168)	(456,133)
	¥144,443	¥167,897	\$1,212,686

Assets, at book value, pledged as collateral for long-term loans totaling ¥14,122 million (\$118,563 thousand) and ¥14,193 million, respectively, at December 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥27,179	¥28,550	\$228,184
Buildings and structures	9,907	9,687	83,175
Machinery and equipment	3,777	3,707	31,710
Investment securities	633	—	5,314
	¥41,496	¥41,944	\$348,386

The aggregate annual maturities of long-term debt at December 31, 2006 were as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 54,330	\$ 456,133
2008	53,970	453,111
2009	38,592	324,003
2010	35,562	298,564
2011	5,460	45,840
2012 and thereafter	10,859	91,168
	¥198,773	\$1,668,819

9 Employees' Severance and Retirement Benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of December 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥84,666	¥80,280	\$710,822
Less fair value of pension assets	(42,078)	(37,289)	(353,270)
Less fair value of employees' retirement benefit trust	(24,668)	(26,962)	(207,102)
Unrecognized pension assets	—	4,552	—
Unrecognized actuarial differences	5,509	3,345	46,251
Unrecognized prior service cost	3,543	3,795	29,746
Prepaid pension cost	1	—	8
Employees' severance and retirement benefits	¥26,973	¥27,721	\$226,455

The discount rates used by the Companies are mainly 2.0% for the years ended December 31, 2006 and 2005, respectively.

Unrecognized pension assets as of ¥4,552 as of December 31, 2005 were converted to unrecognized actual differences on January 1, 2006 due to application of "The partial revision of Accounting Standard for Employee's Severance and Pension Benefits" ("Statement No. 3" issued by the Accounting Standards Board of Japan on March 16, 2005), and the implementation guidance for the accounting standard for the partial revision of accounting standard for employee's severance and pension benefits (the Financial Accounting Standard Implementation Guidance No. 7 issued by the Accounting Standards Board of Japan on March 16, 2005), (collectively, the "New Accounting Standards").

The pension assets of the funded contributory pension plan is not included above fair value of pension assets because the amount of pension assets can not be calculated reasonably. The contribution to the funded contributory pension plan is reported as severance and retirement benefit expenses.

Notes to Consolidated Financial Statements

Included in the consolidated statements of operations for the years ended December 31, 2006, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service costs – benefits earned during the year	¥4,672	¥4,623	¥4,531	\$39,224
Interest cost on projected benefit obligation	1,593	1,579	1,644	13,374
Expected return on plan assets	(2,129)	(955)	(822)	(17,874)
Amortization of actuarial differences	(378)	960	1,281	(3,174)
Amortization of prior service cost	(438)	(202)	—	(3,677)
Others	740	264	—	6,213
Severance and retirement benefit expenses	¥4,060	¥6,269	¥6,634	\$34,086

The rates of expected return on plan assets used by the Companies are mainly 3.5% for the year ended December 31, 2006 and 2.0% for the years ended December 31, 2005 and 2004 respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains/losses are recognized in the statements of income using the straight-line method over 10 years, beginning the following fiscal year of recognition. Prior service costs are recognized in the statements of income using the straight-line method over 10 years.

10 Income Taxes

The Company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate normal effective tax rates of approximately 40.4% for the years ended December 31, 2006 and 2005 and 41.8% for the year ended December 31, 2004.

The following table summarizes the significant differences between the statutory tax rate and the actual effective tax rate:

	2006	2005	2004
Statutory tax rate	40.4%	40.4%	41.8%
Non-deductible expenses	2.2%	3.5%	2.8%
Non-taxable dividend income	(0.3%)	(0.1%)	(0.1%)
Per capita inhabitants' taxes	0.4%	0.4%	0.5%
Valuation allowance	4.7%	5.4%	7.7%
Reversal of valuation allowance	(2.4%)	(2.3%)	(6.8%)
Tax credit	—	—	(1.2%)
Adjustment on deferred tax assets due to change in income tax rate	—	—	2.0%
Amortization of the difference of investment cost and net assets	1.1%	(0.7%)	(1.2%)
Equity in net income of unconsolidated subsidiaries and affiliated companies	(3.2%)	(2.4%)	—
Others	0.6%	0.7%	0.5%
Effective tax rate	43.5%	44.9%	46.0%

Effective for years commencing on January 1, 2005 or later, according to the revised local tax law, income tax rate for enterprise taxes was reduced as a result of introducing the assessment by estimation on the basis of the size of business.

