

Alcoholic Beverages



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




The alcoholic beverages business in Japan continues to face a severe market climate. Fewer births and an aging population are spurring a gradual decline in alcoholic beverage consumption, while more stringent belt-tightening amid poor economic conditions is driving a preference for low-priced products. In this environment, the alcoholic beverages business has an important role to play in generating the cash flows needed to support the growth of the entire Group.

In 2011, we will leverage customer trust and cultivate a sense of familiarity to improve brand value, and make new value propositions that offer new discoveries and enjoyment to consumers in order to grow overall demand. In the beer-type beverages business—the Group's greatest strength—we plan to further enhance the development of our pivotal brands by category, with *Asahi Super Dry* and *Clear Asahi* set as core brands. In alcoholic beverages other than beer-type beverages, we will review terms of trade and take other steps to boost profitability, while also developing and reinforcing core brands in each category. Where profit structure reform is concerned, we are transitioning to a new production structure of eight breweries in Japan as part of our determination to sharply raise production efficiency.

Sales Plan and Actual Results for 2010

Sales Volumes by Brand

(Million cases)

	Plan	Results
 Asahi Super Dry	112.00	112.65
 Asahi Style Free	11.70	11.45
 Clear Asahi	21.50	21.43

Accomplishments and Topics for 2010

Accomplishments

Beer-type Beverages

- Achieved annual sales plan in beer category due to aggressive marketing of *Asahi Super Dry*
- Expanded market share in the new-genre beverages category mainly due to introducing new products in addition to growth of existing core brands

Shochu, RTD Beverages, Whisky and Spirits, Wine

- Increased sales mainly due to substantial growth in the highball market and the launch of a beer-taste beverage
- Achieved operating income increase of 7% by streamlining manufacturing and sales costs, and improving the category mix

Profit Structure Reform

- Reduced personnel and other expenses, as well as manufacturing costs, including raw materials, and depreciation expenses

Future Topics

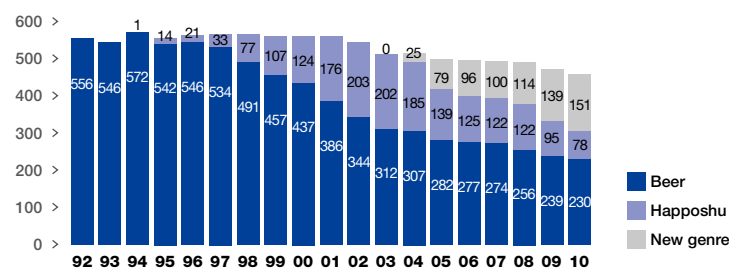
- Marketing power to create new value and new demand
- Implement structural reform of entire SCM process from development to sales

Business Environment

- Preference for low-priced products growing amid deterioration in the economic environment
- ⇒ Growth in new-genre beverages, increasing prominence of private brands
- Diversifying preferences due to changing consumer needs and values
- Rising health consciousness
- Increasing focus on lifestyle security among consumers

Size of Beer Market (Taxable Shipment Volume)

(Million cases)



2011: Targets and Strategies

Beer-type Beverages

- Build a product portfolio to generate sustained profits
- Develop products that create demand and create new categories

Shochu, RTD Beverages, Whisky and Spirits, Wine

- Improve profitability by strengthening core brands
- Nurture the brand power of the non-alcoholic beverage category

Profit Structure Reform

- Move to a new system of 8 domestic plants accompanying the realignment of the production system in the Kansai region
- Reduce the costs of manufacturing and fixed costs, and increase efficiency in advertising costs

Market Environment

Japan's alcoholic beverages industry continued to face persistent market changes in 2010. In addition to a decline in the drinking-age population and changing consumer tastes, the industry dealt with an ongoing shift towards inexpensively-priced products, driven by belt-tightening on the part of consumers. While these and similar factors spurred growth in new genre beverages (up 8.7% year on year), shipment volumes for beer and happoshu were down 3.6% and 17.7%, respectively. Consequently, overall taxable shipment volume for beer-type beverages declined 2.8% from the previous year. By category, beer was 50.2%, happoshu 17.0%, and new genre beverages 32.8% of the beer-type beverages market. Of these figures, in the beer category, initiatives launched by all major brewers, including Asahi Breweries' promotion of "Extra cold" *Asahi Super Dry*, successfully halted the declining share of beer in the beer-type beverages market. Market share for happoshu, however, was substantially lower, and the growth momentum in new genre beverages was also more subdued.