Significant components of deferred income tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred income tax assets			
Deferred income tax assets:			
Allowance for doubtful accounts	¥ 4,935	¥ 6,159	\$ 41,432
Severance and retirement benefits	16,585	16,556	139,241
Accrued expenses for enterprise tax	2,255	242	18,932
Depreciation	476	530	3,996
Temporary difference for investment in subsidiaries	1,083	—	9,092
Loss on write-down of land	—	1,271	—
Impairment of fixed assets	1,572	—	13,198
Loss on devaluation of investment securities	4,361	4,212	36,613
Loss on securities contributed to employees' retirement benefit trust	1,470	1,470	12,342
Net operating loss carry forwards	11,780	12,444	98,900
Unrealized gain on sale of non-current assets eliminated on consolidation	7,163	7,105	60,138
Accrued expenses	1,918	1,004	16,103
Others	7,078	7,158	59,424
	60,676	58,151	509,411
Valuation allowance	(18,963)	(18,955)	(159,206)
Total deferred income tax assets	41,713	39,196	350,205
Deferred income tax liabilities:			
Reserve deductible for Japanese tax purposes	(1,315)	(1,634)	(11,040)
Unrealized gains on available-for-sale securities	(10,379)	(11,284)	(87,138)
Land write-up difference	(5,614)	—	(47,133)
Others	(26)	(715)	(218)
Total deferred income tax liabilities	(17,334)	(13,633)	(145,529)
Net deferred income tax assets	¥24,379	¥25,563	\$204,676

The net deferred tax assets for the year ended December 31, 2006 is consisted of deferred income tax assets included in current assets and fixed assets amounting to ¥9,688 million (\$81,337 thousand) and ¥19,857 million (\$166,712 thousand), respectively, and deferred income tax liabilities included in other current liabilities and long-term debt amounting to ¥0 million (\$0 thousand) and ¥5,167 million (\$43,380 thousand), respectively.

The net deferred tax assets for the year ended December 31, 2005 is consisted of deferred income tax assets included in current assets and fixed assets amounting to ¥7,306 million and ¥18,973 million, respectively, and deferred income tax liabilities included in other current liabilities and long-term debt amounting to ¥6 million and ¥709 million, respectively.

11 Net Assets

As described in Note 2 "Accounting Standard for Presentation of Net Assets in the Balance Sheet," net assets comprises four subsections, which are the shareholders' equity, accumulated gains (losses) from revaluation and translation adjustments, subscription rights to shares and minority interests.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the

smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on March 27, 2006, the shareholders resolved cash dividends amounting to ¥4,942 million (\$41,491 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2006, and are recognized in the period in which they were resolved.

12 Commitments and Contingent Liabilities

At December 31, 2006, the Companies were contingently liable as guarantors for borrowings of unconsolidated subsidiaries, affiliated companies, employees and others, including letters of awareness and keep-well agreements, in the amount of ¥9,881 million (\$82,957 thousand), and for other in the amount of ¥2 million (\$17 thousand).

13 Impairment of fixed assets

As discussed in Note 2 "Impairment of fixed assets," the Company and its domestic consolidated subsidiaries adopted the accounting standard for impairment of fixed assets. Impairment loss on fixed assets for the year ended December 31, 2006 consisted of the following.

Use	Location	Type of assets
Assets used for business (Logistics)	Komaki (Aichi) and 2 others	Land, buildings and structures
Asset for rent	Sumida-ku (Tokyo)	Land, buildings and structures
Idle properties	Akitakada (Hiroshima) and other	Land

The Company and its domestic consolidated subsidiaries have grouped their fixed assets principally based on their offices or factories, while considering mutual supplementation of the cash flows.

For fixed assets in the real estate business and idle properties, each property is considered to constitute a group. Headquarters and welfare facilities were classified as corporate assets because they do not generate cash flows independent of other assets or group of assets.

Carrying amounts of certain assets used for business were not recovered by estimated future cash flows, and their carrying amounts were devalued to their recoverable amounts, owing to substantial decline in the fair market value. Carrying amounts of certain idle properties were devalued to their recoverable amounts, owing to substantial decline in the fair market value.

As a result, the Company recognized loss on impairment in the amount of ¥3,905 million (\$32,785 thousand), which consisted of land ¥2,352 million, buildings and structures ¥1,553 million.

Recoverable amount of each group of assets is the higher amount of net selling price (fair value less costs to sell) or value in use. The Company mainly used appraisal value prepared by real estate appraisers for calculating net selling price, and value in use was calculated by discounting future cash flows at interest rate of 4.3%.