Shipment volume in alcoholic beverages other than beer-type was largely unchanged for the year, despite revitalized growth in the whisky and spirits market atop a resurgence in popularity of Whisky Highball beverages among Japanese consumers. Non-alcoholic beer-taste beverages, meanwhile, grew sharply, climbing around 90% year on year on a sales volume basis.

Initiatives in 2010

The Asahi Group worked to cultivate and enhance its brands with product proposals and sales promotion activities tailored to customer needs. At the same time, we took steps to establish a profit structure capable of withstanding market volatility. Efforts included reductions in costs for raw materials and other variable costs, reductions in depreciation costs, and more efficient use of personnel and other costs. As a result, total sales for the alcoholic beverages business, including overseas operations, were ¥935.9 billion, down 2.3% year on year; however, operating income increased 7.2% to ¥84.6 billion for the same period.

Beer-type Beverages

In the beer category, we continued to focus on enhancing the brand value of our core product *Asahi Super Dry*. Specifically, from March we unveiled a new promotional and advertising campaign featuring celebrities Masaharu Fukuyama and Hugh Jackman. We also implemented the third and fourth installments of "Refreshingly Sustainable," a campaign in which a portion of sales was used for the protection and preservation of natural environments and cultural treasures across Japan's 47 prefectures. As another promotional effort, we developed "Extra cold" proposing a new way to enjoy *Asahi Super Dry* in servings chilled below the freezing point. Additionally, we launched sales of *Asahi Gold Fukkukuban* in June and *Asahi Sekai beer kikou—German Marzen Style* in September, as part of a drive to revitalize the beer market. As a result, although taxable shipment volume fell 3.6% year on year, we met our targets for the year. Furthermore, our share of Japan's beer market increased steadily to 50.6%^{*1}, giving Asahi Breweries the No. 1^{*2} position in beer sales in Japan for a thirteenth consecutive year.

In happoshu, we sought to improve the quality of *Asahi Style Free*, now entering its fourth year of sales. Actions also included a closed campaign for consumers, as part of initiatives to boost the value of the brand as a pioneer in "zero-carbohydrate"^{*3} happoshu. As a result, while sales volume declined 2.3% year on year, the brand's presence grew larger in a sharply contracting market. Our happoshu market share, however, fell to 24.0%, with taxable shipment volume down by 25.8% year on year. This outcome primarily reflected flagging sales of *Asahi Cool Draft*.

In new genre beverages, we moved to improve the taste and packaging quality of *Clear Asahi* and *Asahi Off*, and launched sales of *Clear Asahi* in 10-liter and 19-liter kegs, as part of a concerted push to establish a solid position for new-genre (malt-type), a growing new genre beverage category. Accordingly, we vigorously proposed products tailored to customers' diverse needs around new genre beverages, among them *Asahi Strong Off* released in March and *Asahi Kutsurogi-Jikomi <4VG>* launched in September. The result was steady growth in this category, with

Beer

Asahi Super Dry



Asahi The Master



Asahi Style Free



taxable shipment volume up 18.9% year on year, while our market share increased to 24.4%.

*1 Beer market share based on statistical data on taxable shipment volume from Japan's top five beer companies.

*2 Based on taxable shipment volume for beer from Asahi Breweries, Ltd. in 2010.

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

Shochu, RTD Beverages, Whisky and Spirits, Wine

Sales of shochu, RTD beverages, whisky and spirits, and wine as a group rose by 4.3% year on year in 2010, reflecting ongoing initiatives to cultivate and enhance our core brands.