14 Information for Certain Leases

Finance leases which do not transfer ownership to lessees (and do not have bargain purchase provisions) are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at December 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Machinery, furniture and fixtures and others			
Acquisition cost	¥72,188	¥71,858	\$606,062
Accumulated depreciation	37,035	36,608	310,931
Net book value	35,153	35,250	295,131

Future lease payments as of December 31, 2006 and 2005, net of interest, under such leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥13,888	¥12,600	\$116,598
Due after one year	24,992	24,209	209,823
	¥38,880	¥36,809	\$326,421

Lease payments, depreciation equivalents and amounts representing interest under the finance leases which are accounted for in the same manner as operating leases for the years ended December 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Lease payments	¥16,474	¥15,824	¥20,761	\$138,309
Depreciation equivalents	14,960	14,163	17,663	125,598
Amounts representing interest	1,466	1,497	1,707	12,308

Differences between total lease expenses and acquisition costs of the leased properties comprise interest expense equivalent. Interest expense equivalent is allocated using the interest method over the lease terms.

15 Shareholders' equity

Changes in number of shares issued and outstanding during the years ended December 31, 2006 and 2005 are as follows:

Common stock outstanding	2006	2005
Balance at beginning of the year	493,585,862	513,585,862
Decrease due to retirement of treasury stocks	(10,000,000)	(20,000,000)
Balance at end of the year	483,585,862	493,585,862

Treasury stock outstanding	2006	2005
Balance at beginning of the year	15,494,757	28,334,905
Increase due to purchase of odd stock	41,604	34,684
Increase due to purchase of treasury stock based on resolution of the board of directors	7,604,500	7,165,800
Decrease due to exercise of stock options	(249,900)	(37,000)
Decrease due to retirement of treasury stocks	(10,000,000)	(20,000,000)
Decrease of other reasons	(2,561)	(3,632)
Balance at end of the year	12,888,400	15,494,757

16 Stock Option Plans

The following tables summarize contents of stock options as of December 31, 2006.

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 30, 2000
Position and number of grantee	Directors and Executive Officers: 38
Class and number of stock	Common Stock 99,000
Date of issue	March 30, 2000
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From January 1, 2005 to March 29, 2010

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 29, 2001
Position and number of grantee	Directors and Executive Officers: 30
Class and number of stock	Common Stock 344,000
Date of issue	March 29, 2001
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From January 1, 2005 to March 29, 2011

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 28, 2002
Position and number of grantee	Directors and Executive Officers: 43
Class and number of stock	Common Stock 610,000
Date of issue	March 28, 2002
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From January 1, 2005 to March 27, 2012

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 28, 2003
Position and number of grantee	Directors, Corporate Auditors and Executive Officers: 49
Class and number of stock	Common Stock 645,000
Date of issue	March 28, 2003
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 28, 2005 to March 27, 2013

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 30, 2004
Position and number of grantee	Directors, Corporate Auditors and Executive Officers: 44
Class and number of stock	Common Stock 585,000
Date of issue	March 30, 2004
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 30, 2006 to March 29, 2014

Company name	Asahi Breweries, Limited
Date of the annual shareholders' meeting	March 30, 2005
Position and number of grantee	Directors, Corporate Auditors and Executive Officers: 45
Class and number of stock	Common Stock 600,000
Date of issue	March 30, 2005
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 30, 2007 to March 29, 2015

The following tables summarize scale and movement of stock options as of December 31, 2006.

Not exercisable stock options

Company name	Asahi Breweries, Limited						
Date of the annual shareholders' meeting	March 30, 2000	March 29, 2001	March 28, 2002	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006
Stock options outstanding at January 1, 2006	—	—	—	—	585,000	600,000	—
Stock options granted	—	—	—	—	—	—	620,000
Forfeitures	—	—	—	—	—	—	—
Conversion to exercisable stock options	—	—	—	—	585,000	—	—
Stock options outstanding at December 31, 2006	—	—	—	—	—	600,000	620,000

Exercisable stock options

Company name	Asahi Breweries, Limited						
Date of the annual shareholders' meeting	March 30, 2000	March 29, 2001	March 28, 2002	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006
Stock options outstanding at January 1, 2006	96,000	344,000	610,000	611,000	—	—	—
Conversion from not exercisable stock options	—	—	—	—	585,000	—	—
Stock options exercised	24,000	18,000	33,900	174,000	—	—	—
Forfeitures	—	—	—	—	—	—	—
Stock options outstanding at December 31, 2006	72,000	326,000	576,100	437,000	585,000	—	—

The following tables summarize price information of stock options as of December 31, 2006.

Company name	Asahi Breweries, Limited						
Date of the annual shareholders' meeting	March 30, 2000	March 29, 2001	March 28, 2002	March 28, 2003	March 30, 2004	March 30, 2005	March 30, 2006
Paid-in value	1,115	1,185	1,090	830	1,205	1,374	1,688
Average market price of the stock at the time of exercise	1,628	1,668	1,665	1,665	—	—	—

Notes to Consolidated Financial Statements

17 Segment Information

The Companies primarily engage in the manufacturing and sale of products in three major segments grouped on the basis of similarities in the types and nature of products.

Business segment information for the years ended December 31, 2006, 2005 and 2004 was as follows:

	Millions of yen					
Year ended December 31, 2006	Alcoholic beverages	Soft drinks	Food and pharmaceuticals	Others	Elimination and/or corporate	Consolidated
Sales:						
Outside customers	¥1,007,558	¥283,121	¥53,792	¥101,914	¥ —	¥1,446,385
Intersegment	37,950	4,083	1,810	58,235	(102,078)	—
Total sales	1,045,508	287,204	55,602	160,149	(102,078)	1,446,385
Operating expenses	967,322	279,458	55,157	157,976	(102,241)	1,357,672
Operating income	¥ 78,186	¥ 7,746	¥ 445	¥ 2,173	¥ 163	¥ 88,713
Identifiable assets	¥ 816,801	¥176,404	¥83,886	¥ 93,446	¥117,964	¥1,288,501
Depreciation	38,094	6,904	1,721	2,071	3	48,793
Impairment loss on fixed assets	—	—	—	3,905	—	3,905
Capital investments	29,501	5,235	1,376	779	3	36,894

Year ended December 31, 2005	Alcoholic beverages	Soft drinks	Food and pharmaceuticals	Others	Elimination and/or corporate	Consolidated
Sales:						
Outside customers	¥1,025,447	¥267,003	¥25,286	¥112,291	¥ —	¥1,430,027
Intersegment	42,527	4,291	1,526	60,223	(108,567)	—
Total sales	1,067,974	271,294	26,812	172,514	(108,567)	1,430,027
Operating expenses	989,885	262,662	26,007	169,955	(108,731)	1,339,778
Operating income	¥ 78,089	¥ 8,632	¥ 805	¥ 2,559	¥ 164	¥ 90,249
Identifiable assets	¥ 826,747	¥168,874	¥17,708	¥105,764	¥ 99,134	¥1,218,227
Depreciation	40,170	6,789	886	2,180	3	50,028
Capital investments	34,813	6,776	1,034	1,318	—	43,941

Year ended December 31, 2004	Alcoholic beverages	Soft drinks	Food and pharmaceuticals	Others	Elimination and/or corporate	Consolidated
Sales:						
Outside customers	¥1,078,931	¥217,380	¥22,163	¥125,752	¥ —	¥1,444,226
Intersegment	49,781	4,367	207	63,301	(117,656)	—
Total sales	1,128,712	221,747	22,370	189,053	(117,656)	1,444,226
Operating expenses	1,037,840	213,633	22,969	186,118	(117,607)	1,342,953
Operating income (loss)	¥ 90,872	¥ 8,114	¥ (599)	¥ 2,935	¥ (49)	¥ 101,273
Identifiable assets	¥ 886,843	¥133,759	¥16,939	¥129,082	¥ 84,195	¥1,250,818
Depreciation	42,119	5,299	847	3,069	5	51,339
Capital investments	31,189	4,160	1,756	3,014	15	40,134

	Thousands of U.S. dollars					
Year ended December 31, 2006	Alcoholic beverages	Soft drinks	Food and pharmaceuticals	Others	Elimination and/or corporate	Consolidated
Sales:						
Outside customers	\$8,459,055	\$2,376,971	\$451,616	\$ 855,629	\$ —	\$12,143,271
Intersegment	318,613	34,279	15,196	488,918	(857,006)	—
Total sales	8,777,668	2,411,250	466,812	1,344,547	(857,006)	12,143,271
Operating expenses	8,121,250	2,346,218	463,076	1,326,303	(858,375)	11,398,472
Operating income	\$ 656,418	\$ 65,032	\$ 3,736	\$ 18,244	\$ 1,369	\$ 744,799
Identifiable assets	\$6,857,535	\$1,481,018	\$704,273	\$ 784,535	\$990,379	\$10,817,740
Depreciation	319,822	57,963	14,449	17,387	26	409,647
Impairment loss on fixed assets	—	—	—	32,785	—	32,785
Capital investments	247,679	43,951	11,552	6,540	25	309,747

Corporate assets in the Elimination and/or corporate column in 2006, 2005 and 2004, amounted to ¥133,819 million (\$1,123,491 thousand), ¥117,078 million and ¥106,492 million, which are mainly the financial assets of the Company and subsidiaries related to the group finance.