In shochu, we conducted aggressive sales promotion activities designed to reinforce the *Kanoka* brand. These included the revamp and re-launch of *Imo-Jochu Kanoka Kurokoji-Jikomi* in March, as well as a large-scale sampling program. These successful efforts culminated in year-on-year growth for *Kanoka* on a sales volume basis for a seventeenth consecutive year. Elsewhere, in Ko-type shochu, we proposed products sensitive to customers' wide-ranging needs. This included the new launch of *Daigoro Strong 35 Proof* in March, followed by sales of *Satsuma Koku-Murasaki* in May. These actions notwithstanding, a weak market environment and other factors caused overall sales in the shochu category to decline by 4.0% from the previous year on a monetary basis.

In RTD beverages, core product *Asahi Slat* proved a hit for its juicy taste with real fruit pulp while remaining a very low-calorie beverage^{*4}, with performance up significantly from the previous year. We also launched several new products in this category. One such product was *Asahi Chu-hi Kajitsu-no-shunkan*, a new brand sold in March made from domestically produced fruit juice and targeting younger consumers. July saw the debut of *Asahi Sparx*, a new brand with 9% alcohol content aimed at more seasoned drinkers. As a result, sales of RTD beverages rose a strong 2.1% on a monetary basis year on year.

In whisky and spirits, sales of core brand *Black Nikka Clear Blend* remained brisk, lifting sales of domestic whisky (excluding canned Highball liqueur) by 20% over the previous year on a monetary basis. The quality of the *Nikka* brand, moreover, was recognized on the

New genre (Malt-type)

Clear Asahi



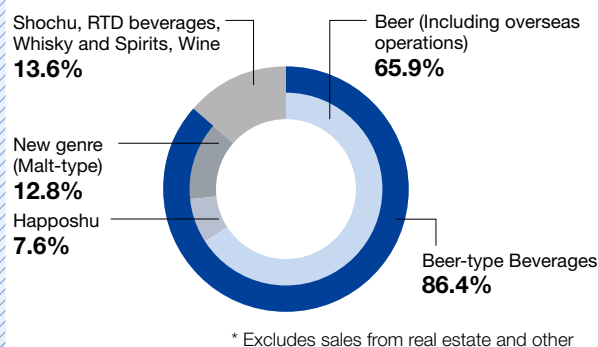
Asahi Off



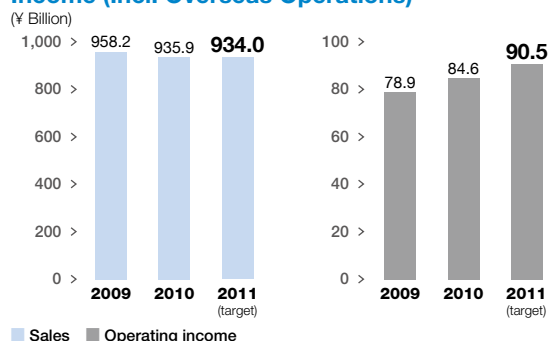
Asahi Ichiban Mugi



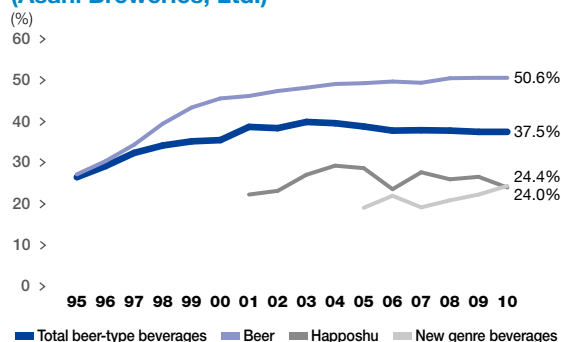
Share of Sales by Product (2010)



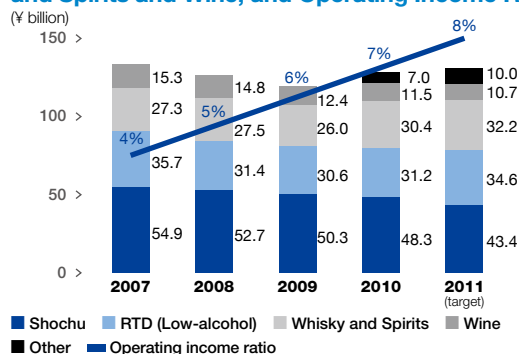
Alcoholic Beverages Sales and Operating Income (Incl. Overseas Operations)



Share by Beer-Type Beverage Category (Asahi Breweries, Ltd.)



Net Sales for Shochu, RTD Beverages, Whisky and Spirits and Wine, and Operating Income Ratio



world stage when *Taketsuru 21 Years Old* was named “World’s Best Blended Malt Whisky” at the World Whiskies Awards*⁵ in February 2010 (see p. 47 for more details). In the Highball category, a market that has undergone significant expansion, we launched new products *Black Nikka Clear Highball* in May and *Taketsuru Pure Malt Highball* in November, with both products selling briskly. Overall, sales on a monetary basis in this category rose by 16.9% year on year.

In wine, we revamped our Antioxidant-Free Organic Wine series of domestic wines in April and September to further groom the *Sainte Neige* brand. For imported wines, along with solid sales volume for Italian wine *Zonin* and Chilean wine *Santa Helena*, our efforts to tie commercial-use California wine *Almaden* to draft beer sellers resulted in healthy growth. However, overall sales in this category declined by 7.0% year on year on a monetary basis.

Turning to non-alcoholic brews, prompted by rising demand in this category, in August we debuted *Double Zero*, a beer-taste beverage developed on the concept of 0.00% alcohol and zero calories. In September, we launched *Double Zero Cocktail*, a cocktail-taste beverage built on the same concept. Our achievement of a non-alcoholic, zero calorie beverage that delivers a genuine alcoholic beverage taste earned strong support from customers, with *Double Zero* and *Double Zero Cocktail* selling 890,000 cases and 540,000 cases, respectively. Sales of beer-taste beverages overall rose 0.9% year on year on a shipment volume basis.

*⁴ Based on comparison with products sold in the can chu-hi market as of December 2010.

*⁵ An international competition focused exclusively on whisky, chiefly sponsored by U.K.-based *Whisky Magazine*.

Plans and Strategies for 2011

In a maturing market, no major changes in the severe market climate are forthcoming for the alcoholic beverages business, as consumption volume continues to decline from a diminishing drinking-age population, and consumer preferences shift to inexpensively-priced products to save money. In this context, the Asahi Group will take steps to stimulate expansion in overall demand by breeding customer trust and a sense of familiarity to improve brand value, and by proposing new value that will please and excite customers. Consequently, the

Group is targeting sales of ¥934.0 billion (down 0.2% year on year) and operating income of ¥90.5 billion (up 7.0% year on year).

Beer-type Beverages

The market for beer-type beverages in 2011 is predicted to contract between 2 and 3%. Meanwhile, the ongoing shift in demand away from the beer and happoshu categories towards new genre beverages is projected to continue, despite signs that the decline in beer market share has leveled off.

In this climate, the Group will further enhance the value of its core brands *Asahi Super Dry* and *Clear Asahi*. Initiatives will also be taken to extensively align our focus with consumers’ needs and to propose new value that will stimulate demand. To this end, the Group is targeting total sales volume of 170 million cases, down 0.7% year on year.

Beer

In the beer category, while signs emerged that the downturn in demand has leveled off somewhat, the overall market is expected to decline between 3 to 4%. In this climate, the Asahi Group will focus on uncovering potential beer demand mainly among younger customers and women, in addition to existing main customers, in order to bolster the brand value of *Asahi Super Dry*. Celebrity Masaharu Fukuyama will be at the center of advertising in 2011, with all sales promotion measures tied to advertisement content in a bid to strengthen information publicized to consumers. Our well-received “Extra cold” campaign from 2010 will be extended to both the on-premise and off-premise markets, with the goal of boosting name recognition, product penetration and embedment among a wider range of consumers.

Happoshu

The overall happoshu market is projected to decline by between 12 and 13%, reflecting a continued shift in demand towards new genre beverages. For *Asahi Style Free*, the core brand that successfully expanded its presence in this category in 2010, Group efforts will focus on quality improvements in taste, and on raising brand strength

Shochu

Imo-Jochu Kanoka
Honkaku Imo-Jochu
Satsuma Koku-Murasaki



RTD beverages

Asahi Slat



Whisky and Spirits

Taketsuru Black
Nikka Clear Blend



Wine

Sankaboshizai-Mutenka



Sales Targets and Actual Results by Alcoholic Beverages Category (Asahi Breweries, Ltd.)