Sales outside Japan and sales to foreign customers are less than 10% of the Company's consolidated net sales for 2006, 2005 and 2004.

18 Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2006, were approved at a general meeting of the shareholders of the Company held on March 27, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥10.5 per share)	¥4,942	\$41,491

Independent Auditors' Report

To the Board of Directors of ASAHI BREWERIES, LTD.

We have audited the accompanying consolidated balance sheets of ASAHI BREWERIES, LTD. (a Japanese corporation) and consolidated subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended December 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASAHI BREWERIES, LTD. and consolidated subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

Effective January 1, 2006, ASAHI BREWERIES, LTD. and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets as discussed in Note 2.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
March 27, 2007

Investor Information

Head Office

23-1, Azumabashi 1-chome,
Sumida-ku, Tokyo 130-8602, Japan
Tel: +81-3-5608-5126
Fax: +81-3-5608-7121
URL: <http://www.asahibeer.co.jp/english>

Date of Establishment

September 1, 1949

Major Offices and Breweries

Regional Headquarters: 10
Breweries: 9
Laboratories: 6

Number of Overseas Offices

Business Coordination Department: 1
Business Offices: 3

Number of Employees

3,672

Fiscal Year-end Date

December 31, on an annual basis

Dividends

Year-end: To shareholders of record on December 31
Interim: To shareholders of record on June 30

Paid-in Capital

¥182,531 million

Number of Shares of Common Stock Issued

483,585,862

Number of Shareholders

113,843

Ordinary General Meeting of Shareholders

The ordinary general 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 as necessary, giving at least two weeks prior notice to shareholders.

Composition of shareholders

Financial institutions	38.0%
Overseas corporations, etc.	25.0%
Individuals, other	16.8%
Other corporations	16.0%
Securities companies	4.2%

* Treasury stock is included under "Individuals, other."

Major shareholders

Shareholder Name	Percentage of voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.9
Asahi Kasei Corporation	3.9
Japan Trustee Services Bank, Ltd. (Trust Account)	3.8
The Dai-ichi Mutual Life Insurance Company	3.7
Fukoku Mutual Life Insurance Company	3.5
Nomura Securities Co., Ltd.	1.9
Sumitomo Mitsui Banking Corporation	1.9
The Sumitomo Trust & Banking Co., Ltd.	1.7
State Street Bank and Trust Company 505103	1.5
Investors Bank West Pension Fund Clients	1.5

* While Asahi Breweries, Ltd. owns 12,888,000 shares of treasury stock, it is not included with the major shareholders listed above.

Stock Exchange Listings

Tokyo, Osaka stock exchanges

Newspaper for Official Notice

Nihon Keizai Shimbun

Transfer Agent and Registrar

Stock Transfer Agent:

The Sumitomo Trust & Banking Co., Ltd.
4-5-33 Kitahama, Chuo-ku, Osaka

Handling Office:

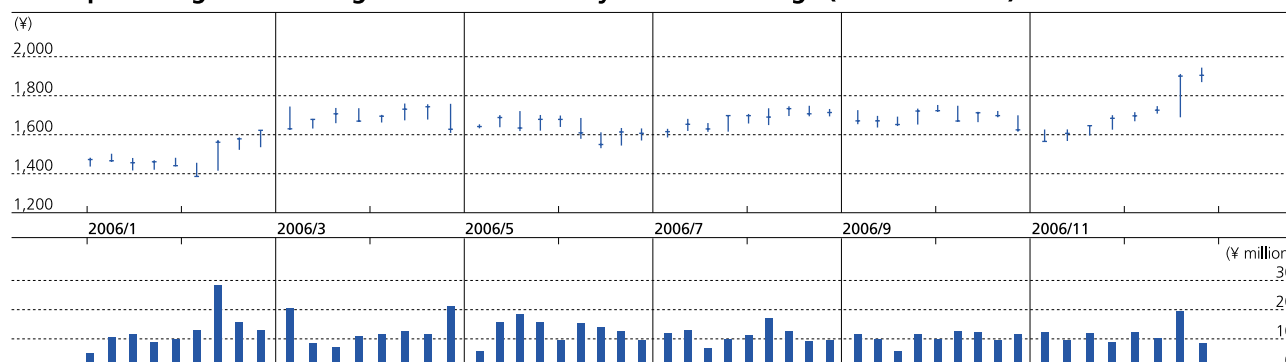
The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Department
1-4-4 Marunouchi, Chiyoda-ku, Tokyo

Auditor

KPMG AZSA & Co.

(As of December 31, 2006)

Share price range and trading volume on the Tokyo Stock Exchange (common stock)





<http://www.asahibeer.co.jp/english>

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