(¥ billion)

	2010	2009	Year-on-year	% of Total	2011 Target	Year-on-year	% of Total
Beer-type beverages (total)	812.5	844.3	-3.8	86.4%	804.0	-1.0%	86.0%
Beer	620.4	646.5	-4.0	65.9%	607.5	-2.1%	65.0%
Happoshu	71.5	96.2	-25.7	7.6%	55.8	-22.0%	6.0%
New genre	120.6	101.6	+18.8	12.8%	140.7	+16.6%	15.0%
Beverages other than beer-type beverages (total)	128.4	123.1	+4.3	13.6%	130.9	+1.9%	14.0%
Shochu	48.3	50.3	-4.0	5.1%	43.4	-10.1%	4.6%
RTD	31.2	30.6	+2.1	3.3%	34.6	+10.9%	3.7%
Whisky and spirits	30.4	26.0	+16.9	3.2%	32.2	+5.9%	3.4%
Wine	11.5	12.4	-7.0	1.2%	10.7	-7.3%	1.1%
Other	7.0	3.9	+79.8	0.7%	10.0	+43.4%	1.1%
Total	940.9	967.5	-2.7	100.0%	934.9	-0.6%	100.0%

Excludes sales from real estate and other businesses

through vigorous advertising and sales promotion measures.

New Genre Beverages

The market for new genre beverages is expected to grow between 5 and 6% overall. Given this outlook, the Group will reinforce its brand power by honing TV commercial content, promoting consumer campaigns, and pursuing other aggressive advertising and sales promotion measures to stake out a solid market position in malt-type new genre beverages, where *Clear Asahi* is the Company's core product.

For *Asahi Off*, along with quality improvements in taste and packaging, the Group will conduct consumer campaigns that better highlight two distinct properties of the beverage—85% fewer purines and 70% fewer carbohydrates*⁶—to expand consumption among existing customers and attract potential customers willing to try the product.

In March, the Group will respond to diversifying customer preferences and needs by proposing new value to the new genre beverages market with the sale of *Asahi Ichiban Mugi**⁷. Despite being a new genre beverage, this product, made from 100% malt, will offer a full-bodied and hearty drinking experience.

*⁶ Comparison with the Company's malt liquors based on happoshu.

*⁷ (1) Ingredients are happoshu with a malt content of less than 50% and wheat-based spirits. The name *Ichiban mugi* comes from using only the best wort as an ingredient.

(2) Uses malt, wheat and spirits (wheat-based), excludes hop usage volume of less than 5%.

Shochu, RTD Beverages, Whisky and Spirits, and Wine

Steps will be taken in 2011 to boost profitability across shochu, RTD beverages, whisky and spirits, and wine. Efforts will focus on enhancing cost competitiveness, as we concentrate resources on cultivating core brands in each category to raise the Group's profile in each market. The Group will also focus going forward on grooming the brand power of its entries in the non-alcoholic beverages category—the beer-taste beverage *Double Zero* and cocktail-taste beverage *Double Zero Cocktail*. With these moves, the Group aims to bolster its presence in this growing market.

Profit Structure Reform

Improving the profitability of existing businesses is the top priority issue of the Group's Medium-Term Management Plan 2012 announced in 2010.

In terms of profit structure reform for the domestic alcoholic beverages business, our policy is to gain efficiencies totaling ¥25 to ¥30 billion between 2010 to 2012, and raise the operating income ratio excluding the liquor tax in the alcoholic beverages business to 18% or more. In the second year, 2011, our goal is to see dramatic improvements in production efficiency, mainly by integrating the Nishinomiya Brewery's beer-type beverage production functions into the Suita Brewery, as we transition to a new production framework of eight breweries in Japan.

The Group, furthermore, will move steadily to meet medium-term plan targets through various initiatives, among them reductions in the costs of raw materials, improvements in the marginal profit ratio, reductions in fixed costs, and more efficient use of advertising and sales promotion expenses.

Non-alcoholic beverages

Double Zero



Double Zero Cocktail

